



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

### IFRS Consolidated Financial Statements 2018

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.

## Selected financial data

The selected financial data are supplementary information to these Consolidated Financial Statements of mBank S.A. Group for 2018.

	in PLN '000		in EUR '000	
	Year ended 31.12.2018	Year ended 31.12.2017	Year ended 31.12.2018	Year ended 31.12.2017
I. Interest income	4 518 190	4 052 074	1 058 893	954 620
II. Fee and commission income	1 641 782	1 659 673	384 772	390 999
III. Net trading income	347 336	294 063	81 402	69 278
IV. Operating profit	2 200 834	1 902 672	515 792	448 247
V. Profit before income tax	1 800 314	1 527 902	421 926	359 955
VI. Net profit attributable to Owners of mBank S.A.	1 316 451	1 091 530	308 526	257 151
VII. Net profit attributable to non-controlling interests	(82)	3 540	(19)	834
VIII. Net cash flows from operating activities	1 132 740	(2 855 235)	265 471	(672 659)
IX. Net cash flows from investing activities	41 757	(409 411)	9 786	(96 452)
X. Net cash flows from financing activities	(388 784)	(1 871 459)	(91 116)	(440 893)
XI. Total net increase / decrease in cash and cash equivalents	785 713	(5 136 105)	184 141	(1 210 004)
XII. Basic earnings per share (in PLN/EUR)	31.11	25.81	7.29	6.08
XIII. Diluted earnings per share (in PLN/EUR)	31.09	25.80	7.29	6.08
XIV. Declared or paid dividend per share (in PLN/EUR)	5.15	-	1.21	-

	in PLN '000		in EUR '000	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
I. Total assets	145 750 119	131 424 019	33 895 377	31 509 751
II. Amounts due to other banks	3 078 387	5 073 351	715 904	1 216 368
III. Amounts due to customers	102 009 062	91 496 027	23 723 038	21 936 759
IV. Equity attributable to Owners of mBank S.A.	15 213 980	14 289 370	3 538 135	3 425 968
V. Non-controlling interests	2 100	2 186	488	524
VI. Share capital	169 348	169 248	39 383	40 578
VII. Number of shares	42 336 982	42 312 122	42 336 982	42 312 122
VIII. Book value per share (in PLN/EUR)	359.35	337.71	83.57	80.97
IX. Total capital ratio	20.69	20.99	20.69	20.99

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

- for items of the consolidated statement of financial position – exchange rate announced by the National Bank of Poland as at 31 December 2018: EUR 1 = 4.3000 and 31 December 2017: EUR 1 = PLN 4.1709.
- for items of the consolidated income statement – exchange rate calculated as the arithmetic mean of exchange rates announced by the National Bank of Poland as at the end of each month of 2018 and 2017: EUR 1 = PLN 4.2669 and EUR 1 = PLN 4.2447 respectively.

**Contents**

<b>Consolidated income statement</b> .....	5
<b>Consolidated statement of comprehensive income</b> .....	6
<b>Consolidated statement of financial position</b> .....	7
<b>Consolidated statement of changes in equity</b> .....	9
<b>Consolidated statement of cash flows</b> .....	10
<b>Explanatory notes to the consolidated financial statements</b> .....	11
<b>1. Information regarding the Group of mBank S.A.</b> .....	<b>11</b>
<b>2. Description of relevant accounting policies</b> .....	<b>14</b>
2.1. Accounting basis.....	14
2.2. Consolidation.....	14
2.3. Associates and joint ventures.....	15
2.4. Interest income and expenses.....	16
2.5. Fee and commission income.....	16
2.6. Revenue and expenses from sale of insurance products bundled with loans.....	18
2.7. Segment reporting.....	18
2.8. Financial assets.....	19
2.9. Offsetting financial instruments.....	21
2.10. Impairment of financial assets.....	21
2.11. Financial guarantee contracts.....	24
2.12. Cash and cash equivalents.....	25
2.13. Sale and repurchase agreements.....	25
2.14. Derivative financial instruments and hedge accounting.....	25
2.15. Gains and losses on initial recognition.....	27
2.16. Financial liabilities measured at amortised cost.....	27
2.17. Intangible assets.....	28
2.18. Tangible fixed assets.....	28
2.19. Inventories.....	29
2.20. Non-current assets held for sale and discontinued operations.....	29
2.21. Deferred income tax.....	30
2.22. Assets repossessed for debt.....	31
2.23. Prepayments, accruals and deferred income.....	31
2.24. Leasing.....	31
2.25. Provisions.....	31
2.26. Post-employment employee benefits and other employee benefits.....	32
2.27. Equity.....	32
2.28. Valuation of items denominated in foreign currencies.....	33
2.29. Trust and fiduciary activities.....	34
2.30. New standards, interpretations and amendments to published standards.....	34
2.31. Comparative data.....	40
<b>3. Risk management</b> .....	<b>45</b>
3.1. General information.....	45
3.2. Risk management in mBank Group in 2018 – external environment.....	47
3.3. Principles of risk management.....	49
3.4. Credit risk.....	59
3.5. Concentration of assets, liabilities and off-balance sheet items.....	73
3.6. Market risk.....	76
3.7. Currency risk.....	81
3.8. Interest rate risk.....	83
3.9. Liquidity risk.....	86
3.10. Operational risk.....	94
3.11. Business risk.....	96
3.12. Model risk.....	97
3.13. Reputational risk.....	98
3.14. Capital risk.....	98
3.15. Regulatory risk.....	99
3.16. Fair value of assets and liabilities.....	99
<b>4. Major estimates and judgments made in connection with the application of accounting policy principles</b> .....	<b>108</b>

5. Business segments.....	109
6. Net interest income.....	114
7. Net fee and commission income.....	115
8. Dividend income.....	116
9. Net trading income.....	116
10. Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss.....	117
11. Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates.....	117
12. Other operating income.....	118
13. Overhead costs.....	119
14. Other operating expenses.....	120
15. Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss.....	120
16. Income tax expense.....	121
17. Earnings per share.....	121
18. Other comprehensive income.....	122
19. Cash and balances with central bank.....	123
20. Financial assets and liabilities held for trading and derivatives held for hedges.....	124
21. Non-trading financial assets mandatorily at fair value through profit or loss.....	131
22. Financial assets at fair value through other comprehensive income.....	132
23. Financial assets at amortised cost.....	135
24. Investments in associates.....	144
25. Non-current assets held for sale.....	144
26. Intangible assets.....	145
27. Tangible assets.....	146
28. Other assets.....	148
29. Financial liabilities measured at amortised cost.....	149
30. Other liabilities.....	158
31. Provisions.....	160
32. Assets and liabilities for deferred income tax.....	162
33. Proceedings before a court, arbitration body or public administration authority.....	164
34. Off-balance sheet liabilities.....	167
35. Pledged assets.....	168
36. Registered share capital.....	170
37. Share premium.....	170
38. Retained earnings.....	171
39. Other components of equity.....	171
40. Dividend per share.....	172
41. Cash and cash equivalents.....	172
42. Share-based incentive programmes.....	176
43. Transactions with related entities.....	180
44. Acquisitions and disposals.....	184
45. Information about the registered audit company.....	185
46. Prudential consolidation.....	185
47. Capital adequacy.....	189
48. Other information.....	194
49. Events after the balance sheet date.....	195

## Consolidated income statement

	Note	Year ended 31 December	
		2018	2017
Interest income, including:	6	4 518 190	4 052 074
<i>Interest income accounted for using the effective interest method</i>		3 868 051	3 773 079
<i>Income similar to interest on financial assets at fair value through profit or loss</i>		650 139	278 995
Interest expenses	6	(1 021 716)	(916 414)
<b>Net interest income</b>		<b>3 496 474</b>	<b>3 135 660</b>
Fee and commission income	7	1 641 782	1 659 673
Fee and commission expenses	7	(665 932)	(667 515)
<b>Net fee and commission income</b>		<b>975 850</b>	<b>992 158</b>
Dividend income	8	3 558	3 428
Net trading income, including:	9	347 336	294 063
<i>Foreign exchange result</i>		323 472	289 112
<i>Gains or losses on financial assets and liabilities held for trading</i>		30 571	17 606
<i>Gains or losses from hedge accounting</i>		(6 707)	(12 655)
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	10	(160 041)	n/a
Gains less losses from investment securities, investments in subsidiaries and associates	11	n/a	(3 937)
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates, including:	11	14 495	n/a
<i>Gains less losses from debt securities measured at fair value through other comprehensive income</i>		16 465	n/a
<i>Gains less losses from investments in subsidiaries and associates</i>		(4 034)	n/a
<i>Gains less losses from derecognition</i>		2 064	n/a
Other operating income	12	407 620	242 360
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	15	(527 573)	(507 721)
Overhead costs	13	(1 911 340)	(1 818 949)
Depreciation	26, 27	(252 592)	(224 219)
Other operating expenses	14	(192 953)	(210 171)
<b>Operating profit</b>		<b>2 200 834</b>	<b>1 902 672</b>
Tax on the Bank's balance sheet items		(401 760)	(375 256)
Share in profits (losses) of entities under the equity method		1 240	486
<b>Profit before income tax</b>		<b>1 800 314</b>	<b>1 527 902</b>
Income tax expense	16	(483 945)	(432 832)
<b>Net profit</b>		<b>1 316 369</b>	<b>1 095 070</b>
<b>Net profit attributable to:</b>			
- Owners of mBank S.A.		1 316 451	1 091 530
- Non-controlling interests		(82)	3 540
<b>Net profit attributable to Owners of mBank S.A.</b>		<b>1 316 451</b>	<b>1 091 530</b>
<b>Weighted average number of ordinary shares</b>	<b>17</b>	<b>42 318 253</b>	<b>42 290 313</b>
<b>Earnings per share (in PLN)</b>	<b>17</b>	<b>31.11</b>	<b>25.81</b>
<b>Weighted average number of ordinary shares for diluted earnings</b>	<b>17</b>	<b>42 343 775</b>	<b>42 313 383</b>
<b>Diluted earnings per share (in PLN)</b>	<b>17</b>	<b>31.09</b>	<b>25.80</b>

Notes presented on pages 11–195 constitute an integral part of these Consolidated Financial Statements.

## Consolidated statement of comprehensive income

	Note	Year ended 31 December	
		2018	2017
<b>Net profit</b>		<b>1 316 369</b>	<b>1 095 070</b>
<b>Other comprehensive income net of tax, including:</b>	<b>18</b>	<b>109 366</b>	<b>165 219</b>
<b>Items that may be reclassified subsequently to the income statement</b>			
Exchange differences on translation of foreign operations (net)		60	477
Cash flows hedges (net)	20	88 841	(3 653)
Change in valuation of available for sale financial assets (net)		<i>n/a</i>	171 461
Change in valuation of debt instruments at fair value through other comprehensive income (net)		23 013	<i>n/a</i>
<b>Items that will not be reclassified to the income statement</b>			
Actuarial gains and losses relating to post-employment benefits (net)		(2 548)	(3 066)
<b>Total comprehensive income (net)</b>		<b>1 425 735</b>	<b>1 260 289</b>
<b>Total comprehensive income (net), attributable to:</b>			
- Owners of mBank S.A.		1 425 817	1 256 749
- Non-controlling interests		(82)	3 540

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## Consolidated statement of financial position

ASSETS	Note	31.12.2018	31.12.2017
Cash and balances with the Central Bank	19	9 199 264	7 384 869
Financial assets held for trading and derivatives held for hedges	20	2 104 302	2 761 685
Loans and advances to banks	23	n/a	1 707 722
Non-trading financial assets mandatorily at fair value through profit or loss, including:	21	2 836 060	n/a
<i>Equity instruments</i>		72 775	n/a
<i>Debt securities</i>		58 130	n/a
<i>Loans and advances to customers</i>		2 705 155	n/a
Investment securities	22	n/a	32 144 699
Financial assets at fair value through other comprehensive income	22	24 338 284	n/a
Loans and advances to customers	23	n/a	84 475 844
Financial assets at amortised cost, including:	23	103 564 317	n/a
<i>Debt securities</i>		9 000 539	n/a
<i>Loans and advances to credit institutions</i>		2 546 346	n/a
<i>Loans and advances to customers</i>		92 017 432	n/a
Investments in associates	24	-	28 680
Non-current assets and disposal groups classified as held for sale	25	-	42 134
Intangible assets	26	776 175	710 642
Tangible assets	27	785 026	758 738
Current income tax assets		9 336	9 688
Deferred income tax assets	32	959 076	629 250
Other assets	28	1 178 279	770 068
<b>Total Assets</b>		<b>145 750 119</b>	<b>131 424 019</b>

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<b>LIABILITIES AND EQUITY</b>	<b>Note</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
<b>Liabilities</b>			
Financial liabilities held for trading and derivatives held for hedges	20	981 117	1 095 365
Financial liabilities measured at amortised cost, including:	29	125 611 195	113 050 373
<i>Amounts due to banks</i>		3 078 387	5 073 351
<i>Amounts due to customers</i>		102 009 062	91 496 027
<i>Debt securities issued</i>		18 049 583	14 322 852
<i>Subordinated liabilities</i>		2 474 163	2 158 143
Fair value changes of the hedged items in portfolio hedge of interest rate risk		-	44 854
Provisions	31	258 283	190 975
Current income tax liabilities		352 962	179 685
Deferred income tax liabilities	32	83	81
Other liabilities	30	3 330 399	2 571 130
<b>Total liabilities</b>		<b>130 534 039</b>	<b>117 132 463</b>
<b>Equity</b>			
<b>Equity attributable to Owners of mBank S.A.</b>		<b>15 213 980</b>	<b>14 289 370</b>
<b>Share capital:</b>		<b>3 574 686</b>	<b>3 564 176</b>
Registered share capital	36	169 348	169 248
Share premium	37	3 405 338	3 394 928
<b>Retained earnings:</b>	<b>38</b>	<b>11 424 456</b>	<b>10 574 294</b>
Profit from the previous years		10 108 005	9 482 764
Profit for the current year		1 316 451	1 091 530
<b>Other components of equity</b>	<b>39</b>	<b>214 838</b>	<b>150 900</b>
<b>Non-controlling interests</b>		<b>2 100</b>	<b>2 186</b>
<b>Total equity</b>		<b>15 216 080</b>	<b>14 291 556</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>145 750 119</b>	<b>131 424 019</b>
<b>Total capital ratio</b>	<b>47</b>	<b>20.69</b>	<b>20.99</b>
<b>Common Equity Tier 1 capital ratio</b>	<b>47</b>	<b>17.47</b>	<b>18.31</b>
<b>Book value</b>		<b>15 213 980</b>	<b>14 289 370</b>
<b>Number of shares</b>	<b>36</b>	<b>42 336 982</b>	<b>42 312 122</b>
<b>Book value per share (in PLN)</b>		<b>359.35</b>	<b>337.71</b>

Notes presented on pages 11–195 constitute an integral part of these Consolidated Financial Statements.

## Consolidated statement of changes in equity

Changes in equity from 1 January to 31 December 2018

	Share capital		Retained earnings					Other components of equity				Equity attributable to Owners of mBank S.A., total	Non-controlling interests	Total equity
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year attributable to Owners of mBank S.A.	Exchange differences on translation of foreign operations	Valuation of financial assets at fair value through other comprehensive income	Cash flows hedges	Actuarial gains and losses relating to post-employment benefits			
<b>Equity as at 1 January 2018</b>	169 248	3 394 928	7 727 317	93 634	1 153 753	1 599 590	-	(5 527)	168 393	(5 198)	(6 768)	14 289 370	2 186	14 291 556
Effects of IFRS 9 implementation	-	-	-	-	-	(248 158)	-	-	(45 428)	-	-	(293 586)	-	(293 586)
<b>Restated equity as at 1 January 2018</b>	169 248	3 394 928	7 727 317	93 634	1 153 753	1 351 432	-	(5 527)	122 965	(5 198)	(6 768)	13 995 784	2 186	13 997 970
<b>Total comprehensive income</b>	-	-	-	-	-	-	1 316 451	60	23 013	88 841	(2 548)	1 425 817	(82)	1 425 735
Issuance of ordinary shares	100	-	-	-	-	-	-	-	-	-	-	100	-	100
Dividends	-	-	-	-	-	(217 907)	-	-	-	-	-	(217 907)	-	(217 907)
Transfer to supplementary capital	-	-	2 098 965	-	-	(2 098 965)	-	-	-	-	-	-	-	-
Other increase or decrease in equity	-	-	-	-	-	(38)	-	-	-	-	-	(38)	(4)	(42)
<b>Stock option program for employees</b>	-	10 410	-	(186)	-	-	-	-	-	-	-	10 224	-	10 224
- value of services provided by the employees	-	-	-	10 224	-	-	-	-	-	-	-	10 224	-	10 224
- settlement of exercised options	-	10 410	-	(10 410)	-	-	-	-	-	-	-	-	-	-
<b>Equity as at 30 September 2018</b>	169 348	3 405 338	9 826 282	93 448	1 153 753	(965 478)	1 316 451	(5 467)	145 978	83 643	(9 316)	15 213 980	2 100	15 216 080

Changes in equity from 1 January to 31 December 2017

	Share capital		Retained earnings					Other components of equity				Equity attributable to Owners of mBank S.A., total	Non-controlling interests	Total equity
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year attributable to Owners of mBank S.A.	Exchange differences on translation of foreign operations	Valuation of financial assets at fair value through other comprehensive income	Cash flows hedges	Actuarial gains and losses relating to post-employment benefits			
<b>Equity as at 1 January 2017</b>	169 121	3 381 975	4 944 689	97 887	1 131 453	3 312 950	-	(6 004)	(3 068)	(1 545)	(3 702)	13 023 756	27 405	13 051 161
<b>Total comprehensive income</b>	-	-	-	-	-	-	1 091 530	477	171 461	(3 653)	(3 066)	1 256 749	3 540	1 260 289
Issuance of ordinary shares	127	-	-	-	-	-	-	-	-	-	-	127	-	127
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	(5 486)	(5 486)
Change in the scope of consolidation and change of share in consolidated company	-	-	-	-	-	-	-	-	-	-	-	-	(23 273)	(23 273)
Transfer to supplementary capital	-	-	2 782 628	-	-	(2 782 628)	-	-	-	-	-	-	-	-
Transfer to General Risk Fund	-	-	-	-	22 300	(22 300)	-	-	-	-	-	-	-	-
Other increase or decrease in equity	-	-	-	-	-	38	-	-	-	-	-	38	-	38
<b>Stock option program for employees</b>	-	12 953	-	(4 253)	-	-	-	-	-	-	-	8 700	-	8 700
- value of services provided by the employees	-	-	-	8 700	-	-	-	-	-	-	-	8 700	-	8 700
- settlement of exercised options	-	12 953	-	(12 953)	-	-	-	-	-	-	-	-	-	-
<b>Equity as at 31 December 2017</b>	169 248	3 394 928	7 727 317	93 634	1 153 753	508 060	1 091 530	(5 527)	168 393	(5 198)	(6 768)	14 289 370	2 186	14 291 556

Notes presented on pages 11–195 constitute an integral part of these Consolidated Financial Statements.

## Consolidated statement of cash flows

	Note	Year ended 31 December	
		2018	2017
<b>A. Cash flows from operating activities</b>		<b>1 132 740</b>	<b>(2 855 235)</b>
<b>Profit before income tax</b>		<b>1 800 314</b>	<b>1 527 902</b>
<b>Adjustments:</b>		<b>(667 574)</b>	<b>(4 383 137)</b>
Income taxes paid		(600 098)	(483 188)
Amortisation, including amortisation of fixed assets provided under operating lease	26, 27	299 326	270 478
Foreign exchange (gains) losses related to financing activities		375 493	(1 209 870)
(Gains) losses on investing activities		(309 106)	(14 178)
Impairment of financial assets		n/a	20 004
Dividends received	8	(3 558)	(3 428)
Interest income (income statement)	6	(4 518 190)	(4 052 074)
Interest expense (income statement)	6	1 021 716	916 414
Interest received		4 755 576	4 404 460
Interest paid		(1 212 902)	(669 188)
Changes in loans and advances to banks		(1 377 115)	248 238
Changes in financial assets and liabilities held for trading and derivatives held for hedges		285 463	171 482
Changes in loans and advances to customers		(10 666 659)	(2 894 089)
Changes in investment securities		n/a	(870 118)
Changes in financial assets at fair value through other comprehensive income		(1 311 909)	n/a
Changes in securities at amortised cost		(276 849)	n/a
Changes of non-trading equity securities mandatorily at fair value through profit or loss		(408)	n/a
Changes in other assets		(390 131)	91 435
Changes in amounts due to other banks		605 550	111 370
Changes in amounts due to customers		11 588 570	(12 486)
Changes in debt securities in issue		280 813	(814 707)
Changes in provisions		22 984	8 221
Changes in other liabilities		763 860	398 087
<b>Net cash generated from/(used in) operating activities</b>		<b>1 132 740</b>	<b>(2 855 235)</b>
<b>B. Cash flows from investing activities</b>		<b>41 757</b>	<b>(409 411)</b>
<b>Investing activity inflows</b>		<b>640 234</b>	<b>77 082</b>
Disposal of shares in associates		54 759	-
Disposal of shares in subsidiaries, net of cash disposed		100	32 863
Disposal of intangible assets and tangible fixed assets		115 083	40 791
Dividends received	8	3 558	3 428
Other investing inflows	44	466 734	-
<b>Investing activity outflows</b>		<b>598 477</b>	<b>486 493</b>
Acquisition of shares in subsidiaries		39 907	25 156
Purchase of intangible assets and tangible fixed assets		558 570	461 337
<b>Net cash generated from/(used in) investing activities</b>		<b>41 757</b>	<b>(409 411)</b>
<b>C. Cash flows from financing activities</b>		<b>(388 784)</b>	<b>(1 871 459)</b>
<b>Financing activity inflows</b>		<b>6 230 359</b>	<b>3 246 814</b>
Proceeds from loans and advances from other banks		187 200	-
Proceeds from other loans and advances		648 378	422 466
Issue of debt securities	29	4 644 681	2 824 221
Increase of subordinated liabilities	29	750 000	-
Issue of ordinary shares		100	127
<b>Financing activity outflows</b>		<b>6 619 143</b>	<b>5 118 273</b>
Repayments of loans and advances from other banks		2 945 100	2 711 025
Repayments of other loans and advances		1 501 535	223 612
Redemption of debt securities	29	1 355 830	442 381
Repurchase of subordinated liabilities	29	500 000	1 611 840
Payments of financial lease liabilities		520	579
Dividends and other payments to shareholders		217 907	5 486
Interest paid from loans and advances received from other banks and from subordinated liabilities		98 251	123 350
<b>Net cash generated from/(used in) financing activities</b>		<b>(388 784)</b>	<b>(1 871 459)</b>
<b>Net increase / decrease in cash and cash equivalents (A+B+C)</b>	<b>41</b>	<b>785 713</b>	<b>(5 136 105)</b>
Effects of exchange rate changes on cash and cash equivalents		20 996	(39 684)
Cash and cash equivalents at the beginning of the reporting period		9 824 260	15 000 049
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>41</b>	<b>10 630 969</b>	<b>9 824 260</b>

Notes presented on pages 11–195 constitute an integral part of these Consolidated Financial Statements.

## **Explanatory notes to the consolidated financial statements**

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

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

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

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

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

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

As at 31 December 2018, mBank S.A. Group covered by the Consolidated Financial Statements comprised the following companies:

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

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

On 22 November 2013, the District Court for the Capital City of Warsaw, 12<sup>th</sup> Commercial Division of the National Court Register, registered the amendments to the Bank's By-laws arising from Resolutions N°26 and Resolutions N°27 of the 26<sup>th</sup> Annual General Meeting of mBank S.A., which was held on 11 April 2013. With the registration of changes in By-laws, the name of the Bank has changed from the current BRE Bank Spółka Akcyjna to mBank Spółka Akcyjna (abbreviated mBank S.A.).

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

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

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

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

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

As at 31 December 2018 the headcount of mBank S.A. amounted to 5 839 FTEs (Full Time Equivalentents) and of the Group to 6 524 FTEs (31 December 2017: Bank 5 414 FTEs, Group 6 455 FTEs).

As at 31 December 2018 the employment in mBank S.A. was 6 766 persons and in the Group 8 823 persons (31 December 2017: Bank 6 415 persons, Group 8 556 persons).

The business activities of the Group are conducted in the following business segments presented in detail in Note 5.

**Corporates and Financial Markets Segment, including:**

**Corporate and Investment Banking**

- mBank Hipoteczny S.A., subsidiary (the corporate segment of the company's activity).

The core business of mBank Hipoteczny S.A. is to grant mortgage loans to finance commercial real estate, residential development projects and local government investments. The company issues mortgage and public bonds to finance its lending operation. Until July 2017, in the retail segment the Company provided mortgage loans to individuals, offered in cooperation with mBank.

- mFactoring S.A., subsidiary

The company operates in Poland and provides factoring services for domestic, export and import transactions. It is a member of the Polish Factors Association and Factors Chain International.

- mLeasing Sp. z o.o., subsidiary (the corporate segment of the company's activity)

The company's core business is to lease chattels such as: machinery, equipment, technology lines, passenger cars, vans and trucks, tractors, trailers and semi-trailers, buses, vehicles, special equipment, ships, aircraft, rolling stock, office equipment, computer hardware. mLeasing's offer for corporate clients includes leasing of real estate, mainly offices, hotels, warehouses and logistics centres, petrol stations, public buildings and municipal infrastructure. The company has a network of offices in the largest cities of Poland.

- Garbary Sp. z o.o., subsidiary

The only business of the company was to administer the buildings of a former meat factories located at 101/111 Garbary St. in Poznań currently not in use.

On 28 December 2017, the company Garbary Sp. z o.o. signed a preliminary agreement for sale of real estate placed at Garbary 101/111 Street in Poznań.

In connection with the concluded agreement, as at 31 December 2017 and as at 31 March 2018, the Group disclosed in the fixed assets and disposal groups held for sale the value of the property owned by Garbary Sp. z o.o.

On 27 April 2018, the company Garbary Sp. z o.o. signed the final agreement on the sale of real estate.

- Tele-Tech Investment Sp. z o.o., subsidiary

The company's business includes investing funds in securities, trading in receivables, proprietary trading in securities, managing controlled enterprises, business and management consultancy. The company has no employees.

- Asekum Sp. z o.o., subsidiary (the corporate segment of the company's activity)

The Group has begun to consolidate the company from October 2018 in connection with the fact that the Asekum Sp. z o.o. acquired an organized part of the enterprise from mFinanse Sp. z o.o. in September 2018. The company operates as an insurance agent, mainly in the field of insurance of leasing objects. The Bank holds indirectly through mLeasing Sp. z o.o. 100% shares in the company.

**Financial Markets**

- mFinance France S.A., subsidiary

The core business of the company is to raise funds for the Bank by issuing euro-notes on international financial markets.

- mBank Hipoteczny S.A., subsidiary (with regard to activities concerning funding).

- mLeasing Sp. z o.o., subsidiary (with regard to activities concerning funding).

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

- mFinanse S.A., subsidiary

mFinanse S.A. offers mBank S.A. and third party banks' products. Its offer includes mortgage loans, business products, cash loans, insurance products and leasing. Distribution is carried out throughout the whole country in 41 offices terrestrial network of mFinanse and 143 mKiosks placed in shopping centers.

- mBank Hipoteczny S.A., subsidiary (the retail segment of the company's activity).

- mLeasing Sp. z o.o., subsidiary (the retail segment of the company's activity).

- Asekum Sp. z o.o., subsidiary(the retail segment of the company's activity) .

### **Other**

- mCentrum Operacji Sp. z o.o., subsidiary

The core business of the company was i.a. providing services in the field of data and document management, as well as an electronic archive, a traditional archive, business processes and transaction banking.

On 1 March 2018, the Group completed the process of reorganisation of mCentrum Operacji Sp z o.o. ("mCO"). As part of the process, two organized parts of the enterprise were separated in the form of the Development Division of Automatic Processes and the General Division. On 1 March 2018, the Development Division of Automatic Process was sold to Feronia S.A., of which the major shareholder is Future Tech FIZ, a subsidiary of the Bank, in order to automation of the processes handled by this part of mCO, while the General Division, including the majority of processes so far serviced by mCO, was sold to the Bank

- BDH Development Sp. z o.o., subsidiary

The company's core business is implementation and completion of development projects on the basis of residential property taken over by mBank S.A. Group through restructuring and recovery of investment loans, in order to recover the greatest possible value of the real estate taken over.

- Future Tech Fundusz Inwestycyjny Zamknięty, subsidiary

On 22 June 2017, the Future Tech Fundusz Inwestycyjny Zamknięty (the "Fund") was registered, in which mBank acquired 400 000 investment certificates accounting for 100% of the issue, worth in total PLN 221 200 thousand. As at 30 June 2017 the Bank held of 100% of the certificates issued by the Fund, so the Bank consolidate the Fund starting from June 2017. As at 31 December 2018, the Bank held 98.04% of the Fund's investment certificates, while the remaining 1.96% was owned by minority shareholders. Quercus Towarzystwo Funduszy Inwestycyjnych S.A. is the entity managing the Fund S.A. The Fund was established as an investment vehicle within the mAccelerator project, which will focus on developing and commercialising high-potential projects in the field of new technologies for the financial services sector (fintech).

### **Other information concerning companies of the Group**

Information concerning the business conducted by the Group's entities is presented under Note 5 "Business Segments" of these consolidated financial statements.

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

Company	31.12.2018		31.12.2017	
	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method
mBank Hipoteczny S.A.	100%	full	100%	full
mLeasing Sp. z o.o.	100%	full	100%	full
mFinanse S.A.	100%	full	100%	full
mFaktoring S.A.	100%	full	100%	full
mFinance France S.A.	99.998%	full	99.998%	full
Future Tech Fundusz Inwestycyjny Zamknięty	98.04%	full	98.04%	full
Tele-Tech Investment Sp. z o.o.	100%	full	100%	full
mCentrum Operacji Sp. z o.o.	100%	full	100%	full
BDH Development Sp. z o.o.	100%	full	100%	full
Garbary Sp. z o.o.	100%	full	100%	full
Asekum Sp. z o.o.	100%	full	-	-
Archicom Polska S.A. (previously mLocum S.A.)	-	-	28.99%	-

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

The company Archicom Polska S.A. (previously mLocum S.A.) was consolidated by the Group until July 31, 2017, that is until the day of sale of 51% of the company's shares.

The Management Board of mBank S.A. approved these consolidated financial statements for issue on 26 February 2019.

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

The most important accounting policies applied to the drafting of these consolidated financial statements are presented below. These principles were applied consistently over all presented periods, except for the accounting principles applied in connection with the implementation of IFRS 9 since 1 January 2018, as described in detail under Note 2.31 Comparative data.

### **2.1. Accounting basis**

These Consolidated Financial Statements of mBank S.A. Group have been prepared for the 12-month period ended 31 December 2018. Comparative data presented in these consolidated financial statements relate to the period of 12 months ended on 31 December 2017.

The Consolidated Financial Statements of mBank S.A. Group have been prepared in compliance with the International Financial Reporting Standards (IFRS) as adopted for use in the European Union, according to the historical cost method, except for derivative contracts and financial assets held for trading, financial assets that do not meet SPPI criteria, financial assets assigned to business models whose objective is not to hold financial assets in order to collect contractual cash flows, equity instruments and liabilities related to cash-settled share-based payment transactions measured at fair value as well as financial assets measured at fair value through other comprehensive income and equity instruments for which irrevocable election has been made to present changes in fair value in other comprehensive income.

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 comparative data has been prepared according to the historical cost method, as modified by the revaluation of available for sale financial assets, financial assets and financial liabilities measured at fair value through profit or loss, all derivative contracts, liabilities related to cash-settled share-based payment transactions measured at fair value.

The data for the year 2017 presented in these mBank S.A. Group condensed consolidated financial statements was audited by the auditor.

The preparation of the financial statements in compliance with IFRS requires the application of specific accounting estimates. It also requires the Management Board to use its own judgment when applying the accounting policies adopted by the Group. The issues in relation to which a significant professional judgement is required, more complex issues, or such issues where estimates or judgments are material to the consolidated financial statements are disclosed in Note 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 Group's financial statements. Materiality depends on the size and nature of the omission or misstatement of the position of financial statements or a combination of both. The Group presents separately each material class of similar positions. The Group presents separately positions of dissimilar nature or function unless they are immaterial.

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

### **2.2. Consolidation**

#### Subsidiaries

Subsidiaries comprise entities, regardless of the nature of the involvement with an entity (including special purpose vehicles) over which the Group controls the investee. The control is achieved when the Group has power over the investee, is exposed or has rights, to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. When the Group has less than a majority of the voting rights of an investee, it considers all relevant facts and circumstances in assessing whether it has power over the investee, including a contractual arrangements between the Group and other vote holders, rights arising from other contractual arrangements, the Group's voting rights and potential voting rights. If facts and circumstances indicate that there are changes in at least one of the three elements of control listed above, the Group reassess whether it controls an investee. The consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. The consolidated financial statements combine items of assets, liabilities, equity, income and expenses of the parent with those of its subsidiaries eliminating the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary. Thus arises goodwill. If goodwill has negative value, it is recognised directly in the income statement. The

profit or loss and each component of other comprehensive income is attributed to the Group's owners and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. If the Group loses control of a subsidiary, it shall account for all amounts previously recognised in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Group had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group shall reclassify the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses control of the subsidiary. If a revaluation surplus previously recognised in other comprehensive income would be transferred directly to retained earnings on the disposal of the assets, the Group shall transfer the revaluation surplus directly to retained earnings when it loses control of the subsidiary.

Non-controlling interest is equity in a subsidiary not attributable, directly or indirectly, to a parent. The Group presents non-controlling interest in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transaction (i.e. transactions with owners in their capacity as owners). In such cases, the Group adjusts the carrying amount of the controlling and non-controlling interests to reflect the changes in their relative interests in the subsidiary. The Group recognises directly in the equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received and attributes it to the owners of the parent.

In case when an acquirer made a bargain purchase, which is a business combination, and a result of that is a gain, the acquirer recognises the resulting gain in profit or loss on the acquisition date. Before recognising a gain on a bargain purchase, the acquirer reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and recognises any additional assets and liabilities that are identified in that review. The acquirer then reviews the procedures used to measure the amounts required to be recognised at the acquisition date to ensure that the measurements appropriately reflect consideration of all available information as of the acquisition date.

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

The Group applies predecessor accounting method for combinations of businesses under common control. The method stipulates that assets and liabilities of the acquired arrangements are not measured at fair value, but the acquirer includes them in its financial statements based on the value of the acquired arrangements stemming from the consolidated financial statements of the consolidating entity that prepares the consolidated financial statements at the higher level and exercises the common control under which the transaction takes place.

Consolidation does not cover those companies whose scale of business operations is immaterial in relation to the volume of business of the Group.

### **2.3. Associates and joint ventures**

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights in governing bodies. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Investments in associates and joint ventures are accounted for using the equity method of accounting. Under the equity method, on initial recognition the investment in an associate or a joint venture is recognised at cost. The carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Goodwill forms part of the carrying amount of an investment in an associate or a joint venture and it is neither amortised nor tested for impairment.

After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment with respect to its net investment in the associate or joint venture. At each reporting date the Group determines whether there was an objective evidence for impairment of an investment in an associate or a joint venture. If there was an objective evidence for impairment, the Group calculates impairment comparing the recoverable amount of the investment with its carrying value.

The share of the Group in the profits (losses) of associates and joint ventures since the date of acquisition is recognised in the income statement, whereas its share in equity since the date of acquisition – in other

comprehensive income. The carrying amount of the investment is adjusted by the total changes of share of net assets. When the share of the Group in the losses of an associate or a joint ventures becomes equal to or greater than the share of the Group in that associate or in joint ventures, possibly covering receivables other than secured claims, the Group discontinues the recognition of any further losses, unless it has assumed obligations or has settled payments on behalf of the respective associate or a joint venture.

Unrealised gains on transactions between the Group and its associates are eliminated proportionally to the extent of the Group's interest in the respective associate. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies applied by associates and joint ventures have been adjusted, wherever necessary, to assure consistency with the accounting principles applied by the Group.

The Group discontinues the use of the equity method from the date when its investment ceases to be an associate or a joint venture. If the retained interest in the former associate or joint venture is a financial asset, the Group measures the retained interest at fair value. The Group recognises in profit or loss any difference between the carrying amount of the investment at the date the equity method was discontinued and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture.

#### **2.4. Interest income and expenses**

All interest income on financial instruments carried at amortised cost using the effective interest rate method is recognized in the income statement as well as interest income from financial assets measured at fair value through profit or loss and measured at fair value through other comprehensive income.

The effective interest rate method is a method of calculation of the amortised initial value of financial assets or financial liabilities and allocation of interest income or interest expense to the proper periods. The effective interest rate is the interest rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial assets or financial liability to the gross carrying amount of a financial asset or to the amortized cost of a financial liability. When calculating the effective interest rate, the Bank estimates the expected cash flows taking into account all the contractual terms of the financial instrument, but without taking into account the expected credit losses. This calculation takes into account all the fees and points paid or received between the parties to the contract, which constitute an integral component of the effective interest rate, as well as transaction expenses and any other premiums or discounts.

The Group calculates interest income using the effective interest rate to the gross carrying amount of the financial asset except for the financial assets which subsequently have become credit-impaired. In case of reclassification to the stage 3 of a financial asset or a group of similar financial assets, the interest income is calculated on the net value of financial assets and recognized using the interest rate at which the future cash flows were discounted for the purpose of valuation of impairment.

Interest income includes interest and commissions received or due on account of loans, inter-bank deposits or investment securities recognized in the calculation of the effective interest rate.

Interest income, including interest on loans, is recognized in the income statement and on the other side in the statement of financial position as part of receivables from banks or from other customers.

The calculation of the effective interest rate takes into account the cash flows resulting from only those embedded derivatives, which are strictly linked to the underlying contract.

Income and expenses related to the interest component of the result on interest rate derivatives and resulting from current calculation of swap points on currency derivatives classified into banking book are presented in the interest results in the position Interest income/expense on derivatives classified into banking book. The banking book includes transactions, which are not concluded for trading purposes i.e. not aimed at generating a profit in a short-term period (up to 6 months) and those that do not constitute hedging a risk arising from the operations assigned into trading book.

Interest income and interest expenses related to the interest measurement component of derivatives concluded as hedging instruments under fair value hedge are presented in the interest result in the position interest income/expense on derivatives under the fair value hedge accounting.

Interest income related to the interest measurement component of derivatives concluded as hedging instruments under cash flow hedge are presented in the interest result in the position interest income on derivatives under the cash flow hedge accounting.

#### **2.5. Fee and commission income**

Fee and commission income is recognised in accordance with IFRS 15 using a 5-step model for revenue recognition, which consists of:

#### Step 1: Identifying the contract's with a customer

The Bank accounts for a contract with a customer that is within the scope of this Standard only when all of the following criteria are met:

1. the parties to the contract have approved the contract (in writing, orally or in accordance with business practices) and are committed to perform their respective obligations;
2. the Group can identify each party's rights regarding the goods or services to be transferred;
3. the Group can identify the payment terms for the goods or services to be transferred;
4. the contract has commercial substance (i.e. the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and
5. it is probable that the Group will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, the Bank considers only the customer's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the price stated in the contract if the consideration is variable because the Bank may offer the customer a price concession.

#### Step 2: Identifying performance obligations in the contract

The performance obligation is a promise (presumed or specified) to provide the client with goods or services that are identified at the time of entering into the contract on the basis of contractual terms as well as the Bank's business practice.

At contract inception, the Group assesses the goods or services promised in a contract with a customer and identifies as a performance obligation each promise to transfer to the customer either:

1. a good or service (or a bundle of goods or services) that is distinct; or
2. a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

A good or service that is promised to a customer is distinct if both of the following criteria are met:

1. the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e. the good or service is capable of being distinct); and
2. the Bank's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e. the good or service is distinct within the context of the contract)

The Bank identifies options for purchasing additional goods or services for the customer (loyalty points) as separate obligations to provide benefits, if they give the customer relevant rights (material law, which the client would not have obtained if he did not conclude the contract).

If a third party is involved in the process of providing selected services for the client, the Bank assesses whether it acts as an agent or principal, taking into account in particular the possibility of controlling the given service before it is passed on to the client (control principle).

#### Step 3: Determining the transaction price

The transaction price in a contract reflects the amount of consideration that the Group expects to be entitled to in exchange for distinct good or service transferred and the Group's business practice.

The transaction price is the amount of remuneration which, in line with the Group's expectations, will be due in exchange for transfer of promised goods or services to the client, excluding amounts collected on behalf of third parties.

Determining the transaction price can become complex where a contract includes any of the following: variable consideration, a significant financing component, non-cash consideration, consideration payable to a customer. In terms of variable remuneration (e.g. rebates from payment organizations), the Bank estimates the amount of remuneration to which it will be entitled in exchange for the transfer of promised services.

#### Step 4: Allocating the transaction price to the performance obligations

The transaction price is allocated to each separate performance obligation, or distinct good or service, so that revenue is recorded at an amount that depicts the amount of consideration that the Bank expects to be entitled to in exchange for transferring the promised goods or services. The transaction price is allocated to each performance obligation based on the relative fair value model.

#### Step 5: Recognition of revenue when (or as) the Group satisfies a performance obligation

The Bank recognises revenue when (or as) it satisfies a performing obligation by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). The Bank recognizes immediately the fees not related directly to origination of loans and advances. Fees for services delivered over the period longer than 3 months are recognised by the Bank over time. As the fee

and commission income, the Group treats also fees and commissions recognised over time on a straight line basis, related to loans and advances with not established timing of cash flows, for which effective interest rate is not possible to be determined. Straight line method for those services presents fairly the timing of transfer of services, because they are delivered evenly over time.

Accounting principles related to recognition of fee income from sale of assurance products bundled with loans and advances are described in a separate Note 2.6.

Fees and commissions income is recognised on the accrual basis, at the time of performance of the respective services. Fees charged for the granting of loans which are likely to be drawn down are deferred (together with the related direct costs) and included in the calculation of the effective interest rate charge on the loan. Fees on account of syndicated loans are recognised as income at the time of closing of the process of organisation of the respective syndicate, if the Group has not retained any part of the credit risk on its own account or has retained a part of the risk of a similar level as other participants. Commissions and fees on account of negotiation or participation in the negotiation of a transaction on behalf of a third party, such as the acquisition of shares or other securities, or the acquisition or disposal of an enterprise, are recognised at the time of realisation of the transaction. Portfolio management fees and other fees for management, advisory and other services are recognized on the basis of service contracts, usually in proportion to the passage of time. The same principle is applied in the case of management of client assets, financial planning and custody services, which are continuously provided over an extended period of time.

Fee and commissions collected by the Group on account of issuance, renewal and change in the limit of credit and payment cards, guarantees granted as well as opening, extension and increase of letters of credit are accounted for on a straight-line basis.

Fee and commissions collected by the Group on account of cash management operations, keeping of customer accounts, money transfers and brokerage business activities are recognised directly in the income statement as one-off.

In addition, revenue from fee and commission include income from a fee on insurance products sold through the Internet platform for the distribution of premium in installments. The fee for the distribution of premium in installments is settled in time in accordance with the duration of the policy.

The Group's fee and commission income comprises also income from offering insurance products of third parties. In case of selling insurance products that are not bundled with loans, the revenues are recognized as upfront income or in majority of cases settled on a monthly basis.

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

The Group treats insurance products as bundled with loans, in particular when insurance product was offered to the customer only with the loan, i.e. it was not possible to purchase from the Group the insurance product which is identical in a legal form, content and economic conditions without purchasing the loan.

Revenue and expenses 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 interest income is recognised over time as part of effective interest rate calculation for the bundled loan. 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.

Expenses directly linked to the sale of insurance products are recognised using the same pattern as in case of income observing the matching concept. A part of expenses is treated as an element adjusting the calculation of effective interest rate for interest income and the remaining part of expenses is recognised in fee and commission expenses as upfront cost or as cost accrued over time.

The Group estimates also the part of remuneration which in the future will be returned due to early termination of insurance contract and appropriately decreases interest income or fee and commission income to be recognised.

In connection with entry into force of Recommendation U concerning best practices in the area of bancassurance, starting from 31 March 2015 the Group does not receive remuneration from the sale of insurance products which would have been treated as bundled with loans.

## **2.7. Segment reporting**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group), whose operating results are regularly reviewed by the Group's chief operating decision-maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. As defined in IFRS 8, the Group has determined the Management Board of the Bank as its chief operating decision-maker.

In accordance with IFRS 8, the Group has the following business segments: Corporates and Financial Markets including the sub-segments *Corporate and Investment Banking* as well as *Financial Markets*, Retail Banking (including Private Banking), and the Other business.

## **2.8. Financial assets**

The Group classifies its financial assets to the following categories: financial assets valued at fair value through profit or loss, financial assets valued at fair value through other comprehensive income for which gains or losses may be reclassified subsequently to the income statement at derecognition, financial assets valued at fair value through other comprehensive income for which gains or losses will not be reclassified subsequently to the income statement at derecognition and financial assets valued at amortized cost. Classification of the debt financial asset to the one of the above categories takes place at its initial recognition based on business model for managing financial assets and contractual cash flow characteristics. An equity instrument is classified as a financial asset at fair value through profit or loss unless at the time of initial recognition the group made an irrevocable election of specific equity investments to present subsequent fair value changes in other comprehensive income.

Standardised purchases and sales of financial assets at fair value through profit or loss and measured at fair value through other comprehensive income are recognized on the settlement date – the date on which the Bank delivers or receives the asset. Changes in fair value in the period between trade and settlement date with respect to assets carried at fair value is recognized in profit or loss or in other components of equity. Loans are recognized when cash is advanced to the borrowers. Derivative financial instruments are recognized beginning from the date of transaction.

A financial asset is derecognized if the Group loses control over any contractual rights attached to that asset, which usually takes place if the financial instrument is disposed of or if all cash flows attached to the instrument are transferred to an independent third party.

### Financial instruments valued at fair value through profit or loss

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortized cost or at fair value through other comprehensive income.

Disposals of debt and equity securities held for trading are accounted according to the weighted average method.

The Group may, at the initial recognition, irrevocably designate a the financial assets/financial liabilities at fair value through profit or loss when doing so results in more relevant information, because either:

- it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as “an accounting mismatch”) that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

As presented in this financial statements reporting periods, the Group did not designate any financial instrument on initial recognition as financial assets at fair value through profit or loss to reduce an accounting mismatch.

Financial assets and financial liabilities classified to this category are valued at fair value upon initial recognition.

Interest income/expense on financial assets/financial liabilities measured at fair value through profit or loss (Note 2.4), except for derivatives the recognition of which is discussed in Note 2.14, is recognized in net interest income. The valuation and result on disposal of financial assets/financial liabilities measured at fair value through profit or loss is recognized in trading income for financial assets/liabilities held for trading or in item Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss.

### Financial assets measured at amortized cost

Financial assets measured at amortized cost are assets that meet both of the following conditions, unless the Bank designated them to fair value through profit or loss: the financial asset is held within a business

model whose objective is to hold financial assets in order to collect contractual cash flow characteristics and contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets at amortized cost are entered into books on the transaction date. At initial recognition financial assets classified to this category are valued at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

#### Financial assets measured at fair value through other comprehensive income

Financial assets measured at fair value through other comprehensive income are assets that meet both of the following conditions, unless the Bank designated them to fair value through profit or loss: the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Interest income and expense from financial assets measured at fair value through other comprehensive income are presented in net interest income. Gains and losses from sale of available for sale investments are presented in gains less losses from financial assets and liabilities not measured at fair value through profit or loss.

Financial assets measured at fair value through other comprehensive income and financial assets measured at fair value through profit or loss are valued at the end of the reporting period according to their fair value. Financial assets measured at amortized cost, are measured at adjusted cost of acquisition (amortised cost), applying the effective interest rate method. Gains and losses resulting from changes in the fair value of "financial assets measured at fair value through profit or loss" are recognized in the income statement in the period in which they arise.

Gains and losses arising from changes in the fair value of debt financial assets measured at fair value through other comprehensive income are recognized in other comprehensive income until the derecognition of the respective financial asset in the statement of financial position or until its impairment: at such time the aggregate net gain or loss previously recognized in other comprehensive income is now recognized in the income statement. However, interest calculated using the effective interest rate is recognized in the income statement.

The fair value of quoted investments in active markets is based on current market prices. If the market for a given financial asset is not an active one, the Bank determines the fair value by applying valuation techniques. These comprise recently conducted transactions concluded according to normal market principles, reference to other instruments, discounted cash flow analysis, as well as valuation models for options and other valuation methods generally applied by market participants.

#### Equity instruments

Investments in equity instruments are measured at fair value through profit or loss. Upon initial recognition, the Bank may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value (the option of measurement at fair value through other comprehensive income) of an investment in an equity instrument that is not held for trading and does not constitute a contingent payment recognized by the Bank as part of a business combination in accordance with IFRS 3.

In case of the financial instruments for which the option of measurement at fair value through other comprehensive income was used, the requirements regarding impairment are not applied. All gains and losses related to change in fair value, including foreign exchange differences, are recognized in other comprehensive income. There is no possibility to reclassify them to profit and loss even if the instrument is derecognized. Only dividends received related to these instruments are recognized in profit and loss when the entity's right to receive payment is established. Taking above into account equity instruments for which fair value through other comprehensive income option was used are out of scope impairment requirements.

#### Modification of contractual terms for financial assets

The Bank settles previously recognized financial assets and re-recognizes the financial assets in accordance with the requirements for initial recognition in case of substantial modification of contractual terms of financial assets. As substantial modification the Bank defines such a modification that meets one of the following criteria:

- Substantial increase of the credit amount of more than 10%
- Substantial prolongation of the contractual maturity of more than 12 months

- Change of currency not provided for in the terms of the contract. Change of the currency provided for in the terms of the agreement is such a change that defines both the FX rate at which it would have place and the interest rate of the loan after the change of the currency.
- Change of the borrower – only if the current borrower is exempted from the debt
- Change of the cash flow criterion from 'SPPI compliance' of a financial assets to 'SPPI non-compliance' and vice versa
- Change of the financed asset in case of object finance or project finance.

In the event of substantial modification the deferred income and expense related to this assets is recognized in the income statement and the provision is released. At the same time there is re-recognition of financial assets in accordance with the requirements for initial recognition. Any other modifications of contractual terms that do not cause derecognition of financial assets are treated as not substantial modifications and the gain or loss on modification is recognized. The effect of all identified not substantial modifications of cash flows are treated as not related to credit risk. The result on modification is the difference between present value of the modified cash flows discounted using the old effective interest rate and the effective loan exposure. Commissions received related to minor modification are settled over time using effective interest rate. All identified substantial modifications of cash flows are treated as related to credit risk. In case of substantial modification in stage 2, for which as a consequence, the exposure was moved to stage 1, the adjustment to fair value of the exposure at the initial recognition, adjusts the interest result in the subsequent periods.

#### Purchased or originated credit impaired financial assets (POCI assets)

POCI are financial assets measured at amortized cost that at initial recognition are credit impaired. POCI are also financial assets that are credit impaired at the moment of substantial modification. At the initial recognition POCI assets are recognized at fair value. The fair value of POCI assets at the initial recognition is calculated as present value of estimated future cash flows including credit risk discounted for the risk free rate. After the initial recognition POCI assets are measured at amortized cost. With respect to these financial assets the Bank uses credit adjusted effective interest rate in order to determine the amortized cost of financial asset and the interest income generated by these assets – CEIR. In case of POCI exposures the change of the expected credit losses relative to the estimated credit losses at the date of their initial recognition is recognized as an impairment loss. Its value can both reduce the gross value of POCI exposure and increase it in the event of a decrease of expected losses relative to its value at the date of initial recognition.

#### Reclassification of financial assets

Debt financial assets are reclassified when, and only when, the Bank changes its business model for managing financial assets. In such a case the assets affected by the change of business model are subject to reclassification.

Financial liabilities are not subject to reclassification by the Group.

The accounting principles applied by the Group until 31 December 2017 in the scope of classification and measurement of financial instruments are described in Note 2 of the IFRS Consolidated Financial Statements of the mBank S.A. Group for 2017, published on 28 February 2018.

### **2.9. Offsetting financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The conditions mentioned above are not satisfied and offsetting is inappropriate when: different financial instruments are used to emulate the features of a single financial instrument, financial assets and liabilities arise from financial instruments having the same risk exposure but involve different counterparties, financial or other assets are pledged as collaterals for non-recourse financial liabilities, financial assets are set aside in trust by a debtor for the purpose of discharging an obligation without those assets having been accepted by the creditor in the settlement of the obligation, or obligations incurred as a result of events giving rise to losses are expected to be recovered from a third party by virtue of a claim made under an insurance contract.

### **2.10. Impairment of financial assets**

Financial instruments subjected to estimation of allowance and provision are: financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income, loan commitments if not measured at fair value through profit or loss, financial guarantee contracts if not

measured at fair value through profit or loss, leases under IAS 17, contract assets under IFRS 15, as well as trading receivables.

#### How exposures are classified to stages

The transfer logic is an algorithm used to classify exposures to one of the four Stages: 1, 2, 3, POCI. Stage 1 includes exposures for which provisions/write-downs are calculated on a 12-month basis. Stage 2 contains exposures for which, as at the reporting date, a significant deterioration in credit quality was identified compared to the date of their initial recognition – provisions/write-downs are calculated on a lifetime period. Stage 3 contains exposures identified as credit-impaired, while Stage POCI contains assets identified as credit-impaired at initial recognition. Once the quantitative or qualitative criteria that were used to classify the exposure in Stage 2 at the reporting date are no longer met, (the client and the exposure assigned to him or her no longer meet any of the Transfer Logic qualitative criteria or quantitative criteria), the exposure will be moved from Stage 2 to Stage 1. The exposure may also be transferred from Stage 3 to Stage 2 and from Stage 3 to Stage 1 (when no longer credit-impaired).

In case of non-financial guarantees, the Bank applied a simplified approach that the write-offs and provisions are always included in the amount Lt ECL.

#### Impairment corporate portfolio

Corporate exposures are deemed to be credit-impaired where the results of an impairment test demonstrate the need to establish valuation allowances/provisions. A client is reclassified as in default when one or more of the following criteria are met:

- any of the exposures representing the client's loan exposure to the Bank, its parent company or subsidiary is more than 90 days past due (for banks exposures – more than 14 days). In the case of committed lines, the exposure is deemed to be past due on the date a specified limit is exceeded, a new limit – lower than the loan amount used – is introduced or when a loan amount is used without the consent of the Bank. No reclassification to default category is needed for customer with past due loan exposure not exceeding PLN 500 for Private Banking clients and PLN 3 000 for corporate portfolio clients, where risk increase related to commitment of a given customer is not directly impacted and no other criteria for customer default are present at the same time.
- The Bank considers the client as unlikely to fully meet its loan commitments to the Bank, its parent company or subsidiary, demonstrating the need for corrective or restructuring measures or the exercise of collateral rights on the part of the Bank.

#### Impairment retail portfolio

In case of retail exposures, the identification of impaired exposure reflects the separation of exposure in the Bank's loan portfolio, for which at least one impairment trigger is active and the write-down value is different than zero. The impairment trigger for the retail exposure is:

- a discrete event or an ongoing situation based on which, taking into account all information possessed, the Bank acknowledges that without realizing the collaterals the debtor will not fully repay the Bank's receivables due to this exposure or
- the situation where, in accordance with loan agreement relating to this exposure, the collateral has been realized fully or partially, (cash flows have occurred), however the Bank's receivable related to this exposure has not been fully repaid.
- default event.

The events/situations determined by the Bank take place after the initial recognition of balance sheet loan exposure in Bank's books and affect the expected future cash flows due to the above exposure and it is possible to reliably estimate the impact.

Retail exposures are considered to be in default, if the following criterion is met:

- where at least one loan commitment of the debtor is past due for more than 90 days and total amount of past due credit exposures of the debtor (more than 31 days past due) exceed PLN 500,
- Bank accepts forced restructuring of an exposure, if as a result of it, loan exposures decrease due to the significant cancellation or extension of principal, interest or (if applicable) fees or commissions,
- Bank sells loan exposure with significant economic credit loss,
- an application has been filed to initiate bankruptcy proceedings against the debtor or the debtor has been put into bankruptcy, which may result in the termination or delay in repayment of the credit exposure towards the Bank.

In the case of retail exposures of mBank's foreign branches, the following must be taken into account:

- the main criterion for recognition as credit-impaired,
- additional criteria for recognition as credit-impaired.

The main criterion for recognizing a retail exposure as credit-impaired is deemed to be met when the exposure is more than 90 days past due, with the overdue amount exceeding the materiality threshold specified for each country on a separate basis (CZK 3000 and EUR 120).

#### Significant deterioration

A significant deterioration in credit quality is recognised for the asset concerned on the basis of quantitative and qualitative criteria, with the asset being transferred to Stage 2 once at least one of such qualitative or quantitative criteria is met.

#### Qualitative criteria

Qualitative criteria are:

- Where an amount is more than 30 days past due (days past due, with an activation threshold) – the number of days for which the longest overdue amount of the exposure concerned is greater than or equal to 31 days).
- Occurrence of the Forborne flag (the client status shows that he or she is experiencing difficulties in repaying the loan commitment, as defined by the Bank).
- Occurrence of the Watch flag (the Bank's internal process designed to identify corporate clients who are subject to increased monitoring in terms of changes in credit quality, in accordance with the Watch List classification rules adopted by the Bank).

#### Quantitative criteria

The quantitative criterion of the Transfer Logic is based on a significant deterioration in credit quality, which is assessed on the basis of a relative long-term change in Probability of Default (PD), specified for the exposure at the reporting date, relative to the long-term PD specified on initial recognition. This factor is determined separately for the retail and corporate portfolio within the homogeneous segments in terms of probability of default events. Where a relative change in long-term PD exceeds "the transition threshold", the exposure is moved to Stage 2. An important issue in the process of calculating the credit quality deterioration is initial date recognition consistent in the entire Bank, against which the deterioration of credit quality is examined. Initial date re-recognition is determined for the exposures for which substantial modification of contractual terms took place. Each change of initial recognition date results in recalculation taking into account the new exposure characteristics, initial PD parameter at the new initial recognition date, against which the credit quality deterioration is examined.

#### Low credit risk

For exposures whose characteristics are indicative of low credit risks (LCR), expected credit losses are always determined on a 12-month basis. Exposures designated as LCR may not be transferred from Stage 1 to Stage 2, although they can be moved from Stage 1 to Stage 3 upon being recognized as credit-impaired. At the moment of implementing the IFRS 9, the Bank applies the LCR criterion to clients from the K1 segment with a PD rating grade greater than or equal to class 2.8. The LCR criterion is also applied to clients from segments such as: Governments and Banks, Local Government Units and NBF (Non-Banking Financial Institution).

#### Rebuttable presumption

The Bank's approach that involves rejection of the presumption that a significant deterioration in credit quality occurs where  $DPD \geq 31$  days (rebuttable presumption) involves introducing a threshold of materiality (threshold of activation) for any outstanding amount payable to the Bank. The  $DPD \geq 31$  days criterion (one of the qualitative criteria of the Transfer Logic) is not taken into account in the following cases:

1. for retail exposures - in the case of credit exposures, the sum of payable and non-payable capital does not exceed PLN 500 or an off-balance-sheet commitment of the exposure does not exceed PLN 500 (at the reporting date),
2. for corporate exposures - the sum of payable and non-payable capital at the reporting date does not exceed PLN 3 000 or an off-balance-sheet commitment of the exposure does not exceed PLN 3 000.

#### Estimating expected credit losses (ECL)

Valuation allowances and provisions are measured at the level of a single contract or exposure (agreement) by measuring expected credit losses (ECL). In the portfolio approach, expected credit losses are the

multiplication of individual for each exposure estimated value of PD, LGD and EAD and the final value of expected credit losses is the sum of expected credit losses in particular periods discounted with the effective interest rate. If on the reporting date the exposure credit risk did not increase significantly since the initial recognition, the Bank calculates impairment provisions in the amount equal to 12-month expected credit losses (12m ECL). If the exposure credit risk increased significantly since the initial recognition (exposure is in the stage 2), the Bank calculates impairment provisions in the amount equal to life-time expected credit losses (Lt ECL). An expected loss is measured for non-zero exposures that are active at the reporting date (balance sheet and off-balance sheet). An expected credit loss is estimated separately for the balance- and off-balance-sheet part of the exposure. The parameters used to calculate an expected credit loss in Stage 1 are identical to those used to calculate a long-term credit loss in Stage 2 for  $t=1$ , where 't' stands for the first year of the forecast.

In the individual approach (all balance sheet and off-balance sheet credit exposures with an impairment in the corporate loan portfolio are treated as individually significant), the expected credit losses are calculated as a difference between the gross carrying amount of the asset and the present value of the estimated future cash flows discounted with the effective interest rate. The method of calculating the expected recoveries takes place in scenarios and depends on the Bank's chosen strategy for the client. In case of restructuring strategy, the scenarios considered assume a significant share of recoveries from the customer's own payments. In case of vindication strategy, the scenarios are based on collateral recoveries.

#### Use of macroeconomics scenarios in ECL estimation

The Bank is required to set an expected credit loss in a way which meets the expectations for various forward-looking macroeconomic scenarios in case of portfolio estimation of ECL. Therefore, the non-linearity factor (NLF) is set in order to adjust the value of an expected credit loss (calculated every month). The NLF factor is determined separately for retail and corporate segments at least once a year. NLFs are used as scaling factors for individual ECLs (both 12-month and lifetime) that are determined at the level of individual exposures in each segment. NLFs are calculated based on results from 3 simulation calculations at the same reporting date, which result from relevant macroeconomic scenarios.

In particular, NLF for a given segment is calculated as:

1. the probability-weighted average of the expected loss from 3 macroeconomic scenarios ('average estimation') comprising:
  - a) baseline scenario
  - b) optimistic scenario
  - c) pessimistic scenario
2. divided by the expected loss determined under baseline scenario (reference estimate).

Simulation calculations, whose results are used to calculate NLF, are carried out on the basis of the same input data on exposure characteristics, but involve different risk parameter vectors, if the macroeconomic expectations defined in the scenarios are such as to affect the value of these parameters.

In case of individual estimation of ECL, the assumed recovery scenarios take into account various modeling of macroeconomic environment.

#### Loan receivable write-off

Loan receivable write-off can be partial or total.

The accounting principles applied by the Group until 31 December 2017 regarding the impairment of financial assets are described under Note 2 of the IFRS Consolidated Financial Statements of the mBank S.A. Group for 2017, published on 28 February 2018.

### **2.11. Financial guarantee contracts**

The financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

When a financial guarantee contract is recognised initially, it is measured at the fair value. After initial recognition, an issuer of such a contract subsequently measures it at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9,
- the amount initially recognised less when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

### **2.12. Cash and cash equivalents**

Cash and cash equivalents comprise items with maturities of up to three months from the date of their acquisition, including: cash in hand and cash held at the Central Bank with unlimited availability for disposal, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks and government securities acquired for the purpose of short-term resale.

### **2.13. Sale and repurchase agreements**

Repo and reverse-repo transactions are defined as selling and purchasing securities for which a commitment has been made to repurchase or resell them at a contractual date and for a specified contractual price and are recognised when the money is transferred.

Securities sold with a repurchase clause (repos/sell buy back) are reclassified in the financial statements as pledged assets if the entity receiving them has the contractual or customary right to sell or pledge them as collateral security. The liability towards the counterparty is recognised as amounts due to other banks, deposits from other banks, other deposits or amounts due to customers, depending on its nature. Securities purchased together with a resale clause (reverse repos/buy sell back) are recognised as loans and advances to other banks or other customers, depending on their nature.

When concluding a repo/sell-buy-back or reverse repo/buy-sell-back transaction, mBank sells or buys securities with a repurchase or resale clause specifying a contractual date and price. Such transactions are presented in the statement of financial position as financial assets measured at fair value through profit or loss or at fair value through other comprehensive income, and also as liabilities in the case of repo/sell-buy-back transactions and as receivables in the case of reverse repo/buy-sell-back transactions measured at amortised cost.

Securities borrowed by the Group under buy-sell-back transactions are not recognised in the financial statements, unless they are sold to third parties. In such case the purchase and sale transactions are recorded in the financial statements with a gain or a loss included in trading income. The obligation to return them is recorded at fair value as amounts due to customers. Securities borrowed under buy-sell-back transactions and then lent under sell-buy-back transactions are not recognised as financial assets.

As a result of repo/sell-buy-back transactions concluded on securities held by the Group, financial assets are transferred in such way that they do not qualify for derecognition. Thus, the Group retains substantially all risks and rewards of ownership of the financial assets.

### **2.14. Derivative financial instruments and hedge accounting**

Derivative financial instruments are recognised at fair value from the date of transaction. Fair value is determined based on prices of instruments listed on active markets, including recent market transactions, and on the basis of valuation techniques, including models based on discounted cash flows and options pricing models, depending on which method is appropriate in the particular case. All derivative instruments with a positive fair value are recognised in the statement of financial position as assets, those with a negative value as liabilities.

The best fair value indicator for a derivative instrument at the time of its initial recognition is the price of the transaction (i.e., the fair value of the paid or received consideration). If the fair value of the particular instrument may be determined by comparison with other current market transactions concerning the same instrument (not modified) or relying on valuation techniques based exclusively on market data that are available for observation, then the Group recognises the respective gains or losses from the first day in accordance with the principles described under Note 2.15.

Derivative instrument embedded in the hybrid contract, the host of which is a financial asset within the scope of IFRS 9, is not separated and the hybrid contract is recognised in accordance with the requirements for classification of the financial assets.

Derivative instrument embedded in the hybrid contract, the host of which is not a financial asset within the scope of IFRS 9, is assessed for the need to separate it.

Derivative instruments, which are designated and constitute effective hedging instruments, are not classified under any of the categories specified above and are subject to the principles of hedge accounting.

In accordance with IFRS 9: (i), there is no need to separate the prepayment option from the host debt instrument for the needs of financial statements, if the option's exercise price is approximately equal on each exercise date to the amortised cost of the host debt instrument. If the value of prepayment option was not to be closely related to the underlying debt instrument, the option should be separated and fair valued in the financial statements of the Bank; (ii), exercise price of a prepayment option reimburses the lender for an amount up to the approximate present value of lost interest for the remaining term of the host contract. Lost interest is the product of the principal amount prepaid multiplied by the interest rate

differential. The interest rate differential is the excess of the effective interest rate of the host contract over the effective interest rate the entity would receive at the prepayment date if it reinvested the principal amount prepaid in a similar contract for the remaining term of the host contract.

The assessment of whether the call or put option is closely related to the host debt contract is made before separating the equity element of a host debt instrument in accordance with IAS 32.

The method of recognising the resulting fair value gain or loss depends on whether the given derivative instrument is designated as a hedging instrument, and if it is, it also depends on the nature of the hedged item. The Group designates some derivative instruments either as (1) fair value hedges against a recognised asset or liability or against a binding contractual obligation (fair value hedge), or as (2) hedges against highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge).

The Group decided that it would continue to apply the hedge accounting requirements in accordance with IAS 39, instead of the requirements set forth in IFRS 9.

Derivative instruments designated as hedges against positions maintained by the Group are recorded by means of hedge accounting, subject to the fulfilment of the criteria specified in IAS 39:

- at the inception of the hedge there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instruments effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk;
- the hedge is expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship;
- for cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss;
- the effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured;
- the hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

The Group documents the objectives of risk management and the strategy of concluding hedging transactions, as well as at the time of concluding the respective transactions, the relationship between the hedging instrument and the hedged item. The Group also documents its own assessment of the effectiveness of fair value hedging and cash flow hedging transactions, measured both prospectively and retrospectively from the time of their designation and throughout the period of duration of the hedging relationship between the hedging instrument and the hedged item.

Due to the split of derivatives classified into banking book and into trading book, the Group applies a different approach to the presentation of interest income/expense for each of these groups of derivatives that is described in Note 2.4 "Interest income and expenses". The remaining result from fair value measurement of derivatives is recognised in "Net trading income".

#### Fair value hedges

Changes in the fair value of derivative instruments designated and qualifying as fair value hedges are recognised in the income statement together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Starting from the financial statements for the first half of 2018, hedging gain or loss on the hedged item adjusts the carrying amount of the hedged item.

In case a hedge has ceased to fulfil the criteria of hedge accounting, the adjustment to the carrying value of the hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity. The adjustment to the carrying amount of the hedged equity security remains in other comprehensive income until the disposal of the equity security.

#### Cash flow hedges

The effective part of the fair value changes of derivative instruments designated and qualifying as cash flow hedges is recognised in other comprehensive income. The gain or loss concerning the ineffective part is recognised in the income statement of the current period.

The amounts recognised in other comprehensive income are transferred to the income statement and recognised as income or cost of the same period in which the hedged item will affect the income statement (e.g., at the time when the forecast sale that is hedged takes place).

In case the hedging instrument has expired or has been sold, or the hedge has ceased to fulfil the criteria of hedge accounting, any aggregate gains or losses recognised at such time in other comprehensive income remain in other comprehensive income until the time of recognition in the income statement of the forecast transaction. When a forecast transaction is no longer expected to occur, the aggregate gains or losses recorded in other comprehensive income are immediately transferred to the income statement.

#### Derivative instruments not fulfilling the criteria of hedge accounting

Changes of the fair value of derivative instruments that do not meet the criteria of hedge accounting are recognised in the income statement of the current period.

The Group holds the following derivative instruments in its portfolio:

##### *Market risk instruments:*

- Futures contracts for bonds, index futures
- Options for securities and for stock-market indices
- Options for futures contracts
- Forward transactions for securities
- Commodity swaps

##### *Interest rate risk instruments:*

- Forward Rate Agreement (FRA)
- Interest Rate Swap (IRS), Overnight Index Swap (OIS)
- Interest Rate Options

##### *Foreign exchange risk instruments:*

- Currency forwards, fx swap, fx forward
- Cross Currency Interest Rate Swap (CIRS)
- Currency options.

### **2.15. Gains and losses on initial recognition**

The best evidence of fair value of a financial instrument at initial recognition is the transaction price (i.e., the fair value of the payment given or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

The transaction for which the fair value determined using a valuation model (where inputs are both observable and non-observable data) and the transaction price differ, the initial recognition is at the transaction price. The Group assumes that the transaction price is the best indicator of fair value, although the value obtained from the valuation model may differ. The difference between the transaction price and the model value, commonly referred to as "day one profit and loss", is amortised over the period of time.

The timing of recognition of deferred day one profit and loss is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable data, or realised through settlement. The financial instrument is subsequently measured at fair value, adjusted for the deferred day one profit and loss. Subsequent changes in fair value are recognised immediately in the income statement without reversal of deferred day one profits and losses.

### **2.16. Financial liabilities measured at amortised cost**

Financial liabilities measured in amortized include borrowings, deposits taken, debt securities issued and subordinated liabilities. These liabilities are initially recognized at fair value reduced by the incurred transaction costs. After the initial recognition, these liabilities are recorded at adjusted cost of acquisition (amortised cost using the effective interest method). Any differences between the amount received (reduced by transaction costs) and the redemption value are recognized in the income statement over the period of duration of the respective agreements according to the effective interest rate method.

## **2.17. Intangible assets**

The Group measures intangible assets initially at cost. After initial recognition, intangible assets are recognised at their cost of acquisition adjusted by the costs of improvement (rearrangement, development, reconstruction or modernisation) less any accumulated amortization and any accumulated impairment losses. Amortization is accrued by the straight line method taking into account the expected period of economic useful life of the respective intangible assets.

### Goodwill

Goodwill as of the acquisition date is initially measured as cost of acquisition the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill on acquisition of subsidiaries is included in "Intangible assets". Goodwill is not amortised, but it is tested annually for impairment and if there have been any indication that it may be impaired, and it is carried in the statement of financial position at cost reduced by accumulated impairment losses. The Group assesses at the end of each reporting period whether there is any indication that cash generating unit to which goodwill is allocated may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. Goodwill impairment losses should not be reversed.

Gains and losses on the disposal of the activity include the carrying amount of goodwill relating to the sold activity. Goodwill is allocated to cash generating units or groups of cash generating units for the purpose of impairment testing. The allocation is made as at the date of purchase to those cash-generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose, not bigger than operating segments in accordance with IFRS 8 irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

### Computer software

Purchased computer software licences are capitalised in the amount of costs incurred for the purchase and adaptation for use of specific computer software. These costs are amortised on the basis of the expected useful life of the software (2-11 years). Expenses attached to the maintenance of computer software are expensed when incurred. Expenses directly linked to the development of identifiable and unique proprietary computer programmes controlled by the Group, which are likely to generate economic benefits in excess of such costs expected to be gained over a period exceeding one year, are recognised as intangible assets. Direct costs comprise personnel expenses directly related to the software.

Capitalised costs attached to the development of software are amortised over the period of their estimated useful life (2-11 years).

Computer software directly connected with the functioning of specific information technology hardware is recognised as "Tangible fixed assets".

### Development costs

The Group identifies development costs as intangible asset as the asset will generate probable future economic benefits and fulfil the following requirements described in IAS 38, i.e., the Group has the intention and technical feasibility to complete and to use the intangible asset, the availability of adequate technical, financial and other resources to complete and to use the intangible asset and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

"Development costs" useful lives are defined and the amortization period does not exceed 3 years. Amortization rates are adjusted to the period of economic utilisation. The Group shows separately additions from internal development and separately those acquired through business combinations.

Development expenditure comprises all expenditure that is directly attributable to research and development activities.

Intangible assets are tested in terms of possible impairment always after the occurrence of events or change of circumstances indicating that their carrying value in the statement of financial position might not be possible to be recovered.

## **2.18. Tangible fixed assets**

Tangible fixed assets are carried at historical cost reduced by accumulated depreciation and accumulated impairment losses. Historical cost takes into account the expenses directly attached to the acquisition of the respective assets.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only where it is probable that future economic benefits associated with the item will flow to

the Group and the cost of the item can be measured reliably. Any other expenses incurred on repairs and maintenance are expensed to the income statement in the reporting period in which they were incurred.

Land is not depreciated. Depreciation of other fixed assets is accounted for according to the straight line method in order to spread their initial value reduced by the residual value over the period of their useful life which is estimated as follows for the particular categories of fixed assets:

Buildings and structures	25-40 years,
Equipment	2-10 years,
Vehicles	5 years,
Information technology hardware	2-5 years,
Investments in third party fixed assets	10-40 years, no longer than the period of the lease contract,
Office equipment, furniture	5-10 years.

Land and buildings consist mainly of branch outlets and offices. Residual values, estimated useful life periods and depreciation method are verified at the end of the reporting period and adjusted prospectively in accordance with the arising need.

Group assesses at the end of each reporting period whether there is any indication that tangible asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. Depreciable fixed assets are tested for impairment always whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The value of a fixed asset carried in the statement of financial position is reduced to the level of its recoverable value if the carrying value in the statement of financial position exceeds the estimated recoverable amount. The recoverable value is the higher of two amounts: the fair value of the fixed asset reduced by its selling costs and the value in use.

If it is not possible to estimate the recoverable amount of the individual asset, the Group shall determine the recoverable amount of the cash-generating unit to which the asset belongs (cash-generating unit of the asset).

The carrying amount of tangible fixed assets is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of tangible fixed assets are included in profit or loss when the item is derecognised.

Gains and losses on account of the disposal of fixed assets are determined by comparing the proceeds from their sale against their carrying value in the statement of financial position and they are recognised in the income statement.

## **2.19. Inventories**

Inventories are stated at the lower of: cost of purchase/cost of construction and net realisable value. Cost of construction of inventories comprises direct construction costs, the relevant portion of fixed indirect production costs incurred in the construction process and the borrowing costs, which can be directly allocated to the purchase or construction of an asset. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling costs. The amount of any inventory write-downs to the net realisable value and any inventory losses are recorded as costs of the period in which a write-down or a loss occurred and they are classified as other operating costs. Reversals of inventory write-downs resulting from increases in their net realisable value are recorded as a reduction of the inventories recognised as cost of the period in which the reversals took place. Inventory issues are valued through detailed identification of the individual purchase prices or costs of construction of the assets which relate to the realisation of the individual separate undertakings. In particular, inventories comprise land and rights to perpetual usufruct of land designated for use as part of construction projects carried out. They also comprise assets held for lease as well as assets taken over as a result of terminated lease agreements.

## **2.20. Non-current assets held for sale and discontinued operations**

The Group classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sale of such assets and its sale must be highly probable, i.e., the appropriate level of management must be committed to a plan to sell the asset, and an active programme to locate a buyer and complete the plan must have been initiated. Furthermore, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale are priced at the lower of: carrying value and fair value less costs to sell. Assets classified in this category are not depreciated.

When criteria for classification to non-current assets held for sale are not met, the Group ceases to classify the assets as held for sale and reclassifies them into appropriate category of assets. The Group measures a non-current asset that ceases to be classified as held for sale (or ceases to be included in a disposal group classified as held for sale) at the lower of:

- its carrying amount at a date before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognised had the asset (or disposal group) not been classified as held for sale, and
- its recoverable amount at the date of the subsequent decision not to sell.

Discontinued operations are a component of the Group that either has been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operation or is a subsidiary acquired exclusively with a view to resale.

The classification to this category takes place at the moment of sale or when the operation meets criteria of the operation classified as held for sale, if this moment took place previously. Disposal group which is to be taken out of usage may also be classified as discontinued operation.

### **2.21. Deferred income tax**

The Group creates a deferred income tax on the temporary difference arising between the carrying amount of an asset or liability in the statement of financial position and its tax base. A taxable net difference is recognised in liabilities as "Provisions for deferred income tax". A deductible net difference is recognised under "Deferred income tax assets". Any change in the balance of the deferred tax assets and liabilities in relation to the previous accounting period is recorded under the item "Income Tax". The balance sheet method is applied for the calculation of the deferred corporate income tax.

Liabilities or assets for deferred corporate income tax are recognised in their full amount according to the balance sheet method in connection with the existence of temporary differences between the tax value of assets and liabilities and their carrying value. Such liabilities or assets are determined by application of the tax rates in force by virtue of law or of actual obligations at the end of the reporting period. According to expectations such tax rates applied will be in force at the time of realisation of the assets or settlement of the liabilities for deferred corporate income tax.

The main temporary differences arise on account of impairment write-offs recognised in relation to the loss of value of credits and granted guarantees of repayment of loans, amortisation of fixed assets and intangible assets, finance leases treated as operating leases for tax purposes, revaluation of certain financial assets and liabilities, including contracts concerning derivative instruments and forward transactions, provisions for retirement benefits and other benefits following the period of employment, and also deductible tax losses.

The Group reviews the carrying amount of a deferred tax assets at the end of each reporting period. The Group reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred income tax assets are recognised to the extent it is probable that there will be sufficient taxable profits to allow them to recover. If the forecast amount of income determined for tax purposes does not allow the realisation of the asset for deferred income tax in full or in part, such an asset is recognised to the respective amount, accordingly. The above described principle also applies to tax losses recorded as part of the deferred tax asset.

The Group presents the deferred income tax assets and liabilities netted in the statement of financial position separately for each subsidiary undergoing consolidation. Such assets and provisions may be netted against each other if the Group possesses the legal rights allowing it to simultaneously account for them when calculating the amount of the tax liability.

In the case of the Bank, the deferred income tax assets and provisions are netted against each other separately for each country where the Bank conducts its business and is obliged to settle corporate income tax.

The Group discloses separately the amount of negative temporary differences (mainly on account of unused tax losses or unutilised tax allowances) in connection with which the deferred income tax asset was not recognised in the statement of financial position, and also the amount of temporary differences attached to investments in subsidiaries and associates for which no deferred income tax provision has been formed.

Deferred income tax for the Group is provided on assets or liabilities due to temporary differences arising from investments in subsidiaries and associates, except where, on the basis of any probable evidence, the

timing of the reversal of the temporary difference is controlled by the Group and it is possible that the difference will not reverse in the foreseeable future.

Deferred income tax on account of revaluation of financial instruments measured through other comprehensive income and of revaluation of cash flow hedging transactions is accounted for in the same way as any revaluation, directly in other comprehensive income, and it is subsequently transferred to the income statement when the respective investment or hedged item affects the income statement.

### **2.22. Assets repossessed for debt**

Assets repossessed for debt represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, financial assets or other assets depending on their nature and the Group's intention in respect of recovery of these assets. In case the fair value of repossessed collateral exceeds the receivable from the debtor, the difference constitutes a liability toward the debtor.

Repossessed assets are subsequently measured and accounted for in accordance with the accounting policies relevant for these categories of assets.

### **2.23. Prepayments, accruals and deferred income**

Prepayments are recorded if the respective expenses concern the months succeeding the month in which they were incurred. Prepayments are presented in the statement of financial position under "Other assets".

Accruals include costs of supplies delivered to the Group but not yet resulting in its payable liabilities. Deferred income includes received amounts of future benefits. Accruals and deferred income are presented in the statement of financial position under the item "Other liabilities".

### **2.24. Leasing**

A lease arrangement is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. Title may or may not eventually be transferred. A lease arrangement is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

The Group determines whether an arrangement is, or contains, a lease based on the substance of the arrangement and assessment of whether fulfilment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset.

#### mBank S.A. Group as a lessor

In the case of assets in use on the basis of a finance lease agreement, the amount equal to the net investment in the lease is recognised as receivables and presented as "Loans and advances to customers". The difference between the gross receivable amount and the present value of the receivables is recognised as unrealised financial income.

Revenue from leasing agreements is recognized as follows:

- Interests on finance lease

Revenue from finance lease is recognised on the accruals basis, based on the fixed rate of return calculated on the basis of all the cash flows related to the realisation of a given lease agreement, discounted using the lease interest rate.

- Net revenue from operating lease

Revenue from operating lease and the depreciation cost of fixed assets provided by the Group under operating lease, incurred in order to obtain this revenue are recognised in net amount as other operating income in the profit and loss account.

Revenue from operating lease is recognised as income on a straight-line basis over the lease period, unless application of a different systematic method better reflects the time allocation of benefits drawn from the leased asset.

#### mBank S.A. Group as a lessee

The leases entered into by the Group are primarily operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

### **2.25. Provisions**

Loan commitments and financial guarantee contracts are subject to loan loss provisions requirements according to IFRS 9 Financial Instruments.

According to IAS 37, provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

## **2.26. Post-employment employee benefits and other employee benefits**

### Post-employment employee benefits

The Group forms provisions against future liabilities on account of post-employment benefits determined on the basis of an estimation of liabilities of that type, using an actuarial model. The Group uses a principle of recognition of actuarial gains or losses from the measurement of post-employment benefits related to changes in actuarial assumptions in other comprehensive income that will not be reclassified to the income statement. The Group recognizes service cost and net interest on the net defined benefit liability in the "Overhead cost" and in other interest expenses, respectively.

### Equity-settled share-based payment transactions

The Group runs programmes of remuneration based on and settled in own shares. Equity-settled share-based payment transactions are accounted for in compliance with IFRS 2 *Share-based Payment*. In case of the part of the programme settled in shares, the fair value of the service rendered by employees in return for options and shares granted increases the costs of the respective period corresponding to own equity. The total amount which needs to be expensed over the period when the outstanding rights of the employees for their options and shares to become exercisable are vested is determined on the basis of the fair value of the granted options and shares. There are no market vesting conditions that shall be taken into account when estimating the fair value of share options and shares at the measurement date. Non-market vesting conditions are not taken into account when estimating the fair value of share options and shares but they are taken into account through adjustment on the number of equity instruments. At the end of each reporting period, the Bank revises its estimates of the number of options and shares that are expected to become exercised. In accordance with IFRS 2 it is not necessary to recognise the change in fair value of the share-based payment over the term of the programmes.

### Cash-settled share-based payment transactions

In case of the part of the programme based on cash-settled share-based payments based on shares of the ultimate parent of the Bank, the fair value of the service rendered by employees in return for right to options/share appreciation rights increases the costs of the respective period, corresponding to liabilities. Until the liability related to the cash-settled share-based payments transactions is settled, the Bank measures the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

### Other employee benefits

From September 2012, in mBank Hipoteczny has been functioning the incentive programme based on phantom shares of this bank which is considered as incentive programme according to IAS 19.

## **2.27. Equity**

Equity consists of capital and own funds attributable to owners of the Bank, and non-controlling interest created in compliance with the respective provisions of the law, i.e., the appropriate legislative acts, the By-laws or the Company Articles of Association.

### Registered share capital

Share capital is presented at its nominal value, in accordance with the By-laws and with the entry in the business register.

#### ■ Own shares

In the case of acquisition of shares in the Bank by the Bank the amount paid reduces the value of equity as own shares until the time when they are cancelled. In the case of sale or reallocation of such shares, the payment received in return is recognised in equity.

### Share premium

Share premium is formed from the share premium obtained from the issue of shares reduced by the attached direct costs incurred with that issue.

Costs directly connected with the issue of new shares and options reduce the proceeds from the issue recognized in equity.

Moreover, share premium takes into account the settlements related to incentive programs based on Bank's shares.

### Retained earnings

Retained earnings include:

- other supplementary capital,
- other reserve capital,
- general risk reserve,
- undistributed profit for the previous year,
- net profit (loss) for the current year.

Other supplementary capital, other reserve capital and general risk reserve are formed from allocations of profit and they are assigned to purposes specified in the By-laws or other regulations of the law.

Moreover, other reserve capital comprises valuation of incentive programs based on Bank's shares.

Dividends for a given year, which have been approved by the General Meeting but not distributed at the end of the reporting period, are shown under the liabilities due to dividends payable under "Other liabilities".

### Other components of equity

Other components of equity result from:

- valuation of financial assets at fair value through other comprehensive income,
- exchange differences on translation of foreign operations,
- actuarial gains and losses relating to post-employment benefits,
- valuation of derivative financial instruments held for cash flow hedging in relation to the effective portion of the hedge.

## **2.28. Valuation of items denominated in foreign currencies**

### Functional currency and presentation currency

The items contained in financial reports of particular entities of the Group, including foreign branches of the Bank, are valued in the currency of the basic economic environment in which the given entity conducts its business activities ("functional currency"). The financial statements are presented in the Polish zloty, which is the presentation currency of the Group and the functional currency of the Bank.

### Transactions and balances

Transactions denominated in foreign currencies are converted to the functional currency at the exchange rate in force at the transaction date. Foreign exchange gains and losses on such transactions as well as balance sheet revaluation of monetary assets and liabilities denominated in foreign currency are recognised in the income statement.

Foreign exchange differences arising on account of such monetary items as financial assets measured at fair value through profit or loss are recognised under gains or losses arising in connection with changes of fair value. Foreign exchange differences arising on account of such monetary items as equity instruments measured at fair value through other comprehensive income are recognised in other comprehensive income.

At the end of each reporting period non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction, and non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange differences component of that gain or loss is recognised in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange differences component of that gain or loss is recognised in profit or loss.

Changes in fair value of monetary items valued through other comprehensive income cover foreign exchange differences arising from valuation at amortised cost, which are recognised in the income statement.

Items of the statement of financial position of foreign branches are converted from functional currency to the presentation currency with the application of the average exchange rate as at the end of the reporting period. Income statement items of these entities are converted to presentation currency with the application of the arithmetical mean of average exchange rates quoted by the National Bank of Poland on

the last day of each month of the reporting period. Foreign exchange differences so arisen are recognised in other comprehensive income.

#### Companies belonging to the Group

The performance and the financial position of all the entities belonging to the Group, none of which conduct their operations under hyperinflationary conditions, the functional currencies of which differ from the presentation currency, are converted to the presentation currency as follows:

- assets and liabilities in each presented statement of financial position are converted at the average rate of exchange of the National Bank of Poland (NBP) in force at the end of this reporting period,
- revenues and expenses in each income statement are converted at the rate equal to the arithmetical mean of the average rates quoted by NBP on the last day of each of 9 months of each presented periods,
- all resulting foreign exchange differences are recognised as a distinct item of other comprehensive income.

Upon consolidation, foreign exchange differences arising from the conversion of net investments in companies operating abroad are recognised in other comprehensive income. Upon the disposal of a foreign operation, such foreign exchange differences are recognised in the income statement as part of the profit or loss arising upon disposal.

#### Leasing business

Gains and losses on foreign exchange differences from the valuation of liabilities on account of credit financing of purchases of assets under operating leasing schemes are recognised in the income statement. In the operating leasing agreements recognised in the statement of financial position the fixed assets subject to the respective contracts are recognised at the starting date of the appropriate contract as converted to PLN, whereas the foreign currency loans with which they were financed are subject to valuation according to the respective foreign exchange rates.

In the case of finance lease agreements the foreign exchange differences arising from the valuation of leasing receivables and liabilities denominated in foreign currency are recognised through profit or loss at the end of the reporting period.

### **2.29. Trust and fiduciary activities**

mBank S.A. operates trust and fiduciary activities including domestic and foreign securities and services provided to investment and pension funds.

The Bank provides custody, trustee, corporate administration, investment management and advisory services to third parties. Fee and commission income from trust and fiduciary activities is recognised in accordance with IFRS 15 using a 5-step model for revenue recognition, described in the Note 2.5. In connection with these, the Bank makes decisions concerning the allocation, purchase and sale of a wide variety of financial instruments. Assets held in a fiduciary capacity are not included in these financial statements. The assets concerned are not shown in these financial statements as they do not belong to the Group.

Other companies belonging to the Group do not conduct any trust or fiduciary activities.

### **2.30. 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 2018.

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

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

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

##### **Standards and interpretations approved by the European Union:**

- IFRS 16, *Leases*, published by the International Accounting Standards Board on 13 January 2016, approved by European Union on 31 October 2017, binding for annual periods starting on or after 1 January 2019.

IFRS 16 introduces new principles for the recognition of leases. The main amendment is the elimination of the classification of leases as either operating leases or finance leases and instead, the introduction of a single lessee accounting model. Applying a single accounting model, a lessee is required to recognize right-of-use assets and corresponding liability in the statement of financial position, except for leases with a term of less than 12 months and leases with underlying asset of low value. A lessee is also required to recognize depreciation costs of lease asset separately from interest costs on lease liabilities in the income statement.

IFRS 16 substantially carries forward the lessor accounting approach. It means that lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group is of the opinion that the application of a new standard will have an impact on the recognition, presentation, measurement and disclosure of operating lease assets and corresponding liability in the financial statements of the Group as lessor. The Group is of the opinion that the application of a new standard will have no significant impact on recognition of previous finance lease in the financial statements of the Group.

Quantitative and qualitative information, including the analysis of main changes resulting from adoption of the standard on the financial statements for the annual periods starting from 1 January 2019 has been presented under the end of these note.

- Amendments to IFRS 9, *Prepayment Features with Negative Compensation*, published by the International Accounting Standards Board on 12 October 2017, approved by European Union on 22 March 2018, binding for annual periods starting on or after 1 January 2019.

Amendments to IFRS 9 introduce the statements with reference to contractual prepayment feature, when the lender could be forced to accept the prepayment amount that is substantially less than unpaid amounts of principal and interest. Such a prepayment amount would be a payment to the borrower from the lender, instead of compensation from the borrower to the lender. Such a financial asset would be eligible to be measured at amortized cost or fair value through other comprehensive income (subject to an assessment of the business model in which they are held), however, the negative compensation must be reasonable compensation for early termination of the contract.

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

- IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments*, published by International Accounting Standards Board on 7 June 2017, approved by European Union on 23 October 2018, binding for annual periods starting on or after 1 January 2019.

IFRIC Interpretation 23 addresses, in particular, when there is uncertainty over income tax treatments, whether an entity considers uncertain tax treatments separately, what assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, tax rates and how an entity considers changes in facts and circumstances.

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

- Amendments to IAS 28, *Long-term Interests in Associates and Joint Ventures*, published by the International Accounting Standards Board on 12 October 2017, approved by European Union on 8 February 2019, binding for annual periods starting on or after 1 January 2019.

Amendments to IAS 28 clarify that an entity applies IFRS 9 'Financial Instruments' to other financial instruments in an associate or joint venture to which the equity method is not applied. These instruments include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. In amendments to IAS 28 it has been clarified that the requirements of IFRS 9 apply to long-term interests before an entity applies share of losses requirements from IAS28 and in applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28.

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

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

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

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

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

- Annual Improvements to IFRS Standards 2015-2017 Cycle, published by the International Accounting Standards Board on 12 December 2017, binding for annual periods starting on or after 1 January 2019.

The improvements to the following standards were implemented during the cycle: IFRS 3 in terms of clarifying that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business, IFRS 11 in terms of clarifying that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business, IAS 12 in terms of clarifying that all income tax consequences of dividends (i.e. distribution of profits) should be recognized in profit or loss, regardless of how the tax arises, IAS 23 in terms of clarifying that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

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

- Amendments to IAS 19, *Plan Amendment, Curtailment or Settlement*, published by the International Accounting Standards Board on 7 February 2018, binding for annual periods starting on or after 1 January 2019.

Amendments to IAS 19 specifies how an entity determines pension expenses when changes to a defined benefit pension plan occur. IAS 19 'Employee Benefits' specifies how an entity accounts for a defined benefit plan. When a change to a plan – an amendment, curtailment or settlement- takes place, IAS 19 requires an entity to remeasure its net defined benefit liability or asset. The amendments require an entity to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements.

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

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

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

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

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

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

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

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

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

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

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

## **IFRS 16 Leases**

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

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

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

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

The expenses related to the use of leased assets, previously presented as overhead costs, currently are 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 Group completed the implementation of IFRS 16 (project), which was planned in three stages:

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

- stage III - implementation of IFRS 16 based on the developed concept.

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

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

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

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

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

#### Description of adjustments

##### (a) Recognition of leasing liabilities

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

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

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

In order to calculate discount rates for IFRS 16, the 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 Group applied the reasonably certain period of lease)
- determining the interest rate used to discount future cash flows,
- determination of the depreciation rate.

(d) The use of practical simplifications

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

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

Impact on the 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
<b>ASSETS</b>			
Tangible fixed asstes	785 026	562 375	1 347 401
including Right-of-use assets	-	562 375	562 375
<b>Liabilities and equity</b>			
Financial liabilities at amortised cost	125 611 195	563 360	126 174 555
including Lease liabilities	-	563 360	563 360

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

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

#### Impact on the income statement

Since 2019 in the Group's income statement, a change in the classification of costs will appear (rental costs 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 Group as at 1 January 2019.

#### Impact on capital ratios

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

### **2.31. Comparative data**

On 24 July 2014 the International Accounting Standards Board (IASB) issued a new International Financial Reporting Standard – IFRS 9, Financial instruments effective for annual periods beginning on or after 1 January 2018, which replaces the existing International Accounting Standard 39 „Financial instruments: recognition and measurement“. The European Commission adopted IFRS 9 as published by the IASB on 24 July 2014 in the Resolution No. 2016/2067 issued on 22 November 2016.

IFRS 9 introduces a new impairment model based on the concept of „expected credit losses“, changes to the rules of classification and measurement of financial instruments (particularly of financial assets) as well as a new approach towards hedge accounting.

The Group decided to use the provisions of IFRS 9 allowing exemption from the obligation to transform comparative data for prior periods in relation to changes resulting from classification and measurement and impairment. At the same time the Group introduced changes to the financial statements to adjust the presentation of financial data to the new categories introduced by IFRS 9.

As at 1 January 2018, differences in the carrying amount of financial assets and liabilities resulting from the application of IFRS 9 were recognized as a part of undistributed financial result from previous years and other components of equity in the Group's equity.

#### **Quantitative impact of IFRS 9 on the Group's financial situation and own funds**

In the tables below has been presented the impact resulting from changes in the classification and measurement of financial assets in connection with the implementation of IFRS9 as at 1 January 2018.

**Restatement of statement of financial position of mBank S.A. Group as at 31 December 2017 in connection with the implementation of IFRS 9.**

ASSETS	31.12.2017 IAS 39 carrying amount	ASSETS	Reclassification	IFRS 9 implementation	01.01.2018 IFRS 9 carrying amount
Cash and balances with the Central Bank	7 384 869	Cash and balances with the Central Bank	7 384 869	-	7 384 869
Loans and advances to banks (loans and receivables - amortised cost)	1 707 722	Financial assets at amortised cost - loans and advances to banks	1 707 722	(499)	1 707 223
Trading securities (financial assets at fair value though profit or loss)	1 525 382	Financial assets held for trading and derivatives held for hedges	1 525 382	-	1 525 382
Derivative financial instruments (financial assets at fair value though profit or loss)	1 236 303	Financial assets held for trading and derivatives held for hedges	1 236 303	-	1 236 303
Loans and advances to customers (loans and receivables - amortised cost)	84 475 844	Financial assets at amortised cost - loans and advances to customers	80 785 615	(238 725)	80 546 890
		Non-trading financial assets mandatorily at fair value through profit or loss - loans and advances to customers <sup>1)</sup>	3 690 229	(31 921)	3 658 308
		Non-trading financial assets mandatorily at fair value through profit or loss - equity instruments	41 087	-	41 087
		Non-trading financial assets mandatorily at fair value through profit or loss - debt instruments <sup>2)</sup>	46 538	-	46 538
Investment securities (available for sale financial assets fair value through other comprehensive income)	32 144 699	Financial assets at amortised cost - debt securities	8 566 042	(45 870)	8 520 172
		Financial assets at fair value through other comprehensive income	23 491 032	-	23 491 032
Investments in associates	28 680	Investments in associates	28 680	-	28 680
Non-current assets and disposal groups classified as held for sale	42 134	Non-current assets and disposal groups classified as held for sale	42 134	-	42 134
Intangible assets	710 642	Intangible assets	710 642	-	710 642
Tangible assets	758 738	Tangible assets	758 738	-	758 738
Current income tax assets	9 688	Current income tax assets	9 688	-	9 688
Deferred income tax assets	629 250	Deferred income tax assets	629 250	69 389	698 639
Other assets	770 068	Other assets	770 068	945	771 013
<b>Total assets</b>	<b>131 424 019</b>	<b>Total assets</b>	<b>131 424 019</b>	<b>(246 681)</b>	<b>131 177 338</b>
<b>LIABILITIES AND EQUITY</b>					
<b>Liabilities</b>					
Amounts due to the other banks (amortised cost)	5 073 351	Financial liabilities measured at amortised cost - Amounts due to banks	5 073 351	-	5 073 351
Derivative financial instruments (fair value though profit or loss)	1 095 365	Financial liabilities held for trading and derivatives held for hedges	1 095 365	-	1 095 365
Amounts due to customers (amortised cost)	91 496 027	Financial liabilities measured at amortised cost - amounts due to customers	91 496 027	-	91 496 027
Debt securities in issue (amortised cost)	14 322 852	Financial liabilities measured at amortised cost - debt securities in issue	14 322 852	-	14 322 852
Fair value changes of the hedged items in portfolio hedge of interest rate risk	44 854	Fair value changes of the hedged items in portfolio hedge of interest rate risk	44 854	-	44 854
Other liabilities	2 571 130	Other liabilities	2 571 130	2 581	2 573 711
Current income tax liabilities	179 685	Current income tax liabilities	179 685	-	179 685
Deferred income tax liabilities	81	Deferred income tax liabilities	81	-	81
Provisions	190 975	Provisions	190 975	44 324	235 299
Subordinated liabilities (amortised cost)	2 158 143	Financial liabilities measured at amortised cost - subordinated liabilities	2 158 143	-	2 158 143
<b>Total liabilities</b>	<b>117 132 463</b>	<b>Total liabilities</b>	<b>117 132 463</b>	<b>46 905</b>	<b>117 179 368</b>
<b>Equity</b>					
<b>Equity attributable to Owners of mBank S.A.</b>	<b>14 289 370</b>	<b>Equity attributable to Owners of mBank S.A.</b>	<b>14 289 370</b>	<b>(293 586)</b>	<b>13 995 784</b>
<b>Share capital</b>	<b>3 564 176</b>	<b>Share capital</b>	<b>3 564 176</b>	<b>-</b>	<b>3 564 176</b>
Registered share capital	169 248	Registered share capital	169 248	-	169 248
Share premium	3 394 928	Share premium	3 394 928	-	3 394 928
<b>Retained earnings:</b>	<b>10 574 294</b>	<b>Retained earnings:</b>	<b>10 574 294</b>	<b>(248 158)</b>	<b>10 326 136</b>
- Profit from the previous years	9 482 764	- Profit from the previous years <sup>2)</sup>	9 482 764	(248 158)	9 234 606
- Profit for the current year	1 091 530	- Profit for the current year	1 091 530	-	1 091 530
<b>Other components of equity</b>	<b>150 900</b>	<b>Other components of equity<sup>2)</sup></b>	<b>150 900</b>	<b>(45 428)</b>	<b>105 472</b>
<b>Non-controlling interests</b>	<b>2 186</b>	<b>Non-controlling interests</b>	<b>2 186</b>	<b>-</b>	<b>2 186</b>
<b>Total equity</b>	<b>14 291 556</b>	<b>Total equity</b>	<b>14 291 556</b>	<b>(293 586)</b>	<b>13 997 970</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>131 424 019</b>	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>131 424 019</b>	<b>(246 681)</b>	<b>131 177 338</b>

1, 2) – in the fourth quarter of 2018, the Group corrected the disclosure of the impact of the implementation of IFRS 9 as at January 1, 2018. The changes are described in detail below.

**Restatement of consolidated statement of financial position of mBank S.A. Group as at 31 December 2017 in connection with the implementation of IFRS 9.**

<b>ASSETS</b>	<b>01.01.2018</b>	<b>31.12.2017</b>	<b>Change</b>
Cash and balances with the Central Bank	7 384 869	7 384 869	-
Financial assets held for trading and derivatives held for hedges	2 761 685	2 761 685	-
Loans and advances to banks	n/a	1 707 722	(1 707 722)
Non-trading financial assets mandatorily at fair value through profit or loss, including:	3 745 933	n/a	3 745 933
<i>Equity instruments</i>	41 087	n/a	41 087
<i>Debt securities</i> <sup>(2)</sup>	46 538	n/a	46 538
<i>Loans and advances to customers</i> <sup>(1)</sup>	3 658 308	n/a	3 658 308
Investment securities	n/a	32 144 699	(32 144 699)
Financial assets at fair value through other comprehensive income	23 491 032	n/a	23 491 032
Financial assets at amortised cost, including:	90 774 285	n/a	90 774 285
<i>Debt securities</i>	8 520 172	n/a	8 520 172
<i>Loans and advances to banks</i>	1 707 223	n/a	1 707 223
<i>Loans and advances to customers</i>	80 546 890	n/a	80 546 890
Loans and advances to customers	n/a	84 475 844	(84 475 844)
Investments in associates	28 680	28 680	-
Non-current assets and disposal groups classified as held for sale	42 134	42 134	-
Intangible assets	710 642	710 642	-
Tangible assets	758 738	758 738	-
Current income tax assets	9 688	9 688	-
Deferred income tax assets	698 639	629 250	69 389
Other assets	771 013	770 068	945
<b>Total assets</b>	<b>131 177 338</b>	<b>131 424 019</b>	<b>(246 681)</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Financial liabilities held for trading and derivatives held for hedges	1 095 365	1 095 365	-
Financial liabilities measured at amortised cost, including:	113 050 373	n/a	113 050 373
<i>Amounts due to banks</i>	5 073 351	n/a	5 073 351
<i>Amounts due to customers</i>	91 496 027	n/a	91 496 027
<i>Debt securities issued</i>	14 322 852	n/a	14 322 852
<i>Subordinated liabilities</i>	2 158 143	n/a	2 158 143
Amounts due to the other banks	n/a	5 073 351	(5 073 351)
Amounts due to customers	n/a	91 496 027	(91 496 027)
Debt securities in issue	n/a	14 322 852	(14 322 852)
Subordinated liabilities	n/a	2 158 143	(2 158 143)
Fair value changes of the hedged items in portfolio hedge of interest rate risk	44 854	44 854	-
Provisions	235 299	190 975	44 324
Current income tax liabilities	179 685	179 685	-
Deferred income tax liabilities	81	81	-
Other liabilities	2 573 711	2 571 130	2 581
<b>Total liabilities</b>	<b>117 179 368</b>	<b>117 132 463</b>	<b>46 905</b>
<b>Equity</b>			
<b>Equity attributable to Owners of mBank S.A.</b>	<b>13 995 784</b>	<b>14 289 370</b>	<b>(293 586)</b>
<b>Share capital</b>	<b>3 564 176</b>	<b>3 564 176</b>	-
Registered share capital	169 248	169 248	-
Share premium	3 394 928	3 394 928	-
<b>Retained earnings:</b>	<b>10 326 136</b>	<b>10 574 294</b>	<b>(248 158)</b>
- Profit from the previous years <sup>(2)</sup>	9 234 606	9 482 764	(248 158)
- Profit for the current year	1 091 530	1 091 530	-
<b>Other components of equity</b> <sup>(2)</sup>	<b>105 472</b>	<b>150 900</b>	<b>(45 428)</b>
<b>Non-controlling interests</b>	<b>2 186</b>	<b>2 186</b>	-
<b>Total equity</b>	<b>13 997 970</b>	<b>14 291 556</b>	<b>(293 586)</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>131 177 338</b>	<b>131 424 019</b>	<b>(246 681)</b>

1, 2) – in the fourth quarter of 2018, the Group corrected the disclosure of the impact of the implementation of IFRS 9 as at January 1, 2018. The changes are described in detail below.

### Financial assets

As at 1 January 2018, the Group changed the classification of the certain part of retail portfolio (cash loans, renewable loans and credit cards) and small number of corporate loans (single investment loans) measured at amortised cost under IAS 39, which according to IFRS9 have to be measured at fair value through profit or loss due to the failure of the SPPI test, mostly in connection with the leverage element in these contracts increasing the volatility of cash flows.

The Group changed also the classification of part of corporate loans (part of syndicated loans portfolio) measured at amortised cost under IAS 39, which as a result of implementation of IFRS 9 are measured at fair value through profit and loss due to a business model which objective is not achieved by collecting contractual cash flows.

The impact of the valuation method change of the above loans from amortized cost to the fair value was negative and amounted to PLN 31 921 thousand excluding deferred tax effect.

Moreover, due to the methodology and approach to fair value through profit or loss of a part of the retail loan portfolio and a small number of corporate loans, in connection with the implementation of IFRS 9, which were measured at amortized cost in accordance with IAS 39, the value of Group's other assets increased as at 1 January 2018. The impact of this change amounted to PLN 945 thousand excluding the deferred tax effect.

In addition, for the certain part of the debt securities portfolio classified as "Available-for-Sale" under IAS 39 the Bank decided to apply the "Held-to-Collect" business model, which objective is to hold financial assets to collect contractual cash flows, which resulted in the reclassification of these securities from the fair value through other comprehensive income into amortised cost measurement category. The impact of the change in the method of valuation of the these debt securities was negative and amounted to PLN 45 870 thousand excluding deferred tax effect. As at 30 December 2018, the fair value of securities reclassified on 1 January 2018 from measured at fair value through equity to those measured at amortized cost amounted to PLN 6 936 917 thousand. If these securities had not been reclassified, the Group would have recognized in other comprehensive income a gain of PLN 79 348 thousand excluding deferred tax effect thousand during the three quarters of 2018.

As at 31 December 2017 the Group held equity instruments (stocks and shares) which, in accordance with IAS 39, are categorized as financial assets "available for sale". As at 1 January 2018 the Group measured the equity instruments at fair value through profit and loss.

As at 1 January 2018 Group did not identify financial assets which were designated as measured at fair value through profit or loss in order to eliminate "accounting mismatch".

In Q4 2018, the Group adjusted the disclosure concerning the impact of IFRS 9 implementation as at January 1, 2018, by introducing the following changes:

1) the portfolio of loans and advances granted to clients worth PLN 471 081 thousand, 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." The banking sector had doubts about the classification of loans whose interest was based on the quadrupled lombard rate and classification of such portfolios varied among banks as at the implementation date of IFRS 9. 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 bank measured the credit portfolio at fair value. Taking into account the materiality principle, the bank recorded the differences arising from the change in measurement of the credit portfolio in the profit or loss for the current period and did not adjust the impact of IFRS 9 on the bank's equity as at January 1, 2018.

2) the preferred shares in VISA with a fair value of PLN 46 538 thousand 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. These instruments were classified as available for sale and measured at fair value through other comprehensive income in accordance with IAS 39. The adjustment of the opening balance resulted in the measurement of these instruments in the net amount of PLN 12 021 thousand being moved from "Other components of equity" to the "Profit from the previous years."

### Financial liabilities

As a result of implementing IFRS 9, the Group did not change the classification of financial liabilities in comparison to the requirements in IAS 39, which could have a significant impact on the financial position and profit or loss of the Group.

The Group did not elect an option to measure financial liabilities at fair value.

As of 1 January 2018 the value of the Group's financial liabilities changed due to the methodology and approach to fair value measurement through profit and loss for the part of retail loan portfolio and a small number of corporate loans as a result of the implementation of IFRS 9, which under IAS 39 were measured at amortised cost. The impact of this change amounted to PLN 2 581 thousand deferred tax effect.

### Impairment

The implementation of the new impairment model based on the concept of ECL resulted in the increase of the Group's loss allowance, particularly with regard to exposures allocated to Stage 2 and 3. Contrary to IAS 39, IFRS 9 does not require the entities to identify the impairment trigger in order to estimate lifetime credit losses in Stage 2. Instead, the Group is obliged to constantly estimate the level of credit losses since the initial recognition of a given asset until its derecognition. In the event of significant increase in credit risk since the initial recognition of the asset, the Group will be obliged to calculate lifetime expected credit losses – Stage 2. Such an approach resulted in the earlier recognition of credit losses which causes an increase in loss allowance. Increase in loss allowance in stage 3 is mainly driven by a change in "cure" definition, so it is in line with "default" definition and takes into account life-time losses for re-defaulting assets evaluated on portfolio basis, as well as implementation of scenario approach for individually assessed borrowers. With regard to retail exposures classified to Stage 1 the Group identified only minor change in the level of impairment allowances. In the corporate segment the Group identified the increase of impairment allowances due to the cease of application of LIP parameter.

The total effect of the above changes on the category "Financial assets at amortized cost" was negative and amounted to PLN 239 224 thousand, of which PLN 238 725 thousand relates to loans and advances to clients, while PLN 499 thousand to receivables from banks. In addition, these changes also influenced the increase in provisions for off-balance sheet liabilities presented in the category "Provisions" in the amount of PLN 44 324 thousand.

The table below presents the reconciliation of the closing balance of impairment losses in accordance with IAS 39 and provisions for contingent liabilities calculated in accordance with IAS 37 as at December 31, 2017 with the new expected credit losses as at January 1, 2018.

	31.12.2017 IAS 39 carrying amount		Reclassification	IFRS 9 implementation	01.01.2018 IFRS 9 carrying amount
Loans and advances to banks (loans and receivables - amortised cost)	(1 027)	Financial assets at amortised cost - loans and advances to banks	(1 027)	(509)	(1 536)
Loans and advances to customers (loans and receivables - amortised cost)	(2 911 861)	Financial assets at amortised cost - loans and advances to customers	(2 731 140)	(346 930)	(3 078 070)
		Non-trading financial assets mandatorily at fair value through profit or loss -loans and advances to customers	(180 721)	180 721	-
Investment securities (available for sale financial assets - fair value through other comprehensive income)	(23 886)	Non-trading financial assets mandatorily at fair value through profit or loss - equity instruments	(23 886)	23 886	-
		Financial assets at amortised cost - debt securities		(35)	(35)
		Financial assets at fair value through other comprehensive income		(4 655)	(4 655)
Other assets	(14 562)	Other assets	(14 562)	-	(14 562)
<b>Total assets</b>	<b>(2 951 336)</b>	<b>Total assets</b>	<b>(2 951 336)</b>	<b>(147 522)</b>	<b>(3 098 858)</b>
Provisions	75 715	Provisions	75 715	44 385	120 100
<b>Total liabilities</b>	<b>75 715</b>	<b>Total liabilities</b>	<b>75 715</b>	<b>44 385</b>	<b>120 100</b>

The column "Impact of IFRS 9 Implementation", in addition to the growth resulting from the new impairment model based on the concept of ECL, includes also an increase in credit losses as a result of adjusting the gross carrying amount to the requirements of IFRS 9 (change in the presentation of impairment interest adjustment – according to IFRS 9 impairment interest is presented as an element of impairment allowance, while under IAS 39 it was presented as an element of gross carrying amount) and a decrease in credit losses for receivables classified as POCI. The presentation changes relating to impairment interest adjustment and decrease in credit losses for receivables classified as POCI have no impact on the Group's equity.

Impact of IFRS 9 on equity

As a result, the total negative impact of the implementation of IFRS 9 in the amount of PLN 362 975 thousand PLN and the tax effect resulting from the implementation of IFRS 9 in the form of an increase in net deferred tax asset in the amount of PLN 69 389 thousand caused a decrease in the retained earnings and other items of the Group's equity by PLN 293 586 thousand.

Impact of IFRS 9 on capital adequacy

The total impact of applying IFRS 9, calculated as at 1 January 2018, in relation to the total capital ratio (TCR) and the Tier1 ratio of the Group is immaterial and amounts to no more than 5 bps.

The Group decided, for the purpose of capital adequacy calculation, including calculation of own funds, based on the Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December 2017 (Regulation) amending Regulation (EU) No 575/2013 in light of Article 1 paragraph 9 of the Regulation, not to apply the transitional arrangements that would mitigate the impact on capital resulting from the introduction of IFRS9.

The consolidated data as at 31 December 2017 is comparable with the current accounting period and therefore has not been adjusted.

**3. Risk management**

The mBank Group manages risks on the basis of regulatory requirements and best market practice, by developing risk management strategies, policies and guidelines. The risk management functions and roles are released on all of the levels of the organizational structure, starting at the level of the Supervisory Board down to each business unit of the Group. Risk management is streamlined in unified process run by specialized organizational units.

**3.1. General information**

**Location of risk management disclosures**

mBank Group's risk management disclosures for 2018 are included in the Annual Report of the mBank Group and in the Disclosures regarding capital adequacy.

The table below presents reference to disclosures regarding various aspects of risk management within the abovementioned documents.

Disclosures regarding capital adequacy of mBank S.A. Group as at 31 December 2018 and Management Board Report for the year 2018 are not the part of mBank S.A. Group Consolidated Financial Statements.

Type of risk	Information	Location of information for 2017		
		Annual Report of mBank Group		Disclosures regarding capital adequacy
		Management Board Report	Consolidated Financial Statements	
General information	Location of risk management disclosures	-	p. 45	-
	Glossary of terms	-	p. 46	-
	External environment	-	p. 47	-
Principles of risk management	Division of responsibilities in the risk management process	-	p. 50	-
	Risk culture	-	p. 49	-
	Internal capital adequacy assessment process (ICAAP)	-	p. 54	p. 16
	Risk appetite	-	p. 56	-
	Stress tests within ICAAP/ILAAP	-	p. 57	p. 17
	Required capital and liquidity planning	-	p. 58	p. 6
Credit risk	Organization of risk management	p. 45	p. 59	-
	Credit policy	-	p. 60	-
	Collaterals accepted	-	p. 61	p. 52, 54
	Rating system	-	p. 61	-
	Monitoring and validation of models	-	p. 62	-

	Calculating impairment charges and provisions	p. 46	p. 63	p. 61
	mBank Group forbearance policy	-	p. 67	-
	Counterparty risk that arises from derivative transactions	-	p. 72	-
	Concentration risk	-	p. 73	p. 55
Market risk	The strategy of market risk	-	p. 76	-
	Tools and measures	p. 51	p. 77	-
	Risk measurement	p. 52	p. 78	-
	Interest rate risk in the banking book	p. 53	p. 83	-
	Currency risk	-	p. 81	-
Liquidity risk and funding	Strategy of liquidity risk	p. 55	p. 86	-
	The measurement, limiting and reporting the liquidity risk	p. 56	p. 89	-
	Funding sources	-	p. 91	-
Operational risk	Tools and measures	p. 56	p. 88	p. 73
	Operational losses	-	p. 95	-
	Compliance risk	-	p. 95	-
Other risks	Business risk	-	p. 96	-
	Model risk	-	p. 97	-
	Reputational risk	-	p. 98	-
	Capital risk	-	p. 98	-
	Regulatory risk	-	p. 99	-
Capital adequacy		p. 57	p. 189	p. 6
Leverage ratio		p. 59, 65, 66, 74, 75	p. 47, 48, 189, 190, 191	p. 49

## **Glossary of terms**

**Add-on** - estimated future potential exposure.

**Collateral** – an asset that is to be paid or received depending on the current valuation of the derivatives portfolio to mitigate potential credit risk in the future. Currently the main collateral asset is cash.

**CCF (Credit Conversion Factor)** – estimated level of off-balance sheet items converted to balance sheet items at the date of default.

**Common Equity Tier 1 Capital Ratio (CET1 ratio)** – shall mean the Common Equity Tier 1 Capital expressed as a percentage of the Total Risk Exposure Amount (TREA).

**Coverage ratio of non-liquid assets and limited liquidity assets with own funds and stable external funds (measure M4)** - the ratio defined in KNF Resolution No. 386/2008 of 17 December 2008 on establishing liquidity measures binding on banks, calculated as a ratio of own funds diminished by sum of capital requirement on market risk, sum of capital requirement on delivery settlement, counterparty risk and stable external funds to sum of limited liquidity assets and non-liquidity assets.

**CRD IV** - Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC with further amendments (Capital Requirements Directive IV).

**CRR** - Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 with further amendments (Capital Requirements Regulation).

**EAD (Exposure at Default)** – estimated value of exposure at the time of default (amount).

**Earnings at risk (EaR)** - a potential decrease in the annual interest income within 12 months assuming defined change of market interest rates scenarios, fixed volume and structure of balance and off-balance portfolio and unchanged interest rate structure of particular position, therein interest margin.

**Economic capital (EC)** – the amount of capital required to cover unexpected loss (estimated by the Bank at the assumed confidence level over a one-year time horizon) arising from:

- credit risk,
- market risk,
- operational risk,

- business risk.

**EL – Expected Loss** taking into account the probability of default (amount).

**ICAAP** – Internal Capital Adequacy Assessment Process.

**ILAAP** – Internal Liquidity Adequacy Assessment Process.

**Internal capital (IC)** – the amount of capital estimated by the Bank required to cover unexpected loss arising from material risks identified in the Group's activity within the risk inventory process. Internal capital is the sum of economic capital and capital necessary to cover other risks (including hard to quantify risks).

**KNF** – Polish Financial Supervision Authority

**LCR (Liquidity Coverage Ratio)** – a relation of liquid assets of the liquidity buffer to the expected net outflows within 30 calendar days.

**Leverage ratio** – shall mean the relation of Tier 1 Capital to the institution's total exposure measure, understood as the sum of the exposure values of all assets and off-balance sheet items not deducted, when determining the Tier 1 capital.

**LGD (Loss Given Default)** – estimated relative loss in case of default (%).

**LtV (Loan to Value)** – the ratio of the loan value to the property market value.

**NSFR (Net Stable Funding Ratio)** – a relation of own funds and stable liabilities ensuring stable financing to illiquid assets and receivables requiring stable financing.

**PD** – Probability of Default.

**Ratio of coverage of non-liquidity assets with own funds (measure M3)** – the ratio defined in KNF Resolution No. 386/2008 of 17 December 2008 on establishing liquidity measures binding on banks, calculated as a ratio of own funds diminished by sum of capital requirement on market risk, capital requirement on delivery settlement risk and counterparty risk to sum of non-liquidity assets.

**RBC (Risk Bearing Capacity)** – shall mean the relations of Risk Coverage Potential (RCP) to the internal capital – internal measure.

**RCP (Risk Coverage Potential)** – shall mean the amount of own funds adjusted by specific correcting items, in accordance with respective internal regulations in mBank – internal measure.

**Short-term liquidity factor (measure M2)** – the ratio defined in KNF Resolution No. 386/2008 of 17 December 2008 on establishing liquidity measures binding on banks, calculated as a ratio of primary and supplementary liquidity reserves to unstable external funds.

**Short-term liquidity gap (measure M1)** – the ratio defined in KNF Resolution No. 386/2008 of 17 December 2008 on establishing liquidity measures binding on banks, calculated as a sum of primary and supplementary liquidity reserves diminished by unstable external funds.

**Tier 1 Capital Ratio (T1 ratio)** – shall mean the Tier 1 Capital expressed as a percentage of the Total Risk Exposure Amount (TREA).

**Total Capital Ratio (TCR)** – shall mean the own funds expressed as a percentage of the Total Risk Exposure Amount (TREA).

**Total Risk Exposure Amount (TREA)** – shall mean the total of risk-weighted exposure amount for credit risk, counterparty credit risk and (multiplied by 12.5) own funds requirements for other types of risk, i.e.:

- market risk,
- operational risk,
- other risks, e.g. credit valuation adjustment risk, large exposures in the banking book, etc.

**Value at risk (VaR)** – a measure of potential loss of market value (of financial instrument, portfolio, institution) to which the financial instrument, portfolio, institution is exposed over defined period of time at a given confidence level under normal market conditions.

### 3.2. Risk management in mBank Group in 2018 – external environment

The rules on prudential requirements for banks set out in the Capital Requirements Regulation on prudential requirements for credit institutions and investment firms (CRR) and the Capital Requirements Directive (CRD IV) on access to the activity of banks and the prudential supervision, implementing provisions of Basel III, are effective in the European Union since 2014. The provisions of CRD IV were transposed into a national legislation, which took place in 2015 with the endorsement of the Act on Macroprudential Supervision over the Financial System and Crisis Management in the Financial System and with

an update of the Banking Law. mBank has adjusted its processes and tools to meet the regulatory requirements related to capital (including the leverage ratio) and liquidity ratios as well as new reporting requirements. The Group is currently implementing the provisions of numerous delegated and implementing regulations of the European Commission supplementing the CRR Regulation, introducing technical EBA standards.

In 2016 changes were implemented in the methodology of calculating LCR, introduced by Regulation (EU) 2015/61 of 17 January 2015 to supplement Regulation (EU) No. 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions.

The Group has been running a project related to the implementation of EMIR [Regulation (EU) No. 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories] and has fulfilled current regulatory obligations resulting from provisions of EMIR regulation.

In addition, ongoing work is still underway to implement the further requirements of the MiFIR [Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012] and MiFID II [Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU]. The Bank meets all regulatory requirements resulting from those regulations (in particular reporting to the ARM system, pre- and post-transaction transparency).

On 20 June 2018, the Act of 10 May 2018 amending the act on payment services and some other acts entered into force. The Act implements in Poland the Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market (PSD2). The bank has a project aimed at adapting the bank to the new requirements of PSD2 Directive. The deadline for adapting the activity to the new act was 20 December 2018. The bank is continuing work on the PSD2 program in order to adapt to the requirements of technical standards, for which the deadline for implementation is 14 September 2019.

On 23 November 2016, the European Commission published a proposal of amendments to the supervisory regulations in force for European banks, including CRR/CRD IV and the Bank Recovery and Resolution Directive (BRRD), subject to legislative works during 2017 and 2018 which have not yet been finalized.

The proposed amendments to the CRR include new methods of calculating capital requirements for counterparty credit risk and market risk (based on the proposals of the Basel Committee on Banking Supervision) which would replace the methods used so far. A change in the approach to the treatment of exposure to a central counterparty and the extension of capital "incentives" for banks financing small and medium-sized enterprises were also proposed. The proposal includes also the binding 3% minimum value of the leverage ratio (prudential measure) as well as significant modifications relating to the net stable funding ratio (NSFR) together with its minimum level of 100%. Introduction of the minimum standard for global systemically important institutions (GSIIIs) with regard to total loss absorbing capacity (TLAC) is proposed.

The amendments to the CRD IV include more detailed guidelines on restrictions on profit-sharing. They explain the relationship between additional capital requirements under Pillar 2, minimum requirements for own funds, the combined buffer requirements, and requirements for own funds and eligible liabilities the banks are obliged to fulfill. Extension of supervisory expectations concerning identification, assessment and management of interest rate risk in the banking book and the definition of a 'standard shock' were proposed.

Proposed amendments would be applicable two to four years after the entry into force of the amended CRR and CRD IV.

In terms of the recovery and resolution, there were proposed changes concerning the construction of the ratio of minimum requirement for own funds and eligible liabilities in order to ensure consistency of this ratio with TLAC.

Out of the proposed amendments to supervisory regulations two elements were separated and fast-tracked in order to swiftly finalize the legislative proposals to ensure their application in the European Union starting from January 2018. The endorsed amendments were related to transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and gradual withdrawal of the exclusion of public sector exposures from the large exposure regime (amendments to CRR) and to the ranking of unsecured debt instruments in insolvency hierarchy (amendments to BRRD).

The risk management rules in mBank may be also affected by the regulatory changes planned by the European Banking Authority (EBA):

- Between 2016-2018 the EBA published, as part of a broader regulatory initiative concerning revision of the Internal Ratings Based Approach (AIRB), documents which include:

- a) guidelines for the application of a consistent default definition, including determining materiality thresholds for credit exposures in default,
- b) draft of methodology of assessment by the supervisory authorities if banks meet regulatory requirements for the use of the Internal Ratings Based Approach (AIRB),
- c) guidelines for estimating PD and LGD parameters and dealing with defaulted exposures,
- d) drafts of guidelines for estimating the LGD parameter, appropriate to the economic downturn and a draft of technical standard for the estimation and identification of the economic downturn in IRB modelling.

Due to potentially wide range of changes that will be necessary in order to implement regulations by banks, the deadline for the implementation of these documents has been predetermined by the end of 2020.

- In October 2018, the EBA published draft guidelines on management of non-performing and forborne exposures (as part of credit risk management by banks) that would apply from 30 June, 2019; the draft guidelines are accompanied by changes in reporting and disclosures regarding non-performing and forborne exposures that would apply from the end of 2019.
- In July 2018, the EBA published a series of documents aimed at strengthening the risk management in banks:
  - a) an update of guidelines on common procedures and methodologies for the supervisory review and evaluation process (SREP) and supervisory stress testing,
  - b) an update of guidelines on institutions' stress testing,
  - c) an update of guidelines on the management of interest rate risk arising from non-trading book activities (IRRBB), including i.a. the method for calculating the standardised supervisory shock.

The deadline for implementing the documents was set for January 2019, with the exception of the document regarding the interest rate risk, where it is later i.e. 30 June 2019, and where the transition period for the selected requirements is provided until the end of December 2019.

The Bank also monitors regulatory changes resulting from the work of the Basel Committee on Banking Supervision, in particular those related to the review and revision of the methodologies for calculating capital requirements (the so-called Basel IV). As new legislative proposals, that implement the provisions of the Basel standards into the European Union regulations, appear the Bank analyses the proposed regulatory changes and assesses their impact on the Bank and the Group.

### 3.3. Principles of risk management

#### 3.3.1 Risk culture

The foundations of the risk management culture implemented in the Bank and the mBank Group have been specified in the Risk Management Strategy of mBank Group and strategies for managing individual types of risk (concentration risk, retail and corporate portfolio credit risk, market risk, liquidity risk, operational risk, reputational risk) approved by the Management Board and the Supervisory Board of mBank.

#### Lines of defence

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

- The first line of defence consists of **Business** (business lines) whose task is to take risk and capital aspects into consideration when making all business decisions within the risk appetite set for the Group.
- The second line of defence, mainly **the risk management area, IT, Security** and **Compliance** function, is responsible for determining framework and guidelines concerning managing individual risks, supporting Business in their implementation as well as supervising the control functions and risk exposure. To ensure that the Business is supported and supervised in an objective manner, the second line functions act independently of the Business.
- The third line of defence is **Internal Audit**, ensuring independent assessment of activities connected with risk management performed by the first and the second line of defence.

## Pillars of risk management

Risk management framework in mBank Group rests on **three pillars concept**:

- **Customer Focus** which means striving to understand and balance specific needs of the risk management area's various stakeholders (Business, Management Board, Supervisory Board, shareholders, regulatory authorities).
- **One Risk** understood as an integrated approach to risk management and responsibility towards the clients for all types of risk defined in the Risk Catalogue of mBank Group.
- **Risk vs Rate of Return** perspective understood as a support for the business decision-making process based on the long-term relationship between risk and the rate of return, avoiding tail risks.

## Vision of the risk management area

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

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

## Mission of the risk management area

The risk management area is actively involved in the implementation of initiatives and activities undertaken as part of the implementation of the mBank Group strategy. This support is organized around five challenges facing the risk management area in the coming years:

- **Empathy** understood in the risk management area as an active adaptation of risk management to the changing needs of various customer groups.
- Promoting the experience of **mobility**.
- **Efficiency** understood as: measuring, improving and automating risk processes in the culture of Lean; shaping (through a partner dialogue) the risk appetite that ensures a safe and profitable balance sheet of the bank.
- **Engaged employees**. This challenge is realized through building a work environment which fosters innovation, attracts, retains and develops employees with knowledge of business and risk management, curious to find solutions and openly communicating.
- **Technological advantage**, which means implementation of risk management based on a common integrated data platform (CDL, Common Data Layer) and searching for technological solutions enabling innovative risk management.

### 3.3.2 Division of responsibilities in the risk management process

1. **Supervisory Board** exercises constant supervision over the Bank's operations in the risk taking area, which includes approving the Risk Management Strategy of the Group and supervising its implementation.
2. **Risk Committee of the Supervisory Board** exercises constant supervision over the risk, in particular issues recommendations regarding approval of risk management strategies, including the Risk Management Strategy of mBank Group, by the Supervisory Board.
3. **Management Board of the Bank** accepts the Risk Management Strategy of the Group and is responsible for defining and implementing the principles of managing individual risk types and for their consistency with the Strategy. Moreover, the Management Board defines the organisational structure of the Bank, ensuring the appropriate distribution of key roles from the point of view of the risk management, and allocates the tasks and responsibilities to individual organizational units.

The Management Board undertakes actions to ensure that the Bank maintains a policy enabling management of all risks relevant to the Bank's operations and has appropriate procedures for this purpose. In particular it is responsible for developing, implementing, effectiveness and updating written strategies and procedures for: internal control system, risk management system, internal capital adequacy assessment process, capital management and capital planning.

4. **Chief Risk Officer** is responsible for integrated risk and capital management of the Bank and the Group in the scope of: defining strategies and policies, measuring, controlling and independent reporting on all risk types (in particular credit risk, market risk, liquidity risk, non-financial risk including

operational risk), approving limits (in accordance with internal regulations), and for processes of managing the risk of the retail credit portfolio and corporate portfolio.

## 5. Committees:

- a/ **Business and Risk Forum** is a platform for making decisions and dialogue for organizational units in particular business lines and the risk management area in mBank as well as between mBank and the Group subsidiaries.

The Business and Risk Forum is constituted by the following bodies:

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

The committees are composed of the representatives of business lines and respective risk management departments in mBank and respective organizational units in mBank Group subsidiaries.

The main function of the above mentioned committees is to develop the principles of risk management and risk appetite in the given business line, by taking decisions and making recommendations concerning in particular:

- risk policies,
- processes and tools for risk assessment,
- risk limitation system,
- assessing the quality and profitability of portfolio of exposures to clients,
- liquidity risk issues such as methodology and limits,
- approval of introducing new products to the offer.

- b/ **Model Risk Committee** is responsible for supervising the model risk management process, performing the following functions: information, discussion, decision and legislative. In particular, the Committee:

- approves new and redesigned models, as well as amendments thereto, deciding also about the resignation from the application of the model,
- makes decisions on the scope of application of the group and external models, including central models, in banking processes,
- recommends the tolerance level for model risk and submits its findings to the decision of the Management Board and the Supervisory Board,
- makes final decision regarding approval of significance assigned to a model,
- approves preventive and remedial measures indicated within the results of monitoring,
- accepts the schedule for validation of models and the results of each model validation.

The organization of the Committee ensures an adequate level of independence between the various participants of the model risk management process and enables to avoid conflicts of interest between them. Moreover, this Committee provides the Validation Unit with the ability to issue binding recommendations with an adequate priority.

- c/ **The Balance Sheet Management Committee** (since 31 December 2018) is responsible for the systematic monitoring of the bank's balance sheet structure and the allocation of funds within acceptable risks in order to optimize the financial result. In particular, the Committee:

- introduces the principles of managing the bank's balance sheet,
- implements activities ensuring an adequate level of financing in the bank,
- recommends the Bank's Management Board changes in the strategic approach to the balance sheet management.

- d/ **Assets and Liabilities Committee of the mBank Group** (ALCO) is an expert committee responsible for monitoring the structure of assets and liabilities and recommending their optimization to the Balance Sheet Management Committee (BSM). ALCO is also responsible for preparing materials for discussion at the BSM Committee.

- e/ **Capital Management Committee** is responsible, in particular, for managing capital. Based on the decisions made, the Committee issues recommendations for the Management Board of the Bank on:
  - measures in respect of capital management as well as capital level and structure,
  - increasing the effectiveness of capital utilization,
  - internal procedures related to capital management and capital planning.
- f/ **Credit Committee of the mBank Group** is responsible, in particular, for the supervision of concentration risk and large exposures at the Group level by taken decisions and made recommendations. The Committee shall also take credit decisions as well as decisions on debt conversion into shares, stocks, and on taking over properties in return for debts (applies to the Bank).
- g/ **Investment Banking Committee** is responsible, in particular, for the control and management of risks (including market, credit, reputational and operational) of the Brokerage House transactions and making decisions regarding the execution of these transactions.
- h/ **Data Quality and IT Systems Development Committee** is responsible for the tasks and decision making process in scope of principles and structure of operation of the data quality management system, approving operational standards of data management, assessing the effectiveness of the data quality management system, initiating actions aimed at improving data quality at the Bank, in particular, taking into account the needs related with calculating the regulatory capital requirements of the Bank under the AIRB approach.
- i/ **Foreign Branch Supervision Committee of mBank S.A.** is responsible, among others, for issuing recommendations for the Management Board of the Bank on approval of the operational strategy and the rules for stable and prudent management of a particular foreign branch of the Bank, especially with reference to credit risk.

**Organisational units of the risk management area**

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

The risk management area is functioning within the following organizational structure:



The roles played by particular organizational units of the risk management area in the process of identifying, measuring, monitoring, controlling and reporting risk have been strictly defined. They are presented below.

**Integrated Risk Management Department:**

- integrated risk, capital and liquidity management in the Bank and the mBank Group, in particular through: control of risk profile, capital and liquidity adequacy, and risk bearing capacity; integration of risk valuation; integration of control of non-financial risks and Internal Control System Self-assessment (ICS),
- identifying, measuring, controlling, monitoring and developing methods for measuring market risk, interest rate risk of the banking book, liquidity risk and counterparty risk,
- monitoring of overall risk profile of organizational units in the area of financial markets,
- managing the process of integrated risk, capital and liquidity reporting.

**Risk Projects and Architecture Department:**

- Risk Projects Portfolio Management,
- performing the function of competence centre in the area of process management,
- managing the lean program in the risk management area,
- development and optimization of the architecture of IT processes and applications in the risk management area,
- managing the IT applications in the risk management area (maintenance and development),
- risk data management and cooperation with the finance area within the scope of centralized management information system,
- developing and stimulating the digital transformation of the risk management area.

**Corporate Risk Assessment Department:**

- implementation of the Bank's credit policy regarding corporate customers, countries, banks and other financial institutions,
- credit risk management in the Bank and the Group subsidiaries in the abovementioned areas.

**Processes and Risk Measurement Department:**

- developing and implementation of corporate credit process and supervision over its effectiveness,
- preparing corporate credit risk management strategy of mBank Group as well as credit policies including policies regarding sectoral risk appetite,
- preparing portfolio analysis and reports for the purpose of management of corporate credit risk,
- developing and monitoring the quality of rating models for retail and corporate clients and financial institutions (credit risk modelling) in the Bank and mBank Group subsidiaries,
- verification of value, liquidity and attractiveness of real estate and movables provided for collateral of loans.

**Retail Risk Management Department:**

- ensuring coherent development of the decision-making methodology and managing the Bank's retail loan portfolio,
- ensuring internal regulations and reporting environment in the risk management of the retail banking area,
- maintaining and developing IT tools supporting risk management processes and analytical processes conducted,
- creating and developing a methodology for credit fraud prevention processes and exercising control over operational risk in the credit process.

**Retail Debt Restructuring and Collection Department:**

- handling the processes of debt restructuring and collection of receivables arising from retail loans granted on the Polish market,
- debt sale transaction of NPL for receivables arising from retail loans granted on the Polish market.

**Credit Processes and Retail Risk Assessment Department:**

- making credit decisions concerning retail banking products,
- financial monitoring in respect of retail products on the Polish market,
- preventing credit fraud through effective use of anti-fraud systems and tools.

**Validation Division:**

- integration of model and their risk management,
- validation of significant and semi-significant models.

**3.3.3 Internal capital adequacy assessment process (ICAAP)**

The mBank Group adjusts the own funds to the level and type of risk, the mBank Group is exposed to, and to the nature, the scale and the complexity of its operations. For that purpose, the Internal Capital Adequacy Assessment Process (ICAAP) is implemented in the mBank Group. The aim of this process is to maintain own funds at the level adequate to the profile and the level of risk in the mBank Group's operations.

The internal capital adequacy assessment process in mBank Group includes:

- risk inventory in the mBank Group,
- estimation of internal capital for coverage of risk,
- capital aggregation,
- stress tests,
- setting limits on the utilization of capital resources,
- planning and allocation of capital,
- monitoring consisting in a permanent identification of risk involved in mBank Group operations and analysis of the level of capital for risk coverage.

The process is reviewed by the Bank's Management Board and supervised by the Supervisory Board of the Bank on a regular basis.

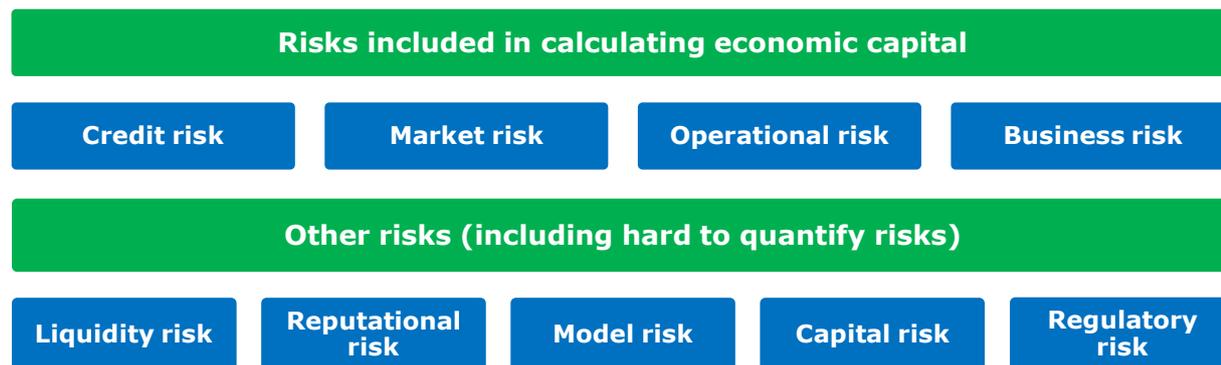
**Material risks in mBank Group's operations**

The Management Board is taking activities for ensuring that the Group manages all material risks arising from the implementation of adopted business strategy.

Material risks identified in the Group's operations as a result of the risk inventory process based on rules stipulated within ICAAP are classified to one of the two groups:

- the first group consists of risks included in the process of calculating economic capital;
- the second group comprises other risks (including hard to quantify risks) which are managed through adequate processes. In addition, in accordance with the ICAAP rules in force in the Group, capital buffer to cover other risks (including hard to quantify risks) may be estimated.

The following risks were recognized as material for the Group as at 31 December 2018:



### Internal capital

Internal capital is the amount of capital estimated by the Bank and required to cover material risks identified in the mBank Group's operations. Internal capital is the total of:

- the economic capital to cover risks included in economic capital calculation,
- capital necessary to cover other risks (including hard to quantify risks).

The economic capital is measured by means of quantitative methods which make it possible to adequately reflect the risk level.

In 2018 mBank calculated the economic capital at the 99.91% confidence level over a one-year time horizon, for the credit, market and business risks. The capital for the operational risk was calculated using the standardised approach. Diversification between different risks was not included while calculating the total of economic capital.

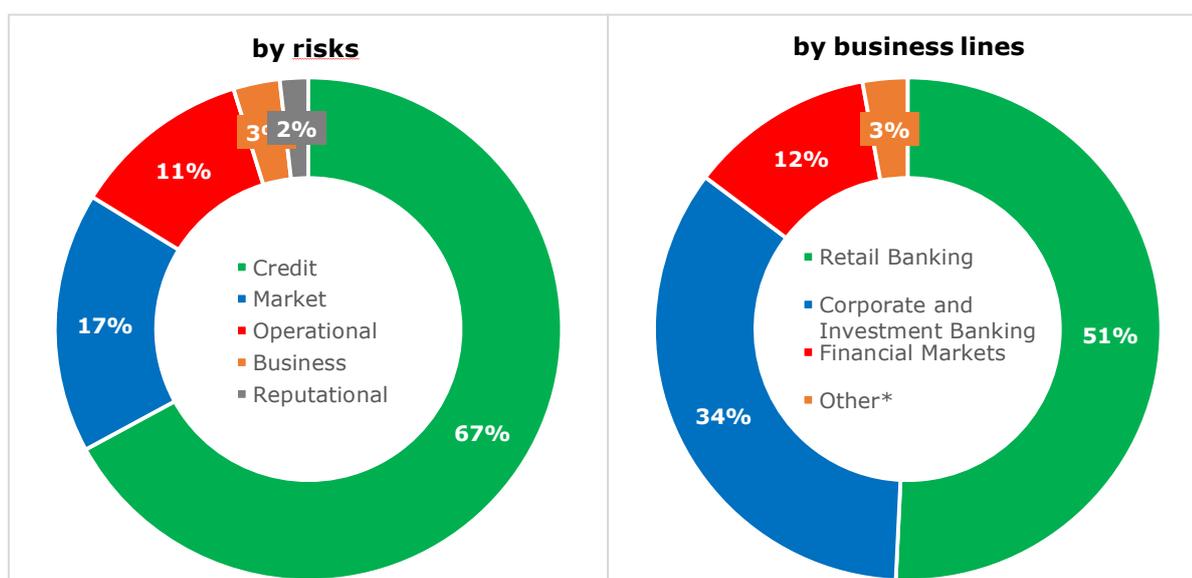
In accordance with internal regulations, the decision concerning the amount of capital for coverage of other risks (including hard to quantify risks) is taken by the Capital Management Committee. In 2018 the Bank maintained capital to cover reputational risk.

### Structure of internal capital and total capital requirement

The charts below present the structure of internal capital and the total capital requirements of mBank Group as of 31.12.2018 by risks and business lines.

#### Structure of internal capital of mBank Group as of 31.12.2018

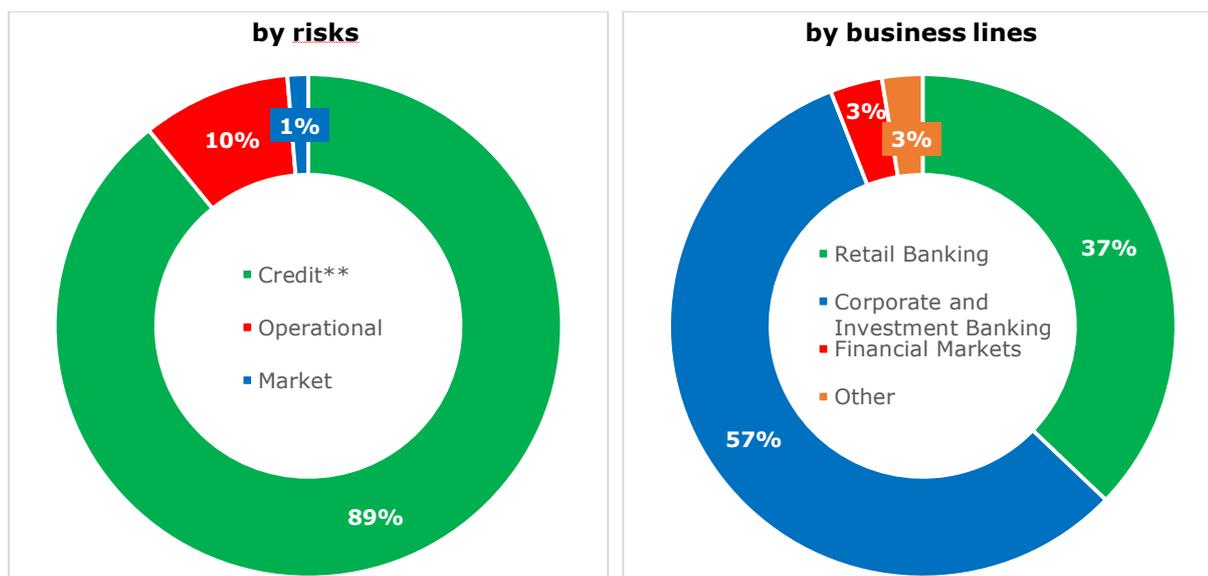
The internal capital of the mBank Group amounted to 5 529 271 thousand.



\*Capital for coverage of hard to quantify risks (reputational risk) is not allocated to business lines. Reputational risk is included in „Other“ on the chart presenting internal capital structure by business lines.

### Structure of total capital requirement of mBank Group as of 31.12.2018

The total capital requirement at the consolidated level amounted to 6 099 163 thousand.



\*\*The item presenting "Credit" risk includes also supervisory floor for AIRB portfolio of mBank retail microenterprises mortgage loan portfolio.

Higher share of market risk in the structure of internal capital (compared to the share in the structure of total capital requirement) results from the fact that the model of economic capital for market risk includes additional risk factors, which (in accordance with the current methodology) do not generate capital requirement (primarily interest rate risk of the banking book and credit spread on the portfolio of Treasury securities in the banking book).

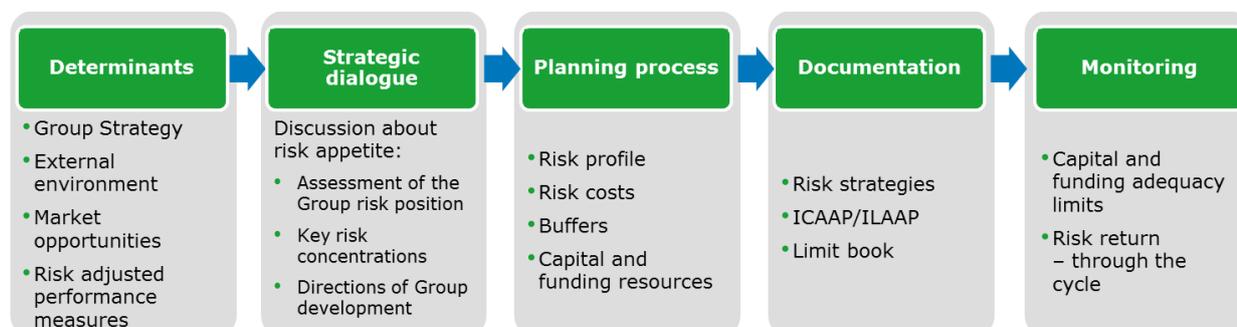
Significantly lower share of internal capital assigned to the Corporate and Investment Banking (compared to the share of this business line in the structure of total capital requirement) results from the diversification effect recognized in the model of economic capital for credit risk. The opposite effect in the case of the Retail Banking stems from taking into account the horizon of mortgage products' maturity (particularly housing loans) in the model of economic capital for credit risk (versus lack of maturity adjustment in regulatory risk weight).

#### 3.3.4 Risk appetite

Risk appetite is defined within the mBank Group as the maximum risk, in terms of both amount and structure, which the Group is willing and able to incur in pursuing its business objectives under going concern scenario. Risk appetite resulting from the available capital and funding base is the starting point in the Group's risk management, and thus impacts the budgeting process and the capital allocation process.

#### Risk appetite management framework

The process of risk appetite management embedded within the Group is presented on the diagram below.



Risk appetite is based on assessment of the Group risk profile and risk capacity in the perspective of:

- capital,
- funding,
- non-financial risks,
- Risk Adjusted Performance Measures.

Risk appetite is the starting point for an ongoing dialogue about the risk profile within the organization. During the strategic discussions, the Management Board outlines directions for the development of the Group and particular business lines. The formulated general statements assure the foundation for ongoing dialogue between management and the Board, which materializes in the form of portfolio-specific statements. During the central (Top-down) and business general planning process stages risk appetite statements undergo further decomposition into key metrics and targets, which are then cascaded down into the organization during the business operating phase of planning (Bottom-up). Documentation of risk appetite and its monitoring activates appropriate control mechanism for protecting the Group's goals.

### **Capital and liquidity buffers**

Risk appetite is determined below the risk capacity set by the required standards on capital adequacy and liquidity set in European and Polish regulations in order to ensure that the Group survives in the case of negative changes in the Group or in its environment thereby providing the ability to assure risk bearing capacity. Level of funding sources and capital position of the Group, both in the regulatory and economic perspective, are taken into consideration while defining the risk capacity and risk appetite. The Bank maintains capital and liquid assets on the levels ensuring to meet regulatory requirements under normal and realistic stress conditions.

mBank Group's risk appetite covers all significant risks and key risk concentrations embedded in its business strategy by setting appropriate capital buffers necessary in case of materialization of selected risk factors related to existing portfolios and planned business, and addressing new regulatory requirements as well as potential negative macroeconomic changes.

As a result of the discussion on risk appetite, the target capital ratios and internal liquidity buffers for the mBank Group are determined.

### **Risk Bearing Capacity**

Risk bearing capacity is expressed in terms of capital and funding resources available for allocation so as to ensure safety in normal scenario and risk scenario. The maximum risk that mBank Group is willing and able to incur, while accepting threats resulting from mBank Group business strategy, is subject to the following conditions:

- adequate economic risk-bearing capacity must be ensured (limits must be ensured in normal conditions),
- compliance with the internal limits, set above the regulatory levels, of capital ratios,
- financial liquidity and adequate structural liquidity of the Group must be ensured (in accordance with the ILAAP rules).

The approach of mBank Group to the assessment and control of mBank Group risk bearing capacity covers internal and regulatory requirements.

### **Risk limit system**

The mBank Group applies a risk limit system in order to ensure effective allocation of risk appetite. The structure of limits translates the risk appetite into specific constraints on risks occurring in the Group's activity. In addition to the limits, monitoring action triggers and early warning indicators are also used to ensure the safe operation of the Group.

#### **3.3.5 Stress tests within ICAAP and ILAAP**

Stress tests are an essential component of the ICAAP and ILAAP used in the management and capital and liquidity planning of the Bank and the Group. Stress tests allow an assessment of the Group's resistance in the context of adverse, yet plausible scenarios of external and internal events.

The stress tests are conducted assuming scenario of unfavourable economic conditions that may adversely affect the Group's financial and liquidity position.

The risk scenarios under ICAAP include, among others, the most likely scenario of negative deviations from the base scenario, expressed in terms of macroeconomic and financial ratios, which is common for all risk types. The scenario may include idiosyncratic events.

The ILAAP scenarios include severe idiosyncratic events, events concerning the entire market and combined scenarios. These scenarios are supplemented by an reverse scenario that identifies risk factors. In addition, an integrated scenario is carried out, which also takes into account the impact of factors derived from other types of risk.

The analysed macroeconomic scenarios allow for a comprehensive analysis of: all significant risk types and scenarios' impact on the capital adequacy and liquidity of the Bank and the Group.

The Group and the Bank carry out so called reverse stress tests, the goal of which is to identify events potentially leading to unviability of the Bank and the Group. Reverse stress tests are used for the verification of capital and liquidity contingency plans of the Group and are applied for making strategic decisions concerning the acceptable risk profile of the Group. Reverse stress tests are conducted in inverse mode to classic stress tests (from effect to causes) and serve as their complement. Reverse stress tests are an additional element of the analysis of the Bank's and the Group's robustness to negative macroeconomic and idiosyncratic factors.

### **3.3.6 Required capital and liquidity planning**

#### **Required capital and liquidity planning**

##### Stage I Top-Down (central planning and business planning)

This stage of capital and liquidity planning takes the form of the strategic dialog between the Management Board, risk management area, finance area and business lines, following which the desired directions of business development are determined to support the realization of the business goals of the mBank Group.

The Group plans business activities and related risk appetite within constraints imposed by regulatory requirements which have to be satisfied under both normal and stress conditions.

In view of the above, the planned changes in the size and structure of the Group's business activities, as well as anticipated regulatory changes are taken into account in estimating the required capital during the planning process. The required capital is estimated using risk parameters reflecting macroeconomic expectations assumed in planning process and taking into consideration intended changes in the methodology (including re-parameterization of risk pricing models).

Based on the strategic directions, the available capital is compared with the demand for capital (resulting from business development and stress test results). Should the capital required to achieve business goals of the Group be greater than the capital available for allocation, then the said business goals need to be revised.

In terms of liquidity risk, the estimations are made of both regulatory measures and internal liquidity measures including stress tests, and in this respect the adequacy of planned liquidity buffer of the Bank and the Group is analyzed. Should the achieved results exceed the levels assumed in the risk appetite and limits, then business goals need to be revised.

After determining the strategic directions of development it is analyzed what key risk concentrations are identified in the current and planned risk profile. For the purposes of determining the buffers and limits the Management Board decide on the acceptable level of risk factors to which the Group is susceptible through identified concentrations. Key risk concentrations are identified based on the reverse stress test analysis. Capital targets are set taking into account the capital needs arising from the potential materialization of key risk factors recognized in reverse stress test procedure and fixed at the levels accepted as corresponding with targeted risk tolerance. Impact of the risk factors on capital position of the Group is determined through appropriate stress test calculations.

The process of setting strategic financial targets is accompanied by strategic allocation of capital resources to individual business areas taking into account long-term return on capital.

##### Stage II Bottom-up (operational planning)

At this stage the capital needed is clarified in order to determine an efficient capital allocation at lower levels.

In each business line partial plans based on accepted macroeconomic assumptions, financial targets and the assessment of business growth potential are worked out.

In order to determine an acceptable risk profile from the capital consumption perspective, the forecasted volumes (partial plans) and resulting demand for regulatory and economic capital are compared, in an iterative process, with available resources and strategic guidelines.

In terms of liquidity risk, the estimations are made of both regulatory measures and internal liquidity measures including stress tests, and in this respect the adequacy of planned liquidity buffer of the Bank and the Group is analyzed. Should the achieved results exceed the levels assumed in the risk appetite and

limits, then business goals need to be revised.

On the basis of the operational phase of planning, the Funding Strategy of mBank Group is prepared and approved by the Bank's Management Board. The Strategy presents ways to provide funding in particular currencies needed for the planned development of the Group's assets. The strategy is prepared for normal conditions but also includes estimate of liquidity measures for crisis conditions.

### Available capital base

The final effect of the planning process is determination of target level of regulatory (own funds) and economic (RCP) capital base needed to cover risk concentrations of the current and planned activities, expressed by total regulatory capital requirement and total internal capital.

## 3.4. Credit risk

### 3.4.1 Organization of risk management

The mBank Group actively manages credit risk in order to optimise the level of profit in terms of return on risk. Analysis of the risk in the Group operations is continuous. For the purpose of identification and monitoring of credit risk, uniform credit risk management rules are applied across the Bank's structure and its subsidiaries; they are based, among others, on separation of the credit risk assessment function and the sales function at all levels up to the Management Board. A similar approach is applied to administration of credit risk exposures as this function is performed in the risk area and the operating area and is independent from sales functions. The model of Group-wide risk management assumes participation in the process of the Bank's risk management area organizational units as well as the Credit Committee of the mBank Group (KKG). The segregation of responsibilities in the process of credit risk management is as follows:

- **Credit Processes and Retail Risk Assessment Department (DPK)** is responsible for ensuring effectiveness and security of lending and post-sale service, including financial monitoring in respect of retail products on the Polish market and preventing extortion and fraud in the area of retail and corporate banking.
- **Retail Risk Management Department (DZR)** is responsible for management of credit risk and other risks in mBank's retail banking and its main operational responsibility is supervision over the automated credit process. Furthermore, DZR develops rules of credit risk rating, calculating creditworthiness, fraud prevention and other components of credit policy submitted for the approval by the Retail Banking Risk Committee. Solutions applied on the Polish market are also adapted in foreign branches (in the Czech Republic and Slovakia). The DZR is also responsible for implementing the assessment principles in the tools supporting the credit decision-making process, reports on the quality of the credit portfolio, and monitors the quality of data used in the risk rating process. To the extent permitted by external regulations DZR participates in the risk management process of the subsidiaries having credit risk bearing retail products in the offer.
- **Retail Debt Restructuring and Collection Department (DWD)** is responsible for ensuring the execution of processes of recovering the Bank's receivables arising from granted retail loans for Polish market, cohesion and completeness of internal regulations and the reporting environment in debt collection related with credit products. Activity of the area is focused on handling soft collection processes, restructuring process, collection after termination of the credit agreement, including judicial and enforcement proceedings and debt sale transaction of NPL.
- **Corporate Risk Assessment Department (DOR)** is responsible for management of the quality of the corporate loans portfolio of the Bank and subsidiaries of mBank Group including exposures under restructuring. The DOR's key functions include: decision-making or participation in decision-making concerning performing and non-performing loans, including their impact on operational risk, reputational risk, liquidity risk and for capital requirements and return on invested capital; analysis, evaluation and control of credit risk of countries, banks, international financial institutions and non-financial clients of the Bank and the Group subsidiaries in the corporate and investment banking area; control of credit risk limits imposed on countries, banks, international financial institutions; the management of the credit risk provisions in the Bank's corporate and investment banking area.
- **Processes and Risk Measurement Department (DPR)** responsible for: development of corporate credit risk strategy and policies, as well as cross-sectional portfolio analyses including industry ones; preparation of reports and statements in particular for supervisory authorities and the Bank's governing bodies; development and implementation of the corporate credit process principles and monitoring its effectiveness; administration of applications supporting the corporate

credit process; development and quality control of rating models for retail and corporate customers and financial institutions in the Bank and mBank Group subsidiaries; verification of real estate and movables provided by customers for collateral in terms of their value, liquidity and attractiveness.

- **Integrated Risk Management Department (DKR)** is responsible for: developing methodology and calculating capital requirement for credit risk; calculating portfolio credit provisions of the Bank and economic capital for credit risk; conducting stress tests in the area of credit risk (provisions, capital requirement, economic capital); coordinating and participating in the process of determining credit risk appetite; preparation of reports and information on credit risk (provisions, capital requirement, economic capital, stress tests) for the Bank's authorities and for consolidated supervision purposes.
- **Validation Unit** is responsible for organizing the process of managing models applied for credit risk management and evaluation as well as validating such models.

**Decision-making for credit exposures in the corporate area.** Credit decisions are consistent with the accepted rules set in the Corporate Risk Policy. Levels of decision-making competences are determined by a decision-making matrix. The determination of level of decision-making authority for credit decision is based on EL-rating and total exposure on client/group of affiliated entities. The total exposure includes also exposures on the client/group of affiliated entities in the mBank Group subsidiaries.

**Decision-making for credit exposures in the retail banking area.** Due to a profile of retail banking clients, the accepted amount of exposure per client and standardisation of products offered to those clients, the credit decision-making process differs from that applied to corporate clients. The decision-making process is automated to a large extent, both in terms of acquiring data on the borrower from internal and external data sources, and in terms of risk assessment by means of scoring techniques and standardised decision-making criteria. The tasks, which are not automated concern mainly the verification of credit documentation and potential derogations when a decision is made with the escalation to the decision-making level in accordance with the applicable rules. In addition, in case of mortgage loans, the value of the collateral is established (with the use of external appraisal report which is additionally evaluated internally) and its compliance with the binding credit policy including acceptable LtV is assessed. These functions are performed by operating units located within the Credit Processes and Retail Risk Assessment Department and the Processes and Risk Measurement Department in complete separation from sales functions.

### 3.4.2 Credit Policy

mBank manages credit risk based on supervisory requirements, market best practices, bank's own experiences and expertise. Credit policies, established separately for retail banking and corporate banking, play the key role in the credit risk management process. Credit policies include e.g.:

- target customer groups,
- acceptable ratings' levels defined by the expected loss value,
- criteria for acceptance of financed subjects and collaterals,
- rules for mitigating concentration risk,
- rules for selected industries and customers segments.

### 3.4.3 Collateral accepted

**Collateral accepted in the process of granting credit products.** The collateral is an important part of the credit policy. The primary role of collateral is to reduce the credit risk of the transaction and provide the Bank with a realistic opportunity to repay receivables. In making a decision about granting a credit risk bearing product, the Bank strives to obtain collateral adequate to the accepted risk. The Bank accepts collateral only upon its assessment and provided it meets the condition of no significant correlation between the credibility of the debtor and the collateral value. Specific types of collateral that are required depend on the risk bearing product, the tenor of the transaction and the risk of the client. The most common collateral accepted are:

- mortgage on real estate,
- registered pledge,
- cession of receivables (cession of rights),
- monetary deposit,
- guarantees and warranties
- guarantee deposit or cash blocked,
- transfer of ownership to vehicle.

The value of fixed assets taken as collateral (other than vehicles) is determined on the basis of a valuation prepared by a licensed expert. Valuations submitted to the Bank is verified by a team of specialists located in the risk management area, that verifies the correctness of the market value assumptions and assesses the liquidity of the collateral. Each collateral is monitored.

In the corporate banking area, in the case of collateral on fixed assets or financial assets, the final value of collateral is brought to a most realistic value (MRV) using Empirical Coverage Factor (ECF), which reflects the pessimistic variant of debt recovery from the collateral through forced sale. Personal collateral is assessed taking into account the financial standing of provider. The Bank assigns the risk parameter PSW (which is an equivalent of Most Realistic Value for fixed assets collateral). In cases when PD parameter of the collateral provider is equal or worse than PD parameter of the debtor, then PSW parameter is zero.

The Bank has a dedicated collateral policy in the area of corporate banking. The most important elements of this policy are:

- indication of collateral preferred and unrecommended,
- recommendations regarding the requirements of collateral in specific situations,
- frequency of collateral monitoring,
- Bank's approach to collateral with MRV parameter equal to zero.

**Collateral accepted for transactions in derivative instruments.** The Bank manages the risk of derivative instruments. Credit exposures arising from concluded derivative transactions are managed as a part of clients' general credit limits, taking into account potential impact of changes in market parameters on the value of the exposure. Existing master agreements with contractors obligate the Bank to monitor the value of exposure to the client on a daily basis and provide for additional collateral against the exposure to be contributed by the client if the exposure value increases or the limit is exceeded. In case of default, the master agreements provide for early settlement of the transaction with the client. mBank applies an Early Warning Process in order to monitor the usage of limits on derivatives and enables the Bank's quick reaction if client's open transaction nears the maximum limit. Moreover, taking into consideration credit risk related to a derivative limit granted to a specific client, the Bank may apply additional collaterals from standard catalogue of collaterals of credit risk-bearing products.

**Collateral on securities resulting from buy-sell-back transactions.** The Bank accepts collateral in the form of securities in connection with the buy-sell-back transactions concluded. Depending on the agreement such collateral may be sold or repledged.

**Collaterals accepted by the mBank Group subsidiaries.** The mBank Group subsidiaries accept various forms of legal collateral of credit risk-bearing products. Their list depends on the specific nature of activities, type of offered products and transaction risk.

mBank Hipoteczny applies mortgage on the financed real estate as the basic collateral. Additional collateral may include bills of exchange or civil surety by the borrowing company's owners, as well as pledge on shares in the borrower's company. Loan insurance in an insurance company approved by the Bank may be accepted for a period necessary to effectively set up collateral.

mLeasing applies types of collateral that are most similar to those of mBank. It accepts both standard personal collateral: bill of exchange and civil surety, letters of comfort, guarantees, assuming the debt, debt take over, and tangible collateral: mortgage, registered liens, transfer of ownership of collateral, transfer of receivables and cession of receivables and rights to an insurance policy, and deposits.

mFactoring accepts only highly liquid collateral. Apart from own blank bills of exchange, these are mainly bill of exchange surety of the owners of the customer's company, cession of receivables from bank accounts (mainly those maintained by mBank), insurance of receivables, cession of rights from insurance policies in respect of receivables, concluded by customers. In the case of providing services to several companies belonging to one group, a customary form of collateral is a power of attorney to perform cross-settlement of agreements concluded with the particular companies.

### **3.4.4 Rating system**

The rating system is a key element of the credit risk management process in the **corporate banking area**. It consists of two main elements:

- customer rating (PD-rating) – describing the probability of default (PD);
- credit rating (EL-rating) – describing expected loss (EL) and taking into consideration both customer risk (PD) and transaction risk (LGD, Loss Given Default – loss resulting from default). EL can be described as  $PD * LGD$ . EL indicator is used mainly at the credit decision-making stage.

The rating produces relative credit risk measures, both as percentages (PD%, EL%) and on a conventional scale from 1.0 to 6.5 (PD-rating, EL-rating) for corporations (sales over PLN 50 million) and SMEs (sales

up to and including PLN 50 million). PD rating calculation is a strictly defined process, which comprises seven steps including: financial analysis of annual reports, financial analysis of interim figures, assessment of timeliness of presenting financial statements, analysis of qualitative risks, warning indicators, level of integration of the debtor's group, and additional discretionary criteria. Credit rating based on expected loss (EL) is created by combining customer risk rating and transaction risk rating, which results from the value of exposure (EAD, Exposure at Default) and the character and coverage with collateral for transactions concluded with the client (LGD). LGD, described as % of EAD, is a function of possibly executed value of tangible and financial collateral and depends on the type and the value of the collateral, the type of transaction and the ratio of recovery from sources other than collateral.

The rating system generates the borrower's probability of default directly in the form of a PD ratio, expressed as a percentage (continuous scale). Rating classes are calculated on the basis of procedures of dividing percentage PD into groups based on geometric stepladder. In external reporting, the Bank maps the internal PD rating scale onto external ratings. The table below presents the mapping system.

Sub-portfolio	1				2				3		4				5		6	7		8	
PD rating	1.0 - 1.2	1.4	1.6	1.8	2	2.2	2.4 - 2.6	2.8	3	3.2 - 3.4	3.6 - 3.8	4	4.2 - 4.6	4.8	5	5.2 - 5.8	No rating	6.1 - 6.5			
S&P	AAA	AA+	AA, AA-	A+, A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	B-	CCC+ till C	n/a	D			
	Investment Grade								Subinvestment Grade				Non-investment Grade					Default			

The following models comprised by the rating system are used in the **retail banking area**:

- Loss Given Default (LGD) model, which covers the entire retail portfolio. In the model, loss is defined as a function dependent on the level of recovery from clients' own payments and possible value of collateral using real estate collected in enforcement procedures,
- Credit Conversion Factor (CCF) model, which covers the entire retail banking portfolio. The model is based on historical data. The Credit Conversion Factor is an integral part of EAD model,
- PD model with a modular structure, which integrates application and behavioural scoring cards in the retail banking area as well as scoring card based on Credit Information Bureau (BIK) data.

All mBank Group subsidiaries, whose operations are burdened with credit risk, before concluding an agreement and upon its performance, apply a monitoring process to estimate the risk using rating systems applied by the mBank Group. Rating systems that are used by the Group subsidiaries are due to the nature of their business; at the same time the factoring and leasing companies use the PD-rating of the customer, and the leasing company applies additionally credit rating (EL-rating). A rating based on supervisory measures (slotting approach) is applied in the case of mortgage loans and real estate leasing.

### 3.4.5 Monitoring and validation of models

All models of risk parameters applied in mBank and in the Group subsidiaries, including, i.a., PD models (with all components), LGD models and CCF models are subject to detailed and annual monitoring by modelling units. Moreover, the models are cyclically validated by the mBank's independent Validation Unit.

The monitoring includes tests to check discriminatory power of individual models or their components, stability over time, the materiality of individual deviations of empirical values from theoretical values and the impact on portfolio parameters. The modelling unit recalibrates the respective models, i.a. in case of identification of some mismatches.

Reports on the performed monitoring/backtests are presented to the model users and the independent Validation Unit.

#### Validation

Validation is an internal, complex process of independent and objective assessment of model operation, which is consistent with the Recommendation W requirements and - in case of the AIRB method - meets the supervisory guidelines set out in the CRR. The validation rules are set out in general in the Model Management Policy and described in details in other mBank's internal regulations. The validation covers models directly and indirectly used in the assessment of capital adequacy under the AIRB approach and other models indicated in the Model List maintained in mBank.

In case of AIRB models there is assured an independence of Validation Unit in the organizational structures of the Bank or the Group's subsidiary in relation to the units involved in the model's construction/maintenance, i.e. the model owner and users. The Validation Unit is responsible for the validation in mBank.

The scope of validation performed by the Validation Unit covers the assessment of:

- models,
- model implementation,
- their application process.

Depending on the materiality and complexity of the model, as well as the type of validation task to be performed, the validation may be advanced (covers both quantitative and qualitative elements) or basic (mainly focused on the quantitative analyses and selected qualitative elements). The validation results are documented in the validation report containing, in particular, an assessment used for the purpose of approving the model, and recommendations, if any, in the form of precautionary and remedial actions, about the irregularities found.

Validation tasks are performed in accordance with the annual validation plan. Both validation plan and the results of performed validation tasks are approved by the Model Risk Committee.

### **IRB Method Change Policy**

The Bank implemented the IRB Method Change Policy approved by the Management Board. The Policy contains internal rules for the change management within the IRB approach, based on the supervisory guidelines and taking into account the organizational specifics of the Bank. The Policy specifies the stages of the change management process, defines roles and responsibilities, describes in details the rules of classification of changes, in particular classification criteria based on the guidelines published by the European Central Bank.

### **3.4.6 Calculating impairment charges and provisions**

The method of calculating impairment charges and provisions is consistent with the International Financial Reporting Standards. All the rules and definitions implemented in the Bank that are used in this section are in accordance with Polish banking law and requirements of Polish Financial Supervision Authority.

Financial instruments subject to estimation of credit risk costs: financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income, loan commitments if not measured at fair value through profit or loss, financial guarantee contracts if not measured at fair value through profit or loss, leases under IAS 17, contract assets under IFRS 15, as well as trading receivables.

#### **3.4.6.1 How exposures are classified to stages**

The Bank, by implementing International Financial Reporting Standards classifies credit exposures to stages:

1. Stage 1 – exposures for which the risk did not increase significantly since the initial recognition in the loan portfolio,
2. Stage 2 – exposures for which, as at the reporting date, a significant deterioration in credit quality was identified compared to the date of their initial recognition,
3. Stage 3 – exposures for which credit-impairment was found during its lifetime in portfolio,
4. POCI (purchased or originated credit-impaired asset) – assets identified as credit-impaired at initial recognition.

In the Bank the assignment of exposure to stage 2 takes place according to the Transfer Logic algorithm, which defines the qualitative and quantitative criteria indicating a significant increase of credit risk, while the classification exposure to the stage 3 is determined by loss-events.

Once the quantitative or qualitative criteria that were used to classify the exposure in Stage 2 at the reporting date are no longer met, the exposure will be moved from Stage 2 to Stage 1. The exposure may also be transferred from Stage 3 to Stage 2 or to Stage 1 in case of the retail part of the portfolio when the impairment triggers are no longer met, and in case of the corporate customers when:

1. the loss events that caused the classification of a client to the stage 3 do not longer exist, and
2. the economic and financial situation of the debtor has improved to the extent which gives a high probability of repayment of all credit obligations in accordance with the conditions resulting from the original agreement or from the contract specifying the restructuring terms, and
3. the overdue debt has been repaid, and
4. the indebtedness is timely handled for at least 12 months after the change of contractual terms, or

5. the balance of the client's credit and non-credit obligations equals to zero as a result of: their total repayment by the customer, recovery of the Bank's receivables as a result of the debt collection activities or the receivables write-off.

#### **3.4.6.1.1 Significant deterioration of credit quality (classification to stage 2)**

A significant deterioration in credit quality is recognised for the asset concerned on the basis of quantitative and qualitative criteria, with the asset being transferred to Stage 2 once at least one of such qualitative or quantitative criteria is met.

Qualitative criteria are:

- More than 30 days past due, involving materiality threshold (The number of days for which the longest overdue amount of the exposure concerned is greater than or equal to 31 days. At the same time, the amount of capital or an off-balance-sheet commitment is greater than or equal to PLN 500 in case of retail exposure and greater than or equal to PLN 3000 in case of corporate exposure).
- Occurrence of the Forborne flag (the client status shows that he or she is experiencing difficulties in repaying the loan commitment, as defined by the Bank).
- Occurrence of the Watch flag (the Bank's internal process designed to identify corporate clients who are subject to increased monitoring in terms of changes in credit quality, in accordance with the Watch List classification rules adopted by the Bank).

The quantitative criterion of the Transfer Logic is based on a significant deterioration in credit quality, which is assessed on the basis of a relative long-term change in Probability of Default (PD), specified for the exposure at the reporting date, relative to the long-term PD specified on initial recognition.

#### **3.4.6.1.2 Impairment triggers - corporate portfolio**

The list of definite loss events in corporate portfolio:

1. The number of days past due is above 90 days (14 days in the case of banks) and the overdue amount exceeds PLN 3,000 and PLN 500 for Private Banking.
2. The Bank has sold exposures with a significant economic loss related to the decrease of the debtor creditworthiness.
3. The Bank performed enforced restructuring of the exposure, which resulted in the change of the loan/transaction service schedule due to the lack of possibility of the obligor to meet his obligations under loan/transaction agreement, as initially stipulated, which resulted in:
  - a) Reduction of financial liabilities by remitting part of these obligations, or
  - b) postponing the repayment of the substantial part of the principal, interest or (if it refers to) commission; provided that the lack of approval for restructuring would cause more than 90 calendar days delay in repayment of substantial part of the obligation.
4. Filing by the debtor or filing by the Bank, the parent or subsidiary entity of the Bank a bankruptcy motion against debtor or filing similar motion in respect of credit obligations of the debtor towards the Bank, the parent or subsidiary entity of the Bank.
5. Bankruptcy of debtor or acquiring by him a similar legal protection resulting in his evasion of or delay in repayment of credit obligations towards the Bank, the parent or subsidiary entity of the Bank.
6. Termination of part or whole credit agreement by the Bank and the beginning of restructuring/collection procedures.
7. Client's fraud.
8. Bank expects a loss on a client's exposure.

In addition the Bank identifies so-called 'soft' loss events, introduced in order to signal situations, which may result in the loss of the debtor's ability to repay loan to the Bank. In the event of their occurrence, an in-depth analysis (taking into account the specificity of the entity's operations) is performed and individual decision on the classification of the exposure to one of the stages is made.

#### **3.4.6.1.3 Impairment triggers - retail receivables**

In the Bank's retail banking in Poland, a debtor-oriented approach, including all exposures of the customers, is applied for identification of impairment triggers. Transactional approach, in which each exposure is analyzed independently, is applied in the foreign branches (in Czechia and Slovakia).

The main impairment trigger is delay in repayment, which is identified in different ways depending on the abovementioned approach. In the retail banking in Poland, impairment trigger is identified, when the total of all customer's exposures past due more than 30 days exceeds PLN 500 and the eldest delay exceeds 90 days.

In the Czech and Slovak branches, an individual exposure is considered impaired when the overdue amount exceeds CZK 3000 or EUR 120, respectively, while the delay is more than 90 days.

Additionally, the following events are treated as impairment triggers in all branches:

- a. enforced restructuring of debt,
- b. bankruptcy of debtor,
- c. recognition of the contract as fraudulent,
- d. sale of the exposure with considerable economic loss,
- e. uncollectable status of debt,
- f. payout of low downpayment insurance.

### **3.4.6.2 Calculation of impairment losses and provisions**

Valuation allowances and provisions are measured at the level of a single contract or exposure (agreement) by measuring expected credit losses (ECL). In the group approach, expected credit losses are the multiplication of individual for each exposure estimated value of PD, LGD and EAD and the final value of expected credit losses is the sum of expected credit losses in particular periods discounted with the effective interest rate. If on the reporting date the exposure credit risk did not increase significantly since the initial recognition, the Bank calculates impairment provisions in the amount equal to 12-month expected credit losses (12m ECL). If the exposure credit risk increased significantly since the initial recognition (exposure is in the stage 2), the Bank calculates impairment provisions in the amount equal to life-time expected credit losses (Lt ECL).

In the individual approach (all balance sheet and off-balance sheet credit exposures with an impairment in the corporate loan portfolio are treated as individually significant), the expected credit losses are calculated as a difference between the gross carrying amount of the asset and the present value of the estimated future cash flows discounted with the effective interest rate. The method of calculating the expected recoveries takes place in scenarios and depends on the Bank's chosen strategy for the client.

For the valuation of expected credit losses the Bank uses data contained in the Bank's transaction systems and dedicated tools implemented for the purposes of IFRS 9.

#### **3.4.6.2.1 Use of macroeconomics scenarios in ECL estimation**

The Bank is required to set an expected credit loss in a way which meets the expectations for various forward-looking macroeconomic scenarios in case of portfolio estimation of ECL. The non-linearity factor (NLF) is set in order to adjust the value of an expected credit loss. The values of NLF are used as scaling factors for individual ECLs. The NLF values are calculated based 3 simulations, which result from relevant macroeconomic scenarios (baseline, optimistic, pessimistic scenario).

Additionally, the inclusion of forward-looking information takes place in the models of all three credit risk parameters estimated in the lifetime horizon (LtPD, LtEAD, LtLGD). Forward-looking data is used to determine parameter values over a period of over 12 months to 3 years, which allows for consistency with macroeconomic forecasts performed by the Bank and mid-term planning. In the estimates the Bank uses, among others, generally available macroeconomic indicators, expectations regarding interest rates and exchange rates, as well as changes in property prices.

In case of individual estimation of ECL, the assumed recovery scenarios take into account various modeling conditions of macroeconomic environment.

#### **3.4.6.2.2. Significant model changes**

In the third quarter of 2018, due to changes in retail debt collection process, appropriate adjustments were made to LT LGD model for retail segment. In addition to amendments reflecting the current process, other modification were implemented including updated assumptions for residual recoveries and recoveries for cures. Impact of the above adjustments on expected credit loss amounted to PLN 32 million.

#### **3.4.6.3 Provision coverage of individual sub-portfolios**

The tables below show the percentage of the Group's balance sheet and off-balance sheet items relating to loans and advances, guarantees and letters of credit to individuals, corporate entities an public sector

and the coverage of the exposure with credit risk costs for each of the Bank's internal rating categories (the description of rating model is included in Note 3.4.4).

Portfolio measured at amortized cost

Sub - portfolio	31.12.2018		31.12.2017	
	Exposure (%)	Provision coverage (%)	Exposure (%)	Provision coverage (%)
1	13.36	0.01	9.93	0.01
2	31.63	0.06	30.77	0.04
3	14.52	0.16	18.78	0.13
4	24.56	0.42	18.21	0.33
5	5.95	1.33	6.02	0.86
6	0.48	3.25	0.59	1.53
7	1.86	7.07	1.49	3.61
8	1.41	0.03	8.87	0.05
Default category	3.28	61.74	3.85	56.26
<b>Total</b>	<b>100.00</b>	<b>2.40</b>	<b>100.00</b>	<b>2.38</b>

As at 31 December 2018, 44.99% of the loans and advances portfolio for balance sheet and off-balance sheet exposures is categorized in the top two grades of the internal rating system (31 December 2017: 40.70%).

The changes in the portfolio coverage between 2018 and 2017 result from the implementation of IFRS 9.

### 3.4.7. Fair value for credit assets

If the conditions for the measurement of a credit asset at amortized cost (IFRS 9, par. 4.1.2) are not met, then it is measured at FVtPL (Fair Value through Profit & Loss) or by FVOCI (Fair Value through Other Comprehensive Income).

#### 3.4.7.1 Fair value valuation of non-impaired credit assets

The valuation for non-impaired exposure is based on its discounted estimated future cash flows.

Future cash flows are determined taking into account:

- repayment schedule, and in the absence of a schedule (revolving products) - based on a statistical estimation of the annual credit limit utilization in expected behavioral exposure period,
- time value of money, based on risk-free interest rates set in the process of forecasting interest flows,
- cash flows amount and their schedule fluctuations stemming from the option of prepayment (early partial or full repayment of the principal) included in the loan agreement by applied by prepayment factors,
- uncertainty of cash flows resulting from credit risk throughout the forecasted lifetime of the exposure by modifying contract flows using multi-year credit risk parameters LT PD and LT LGD,
- other factors that would be taken into consideration by the potential exposure buyer (overhead costs and the profit margin expected by market participants) during the process of calibration of the discount rate used in the valuation process.

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

#### 3.4.7.2. Fair value valuation of impaired credit assets

Impaired credit assets are valued based on expected recoveries. In the case of retail exposures the valuation reflected by LGD parameters, and for corporate exposures refers to individual recovery scenarios.

### 3.4.8 Repossessed collateral

The Group classifies repossessed collaterals as assets repossessed for debts and measures them in accordance with the adopted accounting policies described in paragraph 2.22. Assets repossessed for debts classified as assets held for sale will be put up for sale on an appropriate market and sold at the soonest

possible date. The process of selling collaterals repossessed by the Bank is arranged in line with the policies and procedures specified by the Debt Restructuring and Collection Department and the Retail Debt Restructuring and Collection Department for individual types of repossessed collaterals.

The policy of the companies of the Group is to sell repossessed assets or - in the case of leases - lease them out again to another customer. Cases in which the repossessed collateral is used for own needs are rare – such a step must be economically justified and reflect the Group companies' urgent need, and must at each time be approved by their Management Boards. In 2018 and 2017, the Group did not have any repossessed collaterals that were difficult to sell. As at 31 December 2018, value of repossessed collaterals was PLN 33 211 thousand (31 December 2017: PLN 23 540 thousand) included mainly real estate which constitute collaterals for mortgage loans and leasing assets. The value of repossessed collaterals was included in the item inventories (Note 28).

### **3.4.9 mBank Group Forbearance Policy**

#### **Definition**

The mBank Group's forbearance policy is a set of activities relating to renegotiation and restructuring of terms of loan agreements which is defined by internal regulations.

The Group offers forbearance to assist customers, who are temporarily or permanently in financial distress and are unable to meet their original contractual repayment terms, through agreements with less restrictive terms of repayment, without which financial difficulties would prevent satisfactory repayment under the original terms and conditions of the contract. These agreements may be initiated by the customer or the Group entities.

The Group does not consider loans with modified terms as falling under the forbearance policy in the case when changes result from the customer's application and there are no current or anticipated customer's financial difficulties, and, in addition, modifications of the contract meet the criteria of decision-making policy for a healthy portfolio.

The type of concession offered should be appropriate to the nature and the expected duration of the customer's financial distress. Financing entity's belief in the customer's willingness and ability to repay the loan is necessary to conclude an agreement. Prior to granting a concession, an assessment of its impact on improving customer's ability to repay the loan is carried out.

The Group renegotiates loan agreements with customers in financial difficulties to maximise possibility of receivables repayment and minimise the risk of default (situation when client fails to fulfil his contractual obligation).

Exposures with modified terms and conditions under forbearance policy (hereinafter - forborne exposures) are subject to regulatory and internal reporting.

#### **Instruments used**

The Group maintains open communication with clients in order to detect any financial difficulties as early as possible and to know the reasons of such difficulties. In case of retail customers with temporary financial difficulties forbearance solutions focus on temporary reductions of contractual payments among others in form of capital repayments suspension with only interest repayments kept.

For customers under long term financial distress extension of contractual repayment schedule may be offered which can include instalments reduction.

In case of debt refinancing, as a rule, client is reclassified into the default category.

For the corporate clients in financial distress, as part of the business support process, the Group offers concessions, starting from participating in debt standstills and finishing on debt restructuring agreements. Debt restructuring agreements may improve Group's security by replacing open financing (overdraft) with factoring or invoice discount and they can waive or ease covenants (additional conditions included in the primary agreement), if it represents optimal strategy for client's business continuity.

The following list does not exhaust all possible actions that are subject to forbearance, but it includes the most common:

- Maturity extension/extension of loan duration,
- Restructuring (medium or long term refinancing) – applies to the retail banking area,
- Capitalization of interest,
- Interest deferrals,
- Principal deferrals,

- Covenant waiver,
- Standstills.

### Risk management

Forbearance measures have been an integral part of Group's risk management area for many years. Forborne portfolios are subject to regular review and reporting to the area management. The effectiveness of undertaken actions, regularity of restructured transactions' service in respect of types of product and client's segment are subject to assessment. The risk analysis of retail forbore portfolio is based on portfolio approach and corporate portfolio analysis is based on individual approach.

In corporate banking, every bank's exposure on debtors with recognized loss event is classified as default and impairment test is required to be carried out. Every exposure classified as default is being taken over by the specialised unit dedicated to restructuring. All exposures classified as default and being under restructuring have the forbore status. Non-default debtors, i.e. without recognized loss event, who received the concession (forbearance measures), are subject to close monitoring (Watch List – WL) by all units involved in the loan granting process. Their financial situation is subject to close monitoring and they are under constant review to establish whether any of impairment indicators had materialised.

The Group does not use dedicated models to determine level of portfolio provision and special-purpose provision for forbore portfolio.

### Forborne exit conditions – corporate banking area

The Group ceases to recognise the exposure as forbore if all of the following conditions are met:

- debtor financial situation's analysis showed improvement and the exposure has been recognised as performing,
- at least two years after recognising exposure as performing have passed (probation period),
- for at least 12 months period significant and regular capital or interest payments have been made since the date of recognising the exposure as performing,
- none of the debtor exposures is overdue more than 30 days at the end of reporting period.

### Forborne exit conditions – retail banking area

The Bank ceases to recognise the contract as forbore when all of the following conditions are met:

- the contract is recognised as performing,
- at least two years (probation period) have passed since the exposure was recognised as performing,
- at least from the middle of the abovementioned probation period regular capital or interest payments were made (lack of significant delays in repayment longer than 31 days),
- none of the debtor's exposures are overdue more than 31 days and at the same time the due amount does not exceed PLN 500 at the end of the 2-year probation period.

### Portfolio characteristics

The table below presents changes in the carrying value of the forbore exposures in 2018.

31.12.2018	Gross carrying amount	Of which defaulted	Accumulated impairment/FV adjustments	Net value
<b>As at 31.12.2017</b>	<b>1 941 014</b>	<b>1 049 372</b>	<b>575 164</b>	<b>1 365 850</b>
Outputs	(439 516)	(94 975)	(31 545)	(407 971)
New forbearance	763 949	627 691	254 423	509 526
Changes on existing loans	(256 546)	(225 840)	(165 821)	(90 725)
<b>As at 31.12.2018</b>	<b>2 008 901</b>	<b>1 356 248</b>	<b>632 221</b>	<b>1 376 680</b>

The table below presents changes in the carrying value of the forbore exposures in 2017.

31.12.2017	Gross carrying amount	Of which defaulted	Provisions created	Net value
<b>As at 31.12.2016</b>	<b>1 890 715</b>	<b>1 017 499</b>	<b>454 071</b>	<b>1 436 644</b>
Outputs	(1 210 500)	(413 551)	(132 982)	(1 077 518)
New forbearance	1 270 258	450 520	224 190	1 046 068
Changes on existing loans	(9 459)	(5 096)	29 885	(39 344)
<b>As at 31.12.2017</b>	<b>1 941 014</b>	<b>1 049 372</b>	<b>575 164</b>	<b>1 365 850</b>

Forborne portfolio as at 31 December 2018

31.12.2018	Gross carrying amount	Of which defaulted	Accumulated impairment/FV adjustments	Net value
Loans and advances to banks and other financial corporations	37 345	37 345	18 235	19 110
Loans and advances to customers, including:	1 971 556	1 318 903	613 986	1 357 570
Loans to individuals:	883 326	311 609	139 509	743 817
- Current accounts	149 646	46 780	31 944	117 702
- Term loans, including:	733 680	264 829	107 565	626 115
housing and mortgage loans	633 967	210 166	81 525	552 442
Loans to corporate clients:	1 088 230	1 007 294	474 477	613 753
corporate & institutional enterprises	481 911	448 163	248 207	233 704
medium & small enterprises	606 319	559 131	226 270	380 049
<b>Total</b>	<b>2 008 901</b>	<b>1 356 248</b>	<b>632 221</b>	<b>1 376 680</b>

Forborne portfolio as at 31 December 2017

31.12.2017	Gross carrying amount	Of which defaulted	Provisions created	Net value
Loans and advances to banks and other financial corporations	292	291	291	1
Loans and advances to customers, including:	1 940 722	1 049 081	574 873	1 365 849
Loans to individuals:	1 030 980	290 445	118 359	912 621
- Current accounts	120 044	12 496	6 754	113 290
- Term loans, including:	910 936	277 949	111 605	799 331
housing and mortgage loans	740 838	172 015	67 894	672 944
Loans to corporate clients:	909 742	758 636	456 514	453 228
corporate & institutional enterprises	296 589	242 555	171 224	125 365
medium & small enterprises	613 153	516 081	285 290	327 863
<b>Total</b>	<b>1 941 014</b>	<b>1 049 372</b>	<b>575 164</b>	<b>1 365 850</b>

The share of credit forborne portfolio constitutes 1.41% (2017: 1.58%) of the whole net portfolio of loans and advances to banks and to customers. 68% of the forborne portfolio is reported in the default category, (2017: 54%). Default portfolio is covered in 47% by the impairment allowance / fair value adjustment related to credit risk (2017: 55%).

Forborne exposures by type of concession as at 31 December 2018

31.12.2018 Type of concession	Gross carrying amount	Of which defaulted	Accumulated impairment/FV adjustments	Net value
Refinancing	146 188	146 188	34 020	112 168
Modification of terms and conditions	1 862 713	1 210 060	598 201	1 264 512
<b>Total</b>	<b>2 008 901</b>	<b>1 356 248</b>	<b>632 221</b>	<b>1 376 680</b>

Forborne exposures by type of concession as at 31 December 2017

31.12.2017 Type of concession	Gross carrying amount	Of which defaulted	Provisions created	Net value
Refinancing	77 984	64 772	31 904	46 080
Modification of terms and conditions	1 863 030	984 600	543 260	1 319 770
<b>Total</b>	<b>1 941 014</b>	<b>1 049 372</b>	<b>575 164</b>	<b>1 365 850</b>

Forborne exposures by geographical breakdown as at 31 December 2018

31.12.2018	Gross carrying amount	Of which defaulted	Accumulated impairment/FV adjustments	Net value
Poland	1 959 408	1 306 755	626 505	1 332 903
Other countries	49 493	49 493	5 716	43 777
<b>Total</b>	<b>2 008 901</b>	<b>1 356 248</b>	<b>632 221</b>	<b>1 376 680</b>

Forborne exposures by geographical breakdown as at 31 December 2017

31.12.2017	Gross carrying amount	Of which defaulted	Provisions created	Net value
Poland	1 700 168	808 526	394 377	1 305 791
Other countries	240 846	240 846	180 787	60 059
<b>Total</b>	<b>1 941 014</b>	<b>1 049 372</b>	<b>575 164</b>	<b>1 365 850</b>

Forborne, not impaired exposures by period of overdue as 31 December 2018

31.12.2018 Overdue period	Gross carrying amount	Of which defaulted	Accumulated impairment/FV adjustments	Net value
Not past due	525 606	69 425	6 610	518 996
Past due less than 30 days	120 488	199	4 513	115 975
Past due 31 - 90 days	52 985	1 388	3 215	49 770
Past due over 90 days	20 077	20 075	10 462	9 615
<b>Razem</b>	<b>719 156</b>	<b>91 087</b>	<b>24 800</b>	<b>694 356</b>

Forborne, not impaired exposures by period of overdue as 31 December 2017

31.12.2017 Overdue period	Gross carrying amount	Of which defaulted	Provisions created	Net value
Not past due	753 272	24 293	3 540	749 732
Past due less than 30 days	136 476	5 044	2 715	133 761
Past due 31 - 90 days	29 836	2 008	865	28 971
Past due over 90 days	12 626	12 623	216	12 410
<b>Total</b>	<b>932 210</b>	<b>43 968</b>	<b>7 336</b>	<b>924 874</b>

Forborne, impaired exposures by period of overdue as at 31 December 2018

31.12.2018 Overdue period	Gross carrying amount	Of which defaulted	Accumulated impairment/FV adjustments	Net value
Not past due	396 783	383 862	130 403	266 380
Past due less than 30 days	106 743	102 005	13 494	93 249
Past due 31 - 90 days	44 901	37 977	6 472	38 429
Past due over 90 days	741 318	741 317	457 052	284 266
<b>Razem</b>	<b>1 289 745</b>	<b>1 265 161</b>	<b>607 421</b>	<b>682 324</b>

Forborne, impaired exposures by period of overdue as at 31 December 2017

31.12.2017 Overdue period	Gross carrying amount	Of which defaulted	Provisions created	Net value
Not past due	242 960	240 283	83 439	159 521
Past due less than 30 days	47 996	47 988	16 777	31 219
Past due 31 - 90 days	30 532	29 817	11 601	18 931
Past due over 90 days	687 316	687 316	456 011	231 305
<b>Total</b>	<b>1 008 804</b>	<b>1 005 404</b>	<b>567 828</b>	<b>440 976</b>

Forborne exposures by the industry as at 31 December 2018

31.12.2018 Sectors	Gross carrying amount	Of which defaulted	Accumulated impairment/FV adjustments	Net value
Household equipment	15 873	15 197	8 838	7 035
Financial sector	67 341	66 308	33 254	34 087
Food sector	90 238	86 760	45 076	45 162
Construction	219 020	212 927	59 460	159 560
Chemicals and plastic products	62 058	32 206	24 860	37 198
Wood, furniture and paper products	82 302	81 267	28 657	53 645
Scientific and technical activities	23 519	19 646	18 396	5 123
Education and scientific research	1 826	1 722	578	1 248
Electronics	224	134	104	120
Power, power and heating distribution	124 432	124 432	53 300	71 132
Pharmacy	2 824	2 691	2 103	721
Retail trade	21 607	15 756	9 523	12 084
Wholesale trade	38 307	37 028	29 268	9 039
Hotels and restaurants	38 913	16 854	8 604	30 309
Information and communication	21 790	21 615	20 037	1 753
IT	6 248	5 902	5 306	942
Arts, entertainment and recreation	9 306	8 655	6 924	2 382
Rental and leasing activities	109	100	-	109
Construction materials	30 883	30 847	15 951	14 932
Media	2 735	575	567	2 168
Metals	23 164	22 420	18 043	5 121
Motorization	5 911	5 202	2 652	3 259
Human health	992	735	33	959
Household customers	799 991	267 410	116 387	683 604
Fuels	5 451	3 480	3 328	2 123
Other manufacturing activity	11 519	11 493	7 511	4 008
Real estate	224 488	194 758	78 716	145 772
Agriculture, forestry and fishing	43 660	43 607	27 086	16 574
Textiles and wearing apparel	5 002	1 300	664	4 338
Transport and logistics	16 311	15 417	1 420	14 891
Services	6 480	3 427	1 160	5 320
Municipal services	6 377	6 377	4 415	1 962
<b>Total</b>	<b>2 008 901</b>	<b>1 356 248</b>	<b>632 221</b>	<b>1 376 680</b>

Forborne exposures by the industry as at 31 December 2017

31.12.2017 Sectors	Gross carrying amount	Of which defaulted	Provisions created	Net value
Financial sector	617	617	313	304
Food sector	32 666	28 551	14 995	17 671
Construction	111 640	84 689	33 031	78 609
Chemicals and plastic products	52 259	16 274	15 213	37 046
Wood, furniture and paper products	226 180	226 180	173 581	52 599
Scientific and technical activities	11 723	11 723	8 235	3 488
Electronics	77	77	77	-
Power, power and heating distribution	16 569	16 569	11 471	5 098
Pharmacy	2 012	2 012	2 012	-
Retail trade	5 550	5 550	2 214	3 336
Wholesale trade	30 435	30 435	24 398	6 037
Hotels and restaurants	9 173	2 173	505	8 668
Information and communication	15 032	15 032	13 462	1 570
IT	615	615	391	224
Arts, entertainment and recreation	33 925	33 925	25 559	8 366
Construction materials	2 136	2 136	107	2 029
Media	463	212	230	233
Metals	15 363	15 363	11 451	3 912
Motorization	12 421	6 421	5 064	7 357
Human health	941	941	47	894
Household customers	1 053 120	311 384	124 749	928 371
Fuels	3 509	3 509	3 442	67
Other manufacturing activity	16 656	4 343	1 927	14 729
Real estate	260 959	220 191	97 403	163 556
Agriculture, forestry and fishing	5 687	5 687	4 644	1 043
Associations and organizations	252	-	2	250
Textiles and wearing apparel	2 165	669	96	2 069
Transport and logistics	2 699	2 699	254	2 445
Services	370	370	157	213
Unclassified	15 800	1 025	134	15 666
<b>Total</b>	<b>1 941 014</b>	<b>1 049 372</b>	<b>575 164</b>	<b>1 365 850</b>

### 3.4.8 Counterparty risk that arises from derivatives transactions

The credit exposure on mBank portfolio to derivative transactions is calculated as the sum of the replacement cost of each transaction (which is its current net present value - NPV) and its estimated future potential exposure (Add-on). Moreover the bank uses credit mitigation techniques such as netting and collateralization. The former is implemented if close-out netting agreement is signed, whereas the latter requires prior CSA or suitable clauses in the framework agreement concluded in order to collateralize the exposure. CSA states that the variation margin may be called if current valuation of the portfolio exceeds the predefined level (threshold). Moreover, as far as existing agreements are concerned, additional collateral (initial margin, etc.) may also be exchanged. Credit exposure to the derivatives portfolio is adjusted appropriately depending on the collateral being paid or received in accordance with the binding agreements. For the purpose of the counterparty risk calculation only positive NPV at the derivative portfolio level is taken into account.

Credit exposure control is performed through an integrated system in real time. In particular the level of the allocated credit exposure limit usage is monitored on a daily basis. In addition, compliance with restrictions resulting from credit decisions, supervisory regulations and business decisions is controlled. Credit exposure limits are subject to limit decomposition into different products and maturities.

The decomposition of the mBank credit exposure of the derivatives portfolio based on the counterparty type is as follows:

- 47% banks,
- 9% central counterparties (CCP),
- 10% financial institutions,
- 34% corporates, private banking and others.

The decomposition of the mBank credit exposure of the derivatives portfolio based on client type is as follows:

Client type	Credit exposure 2018 (PLN m)	Credit exposure 2017 (PLN m)
Bank CSA	1 222	1 211
Bank uncollateralized	2	4
CCP	229	188
Corpo limit	919	675
Non-Bank Financial Institution	274	269
Private Banking	(4)	(0)
Corpo collateralized and others	(18)	(2)

\*negative exposure means overcollateralization

Positive NPV (netting included) and inflows & outflows of the collateral for mBank of the derivatives portfolio has been depicted below:

(PLN m)	Banks*		CCP*		Corporates and others			
	2018	2017	2018	2017	CSA	w/o CSA	CSA	w/o CSA
					2018		2017	
NPV	26.78	29.55	5.87	4.27	38.45	127.48	3.26	162.30
collateral received	86.93	84.00	-	-	-	41.26	-	56.68
collateral posted	0.64	-	194.97	124.86	-	-	-	-

\*collateral excluding variation margin and default fund (collateral posted to the CCP less one of its participants defaults)

\*\*collateral based on NPV and its estimated future potential exposure

In order to reflect credit risk embedded in derivative instruments, the Group uses correction to fair value that takes into account the element of credit risk of the counterparty. Write off due to credit risk of contractor is based on expected loss until maturity of the contract and is calculated at the level of Bank in accordance with the adopted CVA/DVA methodology. The amount of the correction is then allocated to individual transactions. The value of this correction is included in income statement in net trading income.

The value of derivatives, which are financial assets for each category of internal rating used by the Group (a description of the rating model is presented in Note 3.4.4) is presented in Note 20.

### 3.5. Concentration of assets, liabilities and off-balance sheet items

#### Geographic concentration risk

In order to actively manage the risk of concentration by country, the Group:

- complies with the formal procedures aimed at identifying, measurement and monitoring this risk,
- complies with the formal limits mitigating the risk by country and the procedures to be followed when the limits are exceeded,
- uses a management reporting system, which enables monitoring the risk level by country and supports the decision-making process related to management,
- maintains contacts with a selected group of the largest banks with good ratings, which are active in handling foreign transactions. On some markets, where the risk is difficult to estimate, the Group avails itself of the services of its foreign correspondent banks, e.g. Commerzbank, and insurance in the Export Credit Insurance Corporation ('KUKKE'), which covers the economic and political risk.

As at 31 December 2018 there was no substantial level of geographical concentration in the credit portfolio of mBank Group. In terms of exposure relating to countries other than Poland there was no substantial share of impaired exposures.

### **Sector concentration risk**

Monitoring exposures in sectors, defined in line with Polish Classification Economic Activities, is carried out in individual subsidiaries of the Group.

mBank analyses the sector concentration risk in order to build its corporate portfolio in a safe and effective way and manages industrial concentration risk determining industrial limits.

Limiting covers all the sectors in which the Bank's exposure exceeds 5% of the total amount of corporate exposures at the end of a given reporting period and sectors indicated by the Corporate and Investment Banking Risk Committee (KRK).

The Bank set industrial limits on a level not higher than:

- 12% of the gross loan portfolio in the prior reporting period for low risk sectors,
- 10% of the gross loan portfolio in the prior reporting period for medium risk sectors,
- 7% of the gross loan portfolio in the prior reporting period for high risk sectors.

In the case when the utilisation of the limit exceeds 90%, activities preventing the exceeding of limits are implemented; decision in this regard shall be taken by the KRK.

The table below presents the structure of concentration of mBank S.A. Group's exposures in particular sectors according to the sector division based on the chain value concept introduced in January 2017, where under one single sector have been focused entities operating activities related to a given market (suppliers, manufacturers, vendors).

As at 31 December 2018 the table includes loans and advances at amortized cost and does not include the loans and advances measured at fair value through profit or loss. Comparative data as at 31 December 2017 remained unchanged.

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

No.	Sectors	Gross value	%	Gross value	%
		31.12.2018		31.12.2017	
1.	Household customers	50 554 503	53,18	48 142 786	55,09
2.	Real estate	5 781 986	6,08	5 949 824	6,81
3.	Construction	4 367 250	4,59	4 111 639	4,71
4.	Financial sector	3 379 316	3,55	923 673	1,06
5.	Food sector	2 854 184	3,00	2 489 925	2,85
6.	Transport and logistics	2 729 735	2,87	2 306 225	2,64
7.	Metals	2 512 155	2,64	2 099 826	2,40
8.	Motorisation	2 019 772	2,12	1 958 338	2,24
9.	Chemicals and plastic products	1 913 025	2,01	1 476 802	1,69
10.	Construction materials	1 897 015	2,00	1 661 265	1,90
11.	Wood, furniture and paper products	1 378 926	1,45	1 504 274	1,72
12.	Wholesale trade	1 362 759	1,43	1 181 227	1,35
13.	Fuels	1 286 179	1,35	1 049 079	1,20
14.	Scientific and technical activities	1 216 481	1,28	1 192 750	1,36
15.	Rental and leasing activities	1 131 910	1,19	1 033 389	1,18
16.	IT	1 024 833	1,08	484 017	0,55
17.	Power, power and heating distribution	1 011 767	1,06	885 455	1,01
18.	Information and communication	887 843	0,93	769 810	0,88
19.	Retail trade	835 071	0,88	850 512	0,97
20.	Services	828 299	0,87	626 703	0,72
21.	Hotels and restaurants	614 454	0,65	663 620	0,76
22.	Agriculture, forestry and fishing	571 208	0,60	544 444	0,62
23.	Other manufacturing activity	570 565	0,60	466 358	0,53
24.	Human health	548 103	0,58	454 995	0,52
25.	Textiles and wearing apparel	518 104	0,55	547 283	0,63
26.	Public administration	490 562	0,52	724 179	0,83
27.	Municipal services	431 003	0,45	430 137	0,49
28.	Media	425 252	0,45	416 144	0,48
29.	Pharmacy	342 945	0,36	304 448	0,35
30.	Household equipment	296 758	0,31	287 422	0,33
31.	Electronics	284 148	0,30	241 998	0,28
32.	Arts, entertainment and recreation	247 010	0,26	236 857	0,27
33.	Education and scientific research	168 568	0,18	125 835	0,14
34.	Mining	85 445	0,09	76 631	0,09

As at 31 December 2018, the total exposure of the Bank in the above sectors (excluding household customers) amounted to 46.28% of the credit portfolio (31 December 2017 – 43.56%).

The risk of investing in sectors being limited by the Bank, i.e. sectors where the Bank's exposures exceeds 5% of the corporate portfolio was estimated in line with the principles of classification sectors to limitation, accepted by the KRK in January 2017.

The table below presents the risk of limited sectors as at the end of 2018 and 2017.

No.	Sectors	31.12.2018	31.12.2017
1.	Financial sector	low	low
2.	Fuels	medium	medium
3.	Food sector	medium	medium
4.	Construction	high	high
5.	Motorisation	medium	medium
6.	Metals	medium	medium
7.	Chemistry and materials	medium	n/a

### Large exposures concentration risk

The purpose of management of the large exposures concentration risk is an ongoing monitoring of the level of limits set by the CRR Regulation. In order to ensure safety against the risk of exceeding the regulatory limits in mBank:

- internal limits, lower than those specified in the CRR Regulation, are set,
- daily monitoring of large exposures is carried out and the participants of the lending and investment processes are immediately informed in the case of internal limits exceeding.

These activities have a direct impact on the Bank's decisions concerning new exposures and the increase of existing exposures.

mBank pays particular attention to the correct identification of the scale of risk of significant credit exposures defined in the Bank's internal regulations. In the case of exceeding specified amount of exposure/limit to a customer/group of affiliated customers identified as bulk risk, the financing requires additional decision of the Bank's Management Board irrespective of the PD-rating and the decision-making level.

The Bank monitors exposures considered a large exposure limit ie. exposures after taking into account the effect of the credit risk mitigation (in accordance with art. 401-403 CRR Regulation) and exemptions (art. 390 paragraph 6, Art. 400, Art. 493, paragraph 3 of CRR Regulation), which are equal or exceed 10% of the eligible capital. At the end of 2018 there was no exposure in line with the above definition.

The Credit Committee of mBank Group is responsible for the supervision over risk concentration and large exposures at the level of mBank subsidiaries.

## 3.6. Market risk

### 3.6.1 Organisation of market risk management

In the process of organisation of the market risk management, the Bank follows requirements resulting from the law and supervisory recommendations, in particular the KNF Recommendations (among others A, C, G and I) and the EBA guidelines, concerning market risk management.

The fundamental principle applied in the organisation of the market risk management in the Bank is the separation of the market risk control and monitoring functions from the functions related to opening and keeping open market risk positions. Monitoring and controlling of the market risk is performed by the Integrated Risk Management Department (DKR) under supervision of the Vice-president of the Management Board – Chief Risk Officer (CRO), while the market risk positions are operationally managed by the Financial Markets Department (DFM), the Own Transactions Division in Brokerage Bureau (BM\_WTW) and the Treasury Department (DS) reporting to the Vice-president of the Management Board – Head of Financial Markets. From the beginning of 2019, the Brokerage Bureau will not be able to open its own market risk position.

The Debt Securities Issue Department (DCM) is responsible for debt instruments issuance and managing of non-government debt securities in the banking book. Moreover, the investment positions sensitive to market risk factors (e.g. prices of shares listed on the WSE) and positions in non-government debt securities are managed in the Structured and Mezzanine Finance Department (DFS). DCM and DFS are operating in the Corporate & Investment Banking area.

Market risk management is performed in a single process by the Integrated Risk Management Department (DKR), which is responsible for measurement of exposures to market risk of the Bank's front-office units portfolios by the use of market risk measures: Value at Risk (VaR) and stress tests. DKR is responsible for control of utilisation of the limits for these risk measures established by the Management Board and the Financial Markets Risk Committee (KRF) and provides daily and periodical reporting on the market risk

exposure to managers of the Bank's front-office units, to the Financial Markets Risk Committee, directly to the CRO, to the Management Board and the Supervisory Board.

DKR develops also methodologies for market risk measurement, pre-settlement counterparty risk of derivative transactions and establishes valuation models for financial instruments. The models risk management process is under supervision of the Model Risk Committee.

Moreover, the Integrated Risk Management Department is responsible for calculation and reconciliation of financial results on transactions carried out by the front-office units and provides daily valuation of financial instruments to the finance area. The valuation of derivative transactions with the Bank's clients is also delivered to the business units responsible for managing clients (Corporate and Investment Banking area). Valuations prepared by DKR are the basis for managing collaterals for concluded transactions on derivative instruments.

DKR is responsible for the administration of the front-office IT systems, i.e. administration of users' access rights to the systems, parameterization in the systems of financial instruments, as well as counterparties and issuers and is responsible for market data input to the systems. DKR monitors utilization of counterparty limits (pre-settlement, settlement, issuer and country risk limits) and escalates if limits are exceeded. Moreover, DKR verifies the market conformity of the transactions concluded by the front-office units and supervises the process of modification and deletion of deals in the front-office systems.

### **3.6.2 Tools and measures**

In its operations, mBank is exposed to market risk, which is defined as a risk resulting from unfavourable change of the current valuation of financial instruments in the Bank's portfolios due to changes of the market risk factors, in particular interest rates, foreign exchange rates, stock share prices and indices, implied volatilities of relevant options and credit spreads.

mBank identifies market risk on the trading book positions valued at fair value (either directly to market prices or via models) and as such may lead to losses reported in Bank's financial results. Furthermore, the Bank assigns market risk to its banking positions independently of the accounting rules of calculating financial results on these positions. Market risk measures applicable to interest rate banking book positions are based on net present value (NPV) models.

Exposure to market risk is quantified by:

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

The Value at Risk (VaR) is calculated using historical method on a daily basis for a 1-day and a 10-day holding period and a 95%, 97.5% and 99% confidence level. In this method, historical data concerning risk factors for last 254 business days are taken into consideration. In case of Value at Risk in stressed conditions the calculation is analogous to Value at Risk calculation, but the only difference is in time of stressed conditions, which is marked out on the basis of 10-year series of Value at Risk based on following 12-months windows of risk factors changes from last 11 years. In 2018 it was a year which ended up in June 2009. This period is verified at least once a year.

The VaR methodology takes into account the following risk factors:

- interest rates (including tenor basis risk and cross-currency basis risk);
- foreign exchange rates;
- shares prices and equity indices and its volatilities;
- credit spreads (to the extent reflecting market fluctuations of debt instruments prices, reflecting credit spread for corporate bonds, and spread between government yield curve and swap curve - for government bonds).

The expected loss under condition that it exceeds Value at Risk (ES) is calculated on the basis of daily VaR calculation as the average of six worst losses.

The economic capital for market risk is a capital to cover losses in the course of one year coming from changes in valuation of financial instruments which built Bank's portfolios and resulting from changes of prices and values of market parameters.

Stress tests are additional measures of market risk, supplementing the measurement of the Value at Risk, which show the hypothetical changes in the current valuation of the Bank's portfolios, which would take place as a result of realisation of the so-called stress scenarios – i.e. market situations at which the risk factors would reach specified extreme values, assuming static portfolio.

Stress tests consist of two parts: standard stress tests designated for standard risk factors: currency exchange rates, interest rates, stock prices and their volatility, as well as a stress test, which involves changes in credit spreads. In this way, there was addressed among others, the need for covering in stress tests analysis the independent effect of basis risk (the spread between interest rates on government bonds and IRS), which the Bank is exposed to, due to maintaining a portfolio of Treasury bonds.

BPV is a sensitivity measure of the current valuation of mBank's portfolios to an increase in interest rates by 1 basis point, and CS BPV for an increase in credit spread by 1 basis point.

In order to mitigate market risk exposure by decisions of the Supervisory Board (with respect to the mBank Group portfolio), the Management Board (with respect to the mBank portfolio) and the Financial Markets Risk Committee (with respect to the business lines portfolios) limits on VaR at 97,5% confidence level for a 1-day holding period, stress tests limits and BPV/CS BPV limits for selected portfolios are established.

Market risk, in particular interest rate risk of the banking book, is also quantified by calculation of the Earnings at Risk (EaR) measure for the banking portfolio, which is described in chapter concerning interest rate risk.

In order to reflect the interest rate risk of the retail and corporate banking products with unspecified interest revaluation dates or rates administered by mBank, the Bank uses the so-called replicating portfolio models. Since the beginning of 2018 the approach to current accounts takes into account the division of the stable part into the parts sensitive and insensitive to changes in interest rates. The tenor structure adopted for stable parts of the capital and current accounts, insensitive to changes in interest rates, reflects the bank's strategy to stabilize the net interest income.

Measurement and analysis of market risk takes place in two perspectives (including and without taking into account the modelling of stable parts of capital and current accounts, insensitive to changes in interest rates), which allows controlling the impact on the market risk level of the applied strategy for stabilising net interest income.

### **3.6.3 Risk measurement**

#### **Value at Risk and Expected Shortfall of mBank**

In 2018, Bank's market risk exposure, as measured by the Value at Risk (VaR, for a 1-day holding period, at 97.5% confidence level), was in relation to the established limits on moderate level.

The average utilisation of VaR limit for the Financial Markets Department (DFM), whose positions consist of trading book portfolios, amounted to 20% (PLN 1.2 million), for the Own Transactions Division in the Brokerage Bureau (BM\_WTW) 5% (PLN 0.1 million), while for the Treasury Department (DS), whose positions are classified solely to the banking book, it was 38% (PLN 26.3 million) for portfolio without modelling of stable parts of capital and current accounts, insensitive to changes in interest rates and 32% (PLN 12.8 million) for portfolio with modelling of stable parts of capital and current accounts, insensitive to changes in interest rates.

The average utilization of VaR limit for the Debt Securities Issue Department (DCM) amounted to 23% (PLN 0.5 million). The average utilisation of the VaR limit for the position of the Structured and Mezzanine Finance Department (DFS) accounted for 8% (PLN 31.6 thousand).

In 2018, the VaR figures for mBank's portfolio were driven mainly by portfolios of instruments sensitive to interest rates and separated credit spread – the banking book T-bonds portfolios managed by the Treasury Department and the trading book portfolios and interest rate exchange positions managed by the Financial Markets Department.

The DFM portfolios of instruments sensitive to changes in exchange rates like FX transactions, currency options, as well as the exposure of BM\_WTW to equity price risk and risk of implied volatility of options traded on the Warsaw Stock Exchange, had a relatively low impact on the Bank's risk profile.

The increase of Value at Risk in 2018 was mainly caused by the change in approach to stable parts of current accounts insensitive to changes in interest rates and the observations change in the 12-month window taken to calculation (increase of interest rates volatility).

The table below presents Value at Risk and Expected Shortfall statistics for the Bank's portfolio.

PLN 000's	2018				2017			
	31.12.2018	Mean	Maximum	Minimum	31.12.2017	Mean	Maximum	Minimum
VaR IR	24 788	25 516	28 412	22 679	9 423	9 970	15 641	5 281
VaR FX	341	421	832	132	545	360	870	138
VaR EQ	0	51	979	0	53	140	1 151	15
VaR CS	17 839	13 255	19 184	10 659	11 441	13 980	23 320	10 431
<b>VaR</b>	<b>27 209</b>	<b>26 976</b>	<b>32 177</b>	<b>20 129</b>	<b>14 038</b>	<b>18 685</b>	<b>34 560</b>	<b>13 429</b>
<b>ES</b>	<b>32 638</b>	<b>32 276</b>	<b>37 197</b>	<b>26 884</b>	<b>24 433</b>	<b>29 842</b>	<b>43 970</b>	<b>23 124</b>

VaR IR – interest rate risk (without separated spread rate)

VaR FX – currency risk

VaR EQ – equity risk

VaR CS – credit spread risk

### Value at Risk and Expected Shortfall of mBank Group

The main source of market risk of the mBank Group are the Bank's positions. The tables below show VaR statistics (at 97.5% confidence level for a 1-day holding period) and Expected Shortfall for the mBank Group for individual members of the Group, in which market risk positions were identified and Value at Risk measure decomposition to the VaRs corresponding to the main risk factor types – interest rate risk (VaR IR), foreign exchange risk (VaR FX), equity prices risk (VaR EQ) and credit spread risk (VaR CS).

The table below presents VaR as of the end of 2018.

PLN 000's	mBank Group	mBank	mBH	mLeasing	Future Tech FIZ
VaR IR Mean	25 703	25 516	152	58	4
VaR FX Mean	427	421	22	12	0
VaR EQ mean	51	51	0	0	0
VaR CS Mean	13 674	13 255	426	0	26
VaR Mean	27 290	26 976	423	60	26
VaR Maximum	32 580	32 177	498	104	32
VaR Minimum	20 228	20 129	353	25	18
<b>VaR</b>	<b>27 459</b>	<b>27 209</b>	<b>393</b>	<b>70</b>	<b>21</b>

The table below presents VaR as of the end of 2017.

w tys. zł	mBank Group	mBank	mBH	mLeasing
VaR IR Mean	10 072	9 970	82	101
VaR FX Mean	362	360	20	19
VaR EQ mean	140	140	0	0
VaR CS Mean	14 282	13 980	358	0
VaR Mean	18 965	18 685	358	101
VaR Maximum	35 076	34 560	493	232
VaR Minimum	13 527	13 429	227	28
<b>VaR</b>	<b>14 472</b>	<b>14 038</b>	<b>408</b>	<b>29</b>

The values of Expected Shortfall as of the end of 2018 are presented in table below.

PLN 000's	mBank Group	mBank	mBH	mLeasing	Future Tech FIZ
ES mean	32 744	32 276	541	72	31
ES max	37 723	37 197	715	125	38
ES min	27 160	26 884	420	27	21
<b>ES (31.12.2018)</b>	<b>33 023</b>	<b>32 638</b>	<b>499</b>	<b>81</b>	<b>30</b>

The values of Expected Shortfall as of the end of 2017 are presented in table below.

PLN 000's	mBank Group	mBank	mBH	mLeasing
ES mean	30 393	29 842	588	139
ES max	44 807	43 970	746	311
ES min	23 459	23 124	381	37
<b>ES (31.12.2017)</b>	<b>25 104</b>	<b>24 433</b>	<b>720</b>	<b>37</b>

### Stressed Value at Risk

The Value at Risk in stressed conditions is an observed measure.

The table below presents statistics of this measure for mBank for 2018 and for 2017.

PLN 000's	2018				2017			
	31.12.2018	Mean	Maximum	Minimum	31.12.2017	Mean	Maximum	Minimum
Stressed VaR IR	98 784	88 934	100 962	78 383	41 214	39 289	48 768	27 827
Stressed VaR FX	774	1 633	4 087	192	313	1 002	3 000	258
Stressed VaR EQ	0	116	600	0	188	315	2 720	22
Stressed VaR CS	98 495	87 849	105 504	80 128	81 534	82 007	91 849	73 903
<b>Stressed VaR</b>	<b>165 408</b>	<b>152 201</b>	<b>172 973</b>	<b>139 907</b>	<b>112 531</b>	<b>112 242</b>	<b>124 823</b>	<b>101 868</b>

The table below presents statistics of this measure for mBank Group for 2018.

PLN 000's	mBank Group	mBank	mBH	mLeasing	Future Tech FIZ
Stressed VaR IR	90 215	88 934	857	492	32
Stressed VaR FX	1 693	1 633	128	65	0
Stressed VaR EQ	116	116	0	0	0
Stressed VaR CS	90 573	87 849	2 572	0	280
Stressed VaR mean	155 151	152 201	2 710	500	224
Stressed VaR max	175 805	172 973	3 261	892	302
Stressed VaR min	142 279	139 907	2 293	274	137
<b>Stressed VaR</b>	<b>168 226</b>	<b>165 408</b>	<b>2 293</b>	<b>501</b>	<b>228</b>

The table below presents statistics of this measure for mBank Group for 2017.

PLN 000's	mBank Group	mBank	mBH	mLeasing
Stressed VaR IR	40 247	39 289	556	449
Stressed VaR FX	1 030	1 002	94	81
Stressed VaR EQ	315	315	0	0
Stressed VaR CS	83 846	82 007	2 073	0
Stressed VaR mean	115 215	112 242	2 231	443
Stressed VaR max	128 100	124 823	2 947	776
Stressed VaR min	103 958	101 868	1 809	196
<b>Stressed VaR</b>	<b>114 627</b>	<b>112 531</b>	<b>2 551</b>	<b>344</b>

### Economic capital for market risk

The average utilisation of limit on economic capital for market risk for the mBank Group in 2018 amounted to 47% (PLN 765,6 million). The average level of economic capital for mBank was equal to PLN 752,9 million. As of end of 2018 the economic capital for market risk for the mBank Group was PLN 925,6 million, and for mBank was PLN 912,7 million. For comparison, at the end of 2017 values of these measures were PLN 514.7 million and PLN 500.8 million, respectively. The economic capital increased in 2018 mainly due to the change in approach to stable parts of current accounts insensitive to changes in interest rates and the observation change in the 12-month window taken to calculation (increase of interest rates volatility).

### Stress testing

The average utilisation of stress test limits for the mBank Group in 2018 was 65% (PLN 1 353,7 million) for portfolio without modelling of stable parts of capital and current accounts, insensitive to changes in interest rates and 59% (PLN 884,7 million) for portfolio with modelling of stable parts of capital and current accounts, insensitive to changes in interest rates.

Average utilisation of stress test limits in mBank in 2018 amounted to 67% (PLN 1 326,1 million) for portfolio without modelling of stable parts of capital and current accounts, insensitive to changes in interest rates.

The average utilisation of the stress test limits in 2018 for the DS portfolio without modelling of stable parts of capital and current accounts, insensitive to changes in interest rates was 76% (PLN 1 191,4 million) and 70% (PLN 746,7 million) including modelling of stable parts of capital and current accounts, insensitive to changes in interest rates. For the DFM portfolio the average utilisation was 34% (PLN 95,2 million), for the BM\_WTW portfolio 12% (PLN 0.8 million), for the DCM portfolio 65% (PLN 45.4 million) and for the DFS portfolio 44% (PLN 2,4 million). The most significant part of the presented stress test values constitutes credit spread stress test for government bonds portfolio because stress test scenarios include a scenario in which credit spreads increase on average by 100 bps.

The table below presents utilisation of stress test for the mBank Group in 2018 (without modelling of stable parts of capital and current accounts, insensitive to changes in interest rates) in comparison to 2017 (without capital modelling):

PLN 000's	2018				2017			
	31.12.2018	Mean	Maximum	Minimum	31.12.2017	Mean	Maximum	Minimum
Base ST	808	620	845	399	146	89	155	11
CS ST	706	734	791	678	713	703	782	635
<b>Total ST</b>	<b>1 514</b>	<b>1 354</b>	<b>1 624</b>	<b>1 131</b>	<b>859</b>	<b>792</b>	<b>903</b>	<b>655</b>

*Base stress test – standard stress test*

*CS stress test – stress test for credit spread scenarios*

*Total stress test – total stress test (sum of standard stress test and stress test for credit spread scenarios).*

### **3.7. Currency risk**

The Group is exposed to changes in currency exchange rates due to its financial assets and liabilities other than PLN. The following tables present the exposure of the Group to currency risk as at 31 December 2018 and 31 December 2017.

The tables below present assets and liabilities of the Group at balance sheet carrying amount, for each currency.

31.12.2018	PLN	EUR	USD	CHF	CZK	INNE	Razem
<b>Assets</b>							
<b>Cash and cash balances with central banks</b>	5 924 554	516 028	44 148	10 499	2 670 180	33 855	9 199 264
<b>Financial assets held for trading and derivatives held for hedging</b>	1 772 429	254 866	61 362	15 272	373	-	2 104 302
<b>Non-trading financial assets mandatorily at fair value through profit or loss, including:</b>	2 587 940	189 990	58 130	-	-	-	2 836 060
Equity instruments	71 704	1 071	-	-	-	-	72 775
Debt securities	-	-	58 130	-	-	-	58 130
Loans and advances to customers	2 516 236	188 919	-	-	-	-	2 705 155
<b>Financial assets at fair value through other comprehensive income</b>	23 397 111	682 448	-	-	258 725	-	24 338 284
<b>Financial assets at amortised cost, including:</b>	67 026 378	16 203 235	1 618 899	14 829 912	3 758 829	127 064	103 564 317
Debt securities	9 000 539	-	-	-	-	-	9 000 539
Loans and advances to banks	1 202 544	868 828	377 184	4 313	42 047	51 430	2 546 346
Loans and advances to customers	56 823 295	15 334 407	1 241 715	14 825 599	3 716 782	75 634	92 017 432
<b>Intangible assets</b>	775 762	253	-	-	160	-	776 175
<b>Tangible assets</b>	765 953	3 115	-	-	15 958	-	785 026
<b>Current income tax assets</b>	-	-	-	-	9 336	-	9 336
<b>Deferred income tax assets</b>	957 159	-	-	-	1 917	-	959 076
<b>Other assets</b>	1 041 179	94 365	24 541	18	18 131	45	1 178 279
<b>TOTAL ASSETS</b>	<b>104 248 465</b>	<b>17 944 300</b>	<b>1 807 080</b>	<b>14 855 701</b>	<b>6 733 609</b>	<b>160 964</b>	<b>145 750 119</b>
<b>Liabilities</b>							
<b>Financial liabilities held for trading and derivatives held for hedging</b>	706 868	204 624	61 415	-	8 210	-	981 117
<b>Financial liabilities measured at amortised cost, including:</b>	82 135 056	28 627 561	3 384 888	3 779 559	7 190 096	494 035	125 611 195
Amounts due to banks	1 818 252	1 040 035	212 094	563	416	7 027	3 078 387
Amounts due to customers	74 049 582	15 745 425	3 172 794	1 364 573	7 189 680	487 008	102 009 062
Debt securities issued	4 747 743	11 842 101	-	1 459 739	-	-	18 049 583
Subordinated liabilities	1 519 479	-	-	954 684	-	-	2 474 163
<b>Provisions</b>	205 610	49 634	898	320	1 765	56	258 283
<b>Current income tax liabilities</b>	338 122	-	-	-	14 840	-	352 962
<b>Deferred income tax liabilities</b>	-	83	-	-	-	-	83
<b>Other liabilities</b>	2 913 902	180 467	135 076	3 998	80 972	15 984	3 330 399
<b>TOTAL LIABILITIES</b>	<b>86 299 558</b>	<b>29 062 369</b>	<b>3 582 277</b>	<b>3 783 877</b>	<b>7 295 883</b>	<b>510 075</b>	<b>130 534 039</b>
<b>Net on-balance sheet position</b>	17 948 907	(11 118 069)	(1 775 197)	11 071 824	(562 274)	(349 111)	15 216 080
<b>Loan commitments and other commitments</b>	24 573 772	2 350 470	415 703	-	521 964	2 483	27 864 392
<b>Guarantees, banker's acceptances, documentary and commercial letters of credit</b>	6 374 884	1 371 605	763 694	-	5 472	25 778	8 541 433

31.12.2017	PLN	EUR	USD	CHF	CZK	Inne	Total
<b>ASSETS</b>							
Cash and balances with the Central Bank	3 955 115	1 840 180	35 783	5 515	1 526 714	21 562	<b>7 384 869</b>
Loans and advances to banks	642 863	365 538	323 855	534	318 219	56 713	<b>1 707 722</b>
Trading securities	1 525 255	127	-	-	-	-	<b>1 525 382</b>
Derivative financial instruments	792 631	289 876	47 193	103 836	2 767	-	<b>1 236 303</b>
Loans and advances to customers	50 299 494	14 410 799	931 536	15 199 692	3 526 422	107 901	<b>84 475 844</b>
Investment securities	30 545 940	993 919	46 538	-	558 302	-	<b>32 144 699</b>
Investments in subsidiaries	28 680	-	-	-	-	-	<b>28 680</b>
Non-current assets and disposal groups classified as held for sale	42 134	-	-	-	-	-	<b>42 134</b>
Intangible assets	709 728	424	-	-	490	-	<b>710 642</b>
Tangible fixed assets	748 413	3 917	-	-	6 408	-	<b>758 738</b>
Other assets, including tax assets	1 311 808	56 971	187	76	39 962	2	<b>1 409 006</b>
<b>Total assets</b>	<b>90 602 061</b>	<b>17 961 751</b>	<b>1 385 092</b>	<b>15 309 653</b>	<b>5 979 284</b>	<b>186 178</b>	<b>131 424 019</b>
<b>LIABILITIES</b>							
Amounts due to other banks	1 239 963	945 114	208 789	2 678 686	245	554	<b>5 073 351</b>
Derivative financial instruments	923 153	137 728	29 784	-	4 700	-	<b>1 095 365</b>
Amounts due to customers	64 798 748	15 870 717	2 823 129	988 224	6 518 347	496 862	<b>91 496 027</b>
Debt securities in issue	4 415 349	8 393 395	-	1 432 306	81 802	-	<b>14 322 852</b>
Hedge accounting adjustments related to fair value of hedged items	-	43 336	-	1 518	-	-	<b>44 854</b>
Other liabilities including tax liabilities	2 354 529	160 899	125 946	3 788	91 402	14 332	<b>2 750 896</b>
Provisions	144 229	45 196	331	303	916	-	<b>190 975</b>
Subordinated liabilities	1 264 006	-	-	894 137	-	-	<b>2 158 143</b>
<b>Total liabilities</b>	<b>75 139 977</b>	<b>25 596 385</b>	<b>3 187 979</b>	<b>5 998 962</b>	<b>6 697 412</b>	<b>511 748</b>	<b>117 132 463</b>
<b>Net on-balance sheet position</b>	<b>15 462 084</b>	<b>(7 634 634)</b>	<b>(1 802 887)</b>	<b>9 310 691</b>	<b>(718 128)</b>	<b>(325 570)</b>	<b>14 291 556</b>
<b>Loan commitments and other commitments</b>	<b>24 784 734</b>	<b>2 420 351</b>	<b>518 899</b>	<b>-</b>	<b>437 605</b>	<b>-</b>	<b>28 161 589</b>
<b>Guarantees, banker's acceptances, documentary and commercial letters of credit</b>	<b>5 180 569</b>	<b>7 588 032</b>	<b>660 512</b>	<b>1 424 294</b>	<b>86 497</b>	<b>33 148</b>	<b>14 973 052</b>

### 3.8. Interest rate risk

#### mBank S.A.

In the process of management of interest rate risk in the banking book, the risk monitoring and control functions are performed by the Integrated Risk Department supervised by the Vice-president of the Management Board (CRO), whereas the operational management of risk positions takes place in the Treasury Department supervised by the Vice-president of the Management Board, Head of Financial Markets. Hereby Bank ensures independence of risk measurement, monitoring and control functions from operational activity creating the Bank's positions.

Interest rate risk of the banking book is the risk resulting from the exposure of the Bank's interest income and capital to the adverse impact of interest rates movements. Following recommendations of the Polish Financial Supervisory Authority (KNF), in particular Recommendation G, and EBA guidelines (EBA/GL/2015/08) from 5 October 2015 on the management of interest rate risk arising from non-trading activities the Bank monitors the banking book structure in terms of repricing risk, basis risk, yield curve risk and customer option risk.

The basic measures used to control interest rate risk in the banking book are:

- the repricing gap (the difference between assets, liabilities and off-balance sheet banking book positions, measured in defined repricing buckets, based on repricing date of the interest rate sensitive products), and
- the net interest income exposed to risk (EaR - Earnings at Risk – a potential decrease of interest income in a 1-year horizon due to unfavourable changes of the market interest rates. The measure assumes constant volume and structure of banking book, unchangeable construction of interest rate, constant interest margin and parallel shift of the yield curve. EaR is calculated for 5 main currencies - PLN, CHF, EUR, CZK, USD).

The mBank Group has set BPV (basis point value +1bp) limit for the total mBank Group exposure for interest rates for tenors above 20 years and above 30 years. As of end of 2018 utilisation of these limit for tenors above 20 years was equal to 1.0% (PLN 1.07 thousand), and limit for tenors above 30 years was zero and has not been exceeded.

Moreover, the Bank conducts also stress test analyses to estimate the impact of adverse interest rate movements on the net interest income and the economic value of the banking book portfolio. Interest rate

risk of the banking book is also quantified by the market risk measures: Value at Risk (VaR), stress tests, BPV and CS BPV.

For the banking portfolio the admissible level of exposure to interest rate risk is restricted by MAT limits (management action triggers) for repricing gap and market risk limits imposed on the Value at Risk (VaR), stress tests and for the selected portfolios on BPV and CS BPV. The utilisation of those limits is monitored and controlled on a daily basis.

### Interest income subject to risk

As of 31 December 2018 and 31 December 2017, a sudden, permanent and unfavourable shift of the market interest rates by 100 basis points for all maturities would reduce the annual interest income within 12 months following the year-end date (EaR) by the following amounts:

PLN m	2018				2017			
	31.12.2018	Mean	Maximum	Minimum	31.12.2017	Mean	Maximum	Minimum
<b>PLN</b>	185.4	144.1	202.8	96.9	186.0	137.4	254.3	86.8
<b>USD</b>	13.3	13.5	16.3	8.9	14.9	13.6	17.9	8.6
<b>EUR</b>	101.3	104.6	117.6	88.1	84.9	94.1	113.1	67.3
<b>CHF</b>	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0
<b>CZK</b>	13.2	23.4	38.4	9.2	12.0	4.8	12.0	2.2

To calculate these values, the Bank assumed that the structure of financial assets and liabilities disclosed in the financial statements for above presented dates would be fixed over the course of the year and the Bank would not take any activities to change related exposure to the interest rate risk. The calculation for 2018 does not include modelling of stable parts of capital and current accounts, insensitive to changes in interest rates, and for 2017 capital modelling.

### Stress tests

The Bank conducts also calculations of the changes in the economic value of the banking book portfolio having the nature of stress test scenarios. The change of the economic value of the banking book portfolio being a result of the conducted stress test, which assumes a scenario of the unfavourable interest rates shift by 200 basis points of the yield curve for a given currency, amounted to PLN 1 444.7 million at the end of 2018 for portfolio without modelling of stable parts of capital and current accounts, insensitive to changes in interest rates and PLN 632.9 million for portfolio with modelling of stable parts of capital and current accounts, insensitive to changes in interest rates (at the end of 2017: PLN 511.7 million, without capital modelling). When calculating these values no correlation between currencies and no possibility of dropping clients interest rates below 0 are assumed.

The debt securities portfolio in PLN (NBP bills, Polish Treasury bills and bonds) constitutes the significant position priced at fair value in the banking book portfolio. The interest rate risk of this portfolio is also calculated using the stress test methodology (described above in Note 3.6). The methodology includes scenarios of changes in market interest rates and credit spread, which in case of treasury debt securities may reflect basis risk (spread changes between the government curve and the swap curve).

### mBank Hipoteczny S.A.

Repricing date misfit gap and interest earnings at risk (EaR) based on the former are the key interest rate risk measures at mBank Hipoteczny S.A.

A sudden, lasting and disadvantageous change of market interest rates by 100 basis points for all maturities would result in decrease in the annual interest income by the following amounts:

EaR (PLN 000's)	31.12.2018	31.12.2017
for position expressed in PLN	6 487	7 061
for position expressed in USD	2	8
for position expressed in EUR	705	99

To calculate these values, there was assumed that the structure of financial assets and liabilities disclosed in the financial statements as at 31 December 2018 and 31 December 2017 would be fixed and the Bank would not take any measures to change related exposure to interest rate change risk.

### mLeasing Sp. z o.o.

Market risk means a potential loss caused by disadvantageous changes of market prices or parameters affected by market prices. The Company is exposed to risk arising from open currency positions and non-adjustment of products charged with the interest rate risk within the scope of maturity and/or revaluation periods.

The Company applies a global measure to measure the value of bank portfolio exposed to currency and interest rate risk, namely VAR (Value at Risk). This is a synthetic measure of currency and interest rate risk.

The sum of VAR of interest rate and VAR of exchange rate constitutes the global VAR of the Company. VAR of the interest rate risk presents the impact of interest rate changes on the value of the Company's portfolio. VAR of exchange rate risk presents the impact of changes of exchange rates on estimation of items of balance-sheet assets and liabilities until the date of their revaluation (change of interest).

Pursuant to the decision of the Risk Committee of mBank SA concerning the rules of monitoring the level of market risk in subsidiaries belonging to the mBank Group, mBank provides indicated values of risk measures for the portfolio of mLeasing.

The amount of VAR (97.5% confidence level, holding period 1 day) cannot exceed the basic VAR limit for mLeasing applied by mBank SA in a given period (PLN 0,6 milion at the end of 2018).

The table below presents VAR values as at 31 December 2018 and 31 December 2017, calculated using the parameters specified above.

PLN 000's	VaR	
	31.12.2018	31.12.2017
Interest rate risk	64	23
Currency risk	6	6
<b>Total VaR</b>	<b>70</b>	<b>29</b>

### mBank S.A. Group interest rate risk

The following tables present the Group's exposure to interest rate risk. The tables present the Group's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

31.12.2018	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
<b>ASSETS</b>							
Cash and balances with the Central Bank	3 314 448	-	-	-	-	5 884 816	9 199 264
Loans and advances to banks	2 392 163	8 329	87 738	15 265	-	42 851	2 546 346
Debt and equity securities and investments in subsidiaries	6 336 482	1 719 955	10 712 438	14 361 468	1 291 606	102 836	34 524 785
Loans and advances to customers	62 235 515	25 963 158	3 086 287	3 271 202	44 799	164 792	94 765 753
Other assets and derivative financial instruments	241 548	152 350	178 789	252 602	30 226	1 328 843	2 184 358
<b>Total assets</b>	<b>74 520 156</b>	<b>27 843 792</b>	<b>14 065 252</b>	<b>17 900 537</b>	<b>1 366 631</b>	<b>7 524 138</b>	<b>143 220 506</b>
<b>LIABILITIES</b>							
Amounts due to the Central Bank	228	-	-	-	-	-	228
Amounts due to other banks	1 890 499	895 617	288 985	-	-	3 286	3 078 387
Amounts due to customers	85 656 253	9 419 449	5 604 957	1 012 170	56 213	260 020	102 009 062
Debt securities in issue	1 408 019	3 359 216	2 736 927	8 705 679	1 839 742	-	18 049 583
Subordinated liabilities	763 318	954 684	756 161	-	-	-	2 474 163
Other liabilities and derivative financial instruments	356 118	159 780	264 576	209 898	25 736	3 295 408	4 311 516
<b>Total liabilities</b>	<b>90 074 435</b>	<b>14 788 746</b>	<b>9 651 606</b>	<b>9 927 747</b>	<b>1 921 691</b>	<b>3 558 714</b>	<b>129 922 939</b>
<b>Total interest repricing gap</b>	<b>(15 554 279)</b>	<b>13 055 046</b>	<b>4 413 646</b>	<b>7 972 790</b>	<b>(555 060)</b>		

31.12.2017	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
<b>ASSETS</b>							
Cash and balances with the Central Bank	2 888 934	-	-	-	-	4 495 935	7 384 869
Loans and advances to banks	1 300 282	118 425	64 370	6	-	224 639	1 707 722
Trading and investment securities	9 137 833	281 041	7 895 131	15 011 524	1 256 357	116 875	33 698 761
Loans and advances to customers	56 181 146	20 538 664	3 683 266	2 951 682	70 481	1 050 605	84 475 844
Other assets and derivative financial instruments	254 902	228 340	281 201	362 325	46 043	833 560	2 006 371
<b>Total assets</b>	<b>69 763 097</b>	<b>21 166 470</b>	<b>11 923 968</b>	<b>18 325 537</b>	<b>1 372 881</b>	<b>6 721 614</b>	<b>129 273 567</b>
<b>LIABILITIES</b>							
Amounts due to other banks	2 476 116	2 529 076	62 564	-	-	5 595	5 073 351
Amounts due to customers	77 407 652	8 746 621	6 129 472	(804 121)	(147 308)	163 711	91 496 027
Debt securities in issue	901 119	3 501 630	1 714 294	6 960 025	1 245 784	-	14 322 852
Subordinated liabilities	1 371 849	285 627	500 667	-	-	-	2 158 143
Other liabilities and derivative financial instruments	239 940	208 302	354 754	297 700	20 516	2 545 283	3 666 495
<b>Total liabilities</b>	<b>82 396 676</b>	<b>15 271 256</b>	<b>8 761 751</b>	<b>6 453 604</b>	<b>1 118 992</b>	<b>2 714 589</b>	<b>116 716 868</b>
<b>Total interest repricing gap</b>	<b>(12 633 579)</b>	<b>5 895 214</b>	<b>3 162 217</b>	<b>11 871 933</b>	<b>253 889</b>		

### **3.9. Liquidity risk**

#### **Sources of liquidity risk**

The liquidity risk is understood as the risk of failure to fund assets and meet payment obligations arising from balance sheet and off-balance sheet items owed by the Bank in a timely manner and at a market price.

The reasons for liquidity risk may appear with respect to assets, liabilities and off-balance sheet liabilities and receivables.

As regards assets, their main sources of liquidity risk are market liquidity risk and untimely repayments of loans. Market liquidity risk is a threat of complete or partial impossibility of liquidating the assets held, or the possibility of selling these assets only at an unfavourable price. It is covered in liquidity analysis by taking conservative assumptions regarding the liquidity of assets (Liquidity Reserves in particular) and capacity for their liquidation reflected in liquidation profile. For this reason in a market crisis scenario and combined scenario it is assumed to use lombard credit and repo transactions offered by NBP collateralized by eligible securities taking into account adequate haircuts applied by NBP. Risk of untimely loans repayments is connected with rapid materialization of credit risk related to the market of the retail or commercial real estate.

As regards liabilities, the risks posed by funding and withdrawal of funds by the clients are the most common source of the liquidity risk. The former is a type of risk in terms of which, should the crisis occur, funding can be acquired only at a higher price, and in an extreme situation, it is not possible to acquire funding or renew existing. The latter is a type of threat associated with uncertainty as to the behaviour of clients whose decisions (for instance, about withdrawal of deposited funds) may weaken the Bank's ability to service its current financial obligations.

A source of risk for off-balance sheet liabilities is a risk posed by clients' behaviour and unexpected drawdown of granted lines. It also concerns the use of intraday and overdraft lines by custody and corporate clients. Materialisation of such a risk may be experienced as severe especially in the case of high concentration of commitments. In respect of derivative transactions concluded with CSA agreements (Credit Support Annex) or settled by CCP, liquidity risk can materialize in consequence of adverse and severe changes in market conditions resulting in sudden decrease in valuation of derivative instruments and related to necessity of pledging the collateral.

Daily operations of the Bank require settlements of various payment operations. Such activity generates high level of liquidity needs during a business day. Intraday liquidity facility (technical credit) on a systemic level is offered by NBP to allow for undisturbed flow of cash in the banking system. In order to use the facility the Bank maintains adequate portfolio of eligible securities.

Taking into account the mBank Group the liquidity risk is also identified as a possibility of unexpected growth in significant liquidity needs of subsidiaries of mBank. In line with the decision of the Bank's Management Board of 25 November 2014 a centralised approach to the management of the Group's financing was introduced in order to increase the effectiveness of the used liquidity resources and to ensure better tenor match of financing with assets. Subsidiaries are financed through the agency of DS, the exceptions are mBank Hipoteczny and mLeasing, which additionally obtain funding on the market through the issue of covered bonds (mBank Hipoteczny) and through issuance of short-term debt securities (mBank Hipoteczny and mLeasing). The risk of unexpected growth in significant liquidity needs of the subsidiaries of mBank may occur as a result of e.g. no possibility of obtaining external financing (mBank Hipoteczny and mLeasing) or unexpected increase in materialisation of credit risk.

Liquidity risk may appear as a result of usage of inappropriate models in liquidity analysis (e.g. deposit base stable part model), which may lead to underestimation of liquidity risk. It is monitored by verification and back-testing models pursuant to the Model Management Policy.

#### **Organization of risk management**

In order to ensure that the liquidity risk management process is effective, the Management Board of the Bank lies down an adequate organizational structure and delegates powers to dedicated units and Committees. Liquidity risk management is conducted based on three lines of defence. The existing process covers the liquidity risk management area at both the strategic and operational level (I line of defence), the liquidity risk measurement and control area (II line of defence) and Internal Audit (III line of defence) performing independent assessment of the first and second line of defence.

Liquidity risk management aims at ensuring and maintaining the Bank's and the Group's ability to fulfil both current and future liabilities taking into account the cost of liquidity. The liquidity management process consists of procedures that aim at identification, measurement, controlling, monitoring, reducing and defining the acceptable level of exposure to risks. This process can be divided into two main elements in the operational sense: the part involving all forms of liquidity management and the part of controlling

and monitoring liquidity risk. The Assets and Liabilities Management Committee of the mBank Group (ALCO), the Financial Markets Risk Committee and the Management Board of the Bank are responsible for liquidity management on the strategic level. Below mentioned organisational units are responsible for liquidity management and control.

- **Treasury Department (DS)** - I line of defence, performs treasury functions for the Bank and is responsible for providing necessary funds for settlements in the Bank's accounts within the scope of intraday liquidity risk management, implementing strategic recommendations made by the Assets and Liabilities Management Committee of the mBank Group (ALCO), calibrating the structure of the future cash flows within the limits imposed by the Supervisory Board, the Management Board and the Financial Markets Risk Committee, maintaining adequate liquidity reserves to secure liquidity within the limits imposed by the Supervisory Board, the Management Board and the Financial Markets Risk Committee. The Treasury Department is supported in these functions by the Financial Institutions Department, in relation to funding from domestic and foreign banks and international financial institutions, and the Financial Markets Department, in relation to issues of the Bank's debt securities. Moreover DS is responsible for monitoring liquidity risk and financing of subsidiaries of the mBank Group in terms of compliance with internal documentation of the Bank, participating as an observer on behalf of the Bank in ALCO meetings of the subsidiaries of the mBank Group (in particular mBank Hipoteczny S.A.).
- **Financial Markets Settlement and Services Department (DOF)** - I line of defence, is responsible for the operational supervision over correctness of cash flows in the accounts.
- **Custody Services Department (DCU)** - I line of defence, acts in the scope of settlements of transactions on securities.
- **Integrated Risk Management Department (DKR)** - II line of defence, is in charge of controlling and monitoring liquidity risk of the Bank on the strategic level and reporting to the Vice-president of the Management Board - Chief Risk Officer, the Financial Markets Risk Committee and the Assets and Liabilities Management Committee of the mBank Group (ALCO). The Department monitors financial liquidity on a daily basis using methods based on cash flow analysis. Liquidity risk measurement is based on the regulatory model and the internal model, which has been established taking into consideration the specific character of the Bank, the volatility of the deposit base, the level of funding concentration and the projected development of particular portfolios.
- **Internal Audit Department (DAW)** - III line of defence, performs independent assessment of the first and second line of defence.
- **Validation Division** - in the scope of models validation used for the purpose of liquidity risk management.

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

The objective of liquidity risk management is to ensure and maintain the Bank's ability to fulfil both current and future commitments. The Bank achieves this objective by diversifying stable funding sources in terms of clients' groups (from whom acquires deposits), products and currencies groups, and at the same time, optimizes its balance sheet in terms of profitability. Long-term activities of mBank in this scope are carried out taking into account conditions on funding capacity and business profitability.

In 2018, the liquidity situation was monitored and kept at a level adequate to the Bank's needs by adjusting the deposit base and securing additional funding sources depending on the development of lending activity and other funding needs.

#### **The internal liquidity adequacy assessment process (ILAAP)**

In order to review the liquidity risk management system in the Bank and the Group, the ILAAP process was developed. As part of this process all elements of the liquidity risk management system are subject to review including:

- Liquidity risk management strategy,
- Stress tests,
- Liquidity contingency plan,
- Liquidity buffer,
- Intraday liquidity risk management,
- Early warning system,

- Identification and measurement of liquidity risk,
- Reporting system.

The review is performed annually. The conclusions of the conducted review are presented to the Financial Markets Risk Committee, the Management Board and the Supervisory Board and serve for further improvement and development of the liquidity risk management.

### **Tools and measures used in measuring liquidity risk**

As part of liquidity risk management, a range of risk measures are being analysed. The basic measure is mismatch gap. It covers all the assets, liabilities and off-balance sheet items of the Bank in all currencies and time-bands set by the Bank. In 2018, the Bank held liquidity surplus, adequate to the Bank's business activity and current market situation, in the form of a portfolio of liquid treasury and money market securities that may be pledged or sold at any time without any considerable loss in value.

In accordance with KNF Resolution No. 386/2008 on establishing liquidity measures binding banks and in accordance with Commission Delegated Regulation (EU) No 2015/61 of October 10, 2014 the Bank calculates the supervisory liquidity measures. In 2018, the supervisory limits were not exceeded. Moreover, in line with the Resolution, the Bank conducts an in-depth analysis of long-term liquidity and sets internal limits (management action triggers) on involvement in long-term assets. Internal limits and appropriate buffers are also imposed on supervisory measures. Relevant analysis of the stability and structure of the funding sources, including the core and concentration level of term deposits and current accounts are performed. Additionally, the Bank analyses the variability of the balance sheet and off-balance sheet items, in particular the open credit line facilities and current account and overdrafts limits utilisation.

The ongoing analysis covers not only liquidity under normal conditions, but also on the assumption of a potential liquidity loss. In order to determine the Bank's resistance to major unfavourable events, the Bank conducts scenario analyses covering extreme assumptions on the operation of financial markets, behavioural events relative to the Bank's clients and both mentioned factors combined.

For this purpose limited stress test scenarios were regularly performed:

- LAB Bank Stress (short-term) – short-term scenario (up to 2 weeks) of the idiosyncratic stress,
- LAB Market Stress (long-term) – long-term scenario (up to 2 months) of the market crisis,
- LAB Combined Stress I – combined stress scenario that presents the effects of the simultaneous occurrence of short-term idiosyncratic stress and long-term market related stress,

as well as stress scenarios which are not limited:

- LAB Bank Stress (long-term),
- LAB Market Stress (short-term),
- LAB Combined Stress II.

In addition a reverse stress test for liquidity risk is performed in the Bank on annual basis and an intraday liquidity crisis scenario on a monthly basis.

Liquidity stress tests are used in the Bank for operational management of liquidity risk and are reported to the Financial Markets Risk Committee, the Assets and Liabilities Committee of the mBank Group (ALCO) as well as the Supervisory Board of the Bank. In addition, the scenarios used in Bank's Contingency Plan are consistent with those used in liquidity stress testing.

The Bank has also adequate procedures in case mBank is threatened with financial liquidity loss. Base on severity of risk factors and the degree of the threat of financial loss relevant actions are defined either in the Contingency Plan in case of a threat of losing financial liquidity by mBank Group (Contingency Plan) or in the Recovery Plan of mBank Group (Recovery Plan).

Execution of the strategy of ensuring liquidity of the Bank consists in active management of the balance sheet structure of future cash flows and keeping liquidity reserves adequate to the liquidity needs, resulting from the activity and structure of the balance sheet of the Bank, obligations to subsidiaries and the current market situation as well as the demand for liquid assets, resulting from the conducted stress tests. For this purpose the Bank keeps a surplus of liquid and unencumbered assets constituting the Liquidity Reserves, for which there is a possibility of pledging, transaction on repo market or selling at any time without significant loss in value. Liquidity Reserves were composed of the Polish Government debt securities in PLN and EUR, bills issued by the National Bank of Poland in PLN and the Czech Republic's Government debt securities in CZK. Values of these Reserves amounted to:

Value of Liquidity Reserves (in PLN million)	
31.12.2017	31.12.2016
25 700	25 727

In the Group the Liquidity Reserves are held also by mBank Hipoteczny S.A. Both mBank S.A. and mBank Hipoteczny S.A. are subject to compliance with the same regulatory measures imposed on banks. Liquidity Reserves of mBank Hipoteczny S.A. were composed of the Polish Government debt securities in PLN and bills issued by the National Bank of Poland in PLN and amounted to:

Value of Liquidity Reserves (in PLN million)	
31.12.2017	31.12.2016
1 051	1 074

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

Due to the use by the Bank of FX swap and CIRS instruments to convert surpluses in local currencies into foreign currencies, internal limits are in place on the use of these instruments. Moreover, in order to limit the concentration in FX swaps, the amounts obtained in such transactions are monitored in monthly time bands up to 1 year.

Other measures of liquidity risk are calculated and reported in the Bank as follows:

- concentration of funding sources,
- stability of deposit base,
- early withdrawals of deposits,
- ratio of long-term funding for the real estate market.

The Bank includes product's liquidity in its liquidity risk management framework. It is reflected in terms of measuring market liquidity of Treasury bonds, which make up Liquidity Reserves. The analysis is performed on monthly basis and takes account of market liquidity determinants such as: market turnover, order book depth, purchase/sale transaction spread and issue volume. The measurement of market liquidity is reflected in internal liquidity measures, where the scenario structure provides for liquidating the Treasury bonds held by the Bank in line with market trading in particular series of bonds. A similar check is carried out in the context of the market potential of pledging particular bond series.

### **The measurement, limiting and reporting the liquidity risk**

At the Bank, there is a reporting process of liquidity risk. It covers both daily information delivery to entities engaged in operational management of liquidity risk and entities controlling liquidity risk management on operational level, as well as regular reporting to higher management levels for the purpose of making strategic decisions on liquidity risk.

Daily reporting covers:

- regulatory measures,
- liquidity gaps for mBank, the mBank Group and the material subsidiaries from liquidity risk perspective with the utilization of limits imposed on these measures,
- intraday liquidity,
- other internal liquidity risk measures.

Weekly reporting covers:

- early warnings indicators (EWI).

Monthly reporting covers:

- regulatory measures and internal liquidity measures to the Management Board members and Financial Markets Risk Committee (KRF),
- regulatory measures, internal liquidity measures and forecasts of liquidity measures based on business development forecasts to the Assets and Liabilities Committee of the mBank Group (ALCO).

Regulatory measures and internal liquidity measures are reported on a quarterly basis to the mBank's Supervisory Board.

For the purpose of current monitoring of liquidity, the Bank establishes values of realistic, cumulated gap of cash flows. The realistic gap is calculated on the basis of contractual cash flows (Note 3.9.1). Mainly cash flows in portfolios of non-banking customers' deposits, overdrafts and term loans are amended. In the calculation of the liquidity measures the Bank takes into account the possibilities of raising the funds by selling or pledging the debt securities from Bank's Liquidity Reserves.

In the LAB methodology, the LAB Base Case measure is the primary management measure and it is also used for limiting the liquidity gap in particular foreign currencies.

Value of realistic, cumulative gap of cash flows misfit (in PLN million)				
Time range	gap ANL Bank Stress- 31.12.2018		gap ANL Bank Stress - 31.12.2017	
	bucket	cumulative	bucket	cumulative
up to 1 working day	19 207	19 207	19 464	19 464
up to 3 working days	417	19 625	519	19 983
up to 7 calendar days	(2 987)	16 638	(2 311)	17 672
up to 15 calendar days	64	16 702	(154)	17 518
up to 1 month	(330)	16 371	1 799	19 317
up to 2 months	1 937	18 308	(2 167)	17 150
up to 3 months	(574)	17 734	(761)	16 389
up to 4 months	(2 218)	15 516	(620)	15 769
up to 5 months	(1 105)	14 412	(227)	15 542
up to 6 months	(933)	13 479	(428)	15 114
up to 7 months	(12)	13 467	230	15 344
up to 8 months	(366)	13 101	(429)	14 915
up to 9 months	150	13 251	(1 136)	13 779
up to 10 months	761	14 012	(1 577)	12 202
up to 11 months	(109)	13 903	(437)	11 765
up to 12 months	349	14 252	(361)	11 404

The above values should be interpreted as liquidity surplus/deficit in relevant time buckets. The dynamics of the development of non-bank term deposits and current accounts (PLN 10.8 billion - the exchange rate of December 31, 2018 was used in calculation) had a positive impact on the level of liquidity gap, exceeding the dynamics of the development of lending activities (PLN 6.5 billion - the exchange rate of December 31, 2018 was used in calculation).

The level of liquidity gap was adversely affected by the development of wholesale funding - repayment exceeded the value of acquired funding, including a drop in debt to the main shareholder, Commerzbank AG resulting from the repayment of CHF 750 million. Thus, the process of repayment of unsecured loans in CHF with Commerzbank AG was completed.

In 2018, the LAB methodology, which was implemented in 2017, was still being developed, which had a negative impact on the level of liquidity gap.

Liquidity gap methodology contains an additional component, which is aimed at preparing the Bank for significant changes in foreign exchange rates and interest rates, resulting in negative valuation of transactions and thus generating liquidity needs stemming from the necessity to supplement collateral with the counterparties (position value as of the end of 2018 - PLN 2 287 million).

Moreover the Bank calculates the amount of additional collateral requirement resulting from signed agreements with the counterparties that the Bank would have to deliver in case of potential rating downgrade. As of 31 December 2018 the Bank would not have to post additional collateral.

In 2018 the Bank's liquidity remained at a safe level which was reflected in surplus of liquid assets over short-term liabilities according to LAB in various scenarios and supervisory liquidity measures.

Since the beginning of 2018, the measures M1 and M2 defined in KNF Resolution No. 386/2008 on establishing liquidity measures binding banks ceased to apply as regulatory measures and therefore the Bank resigned from their presentation.

LAB cash flows gaps mismatch in terms up to 1 month and up to 1 year within 2018 and values of regulatory measures M3-M4 and LCR are presented in the following table:

Measure*	2018			
	31.12.2018	Mean	Maximum	Minimum
LAB Base Case 1M	16 371	17 510	24 677	12 420
LAB Base Case 1Y	14 252	10 130	14 828	4 634
LAB Bank Stress 1M	12 669	11 676	17 571	6 650
LAB Market Stress 1M	14 562	14 454	19 008	10 051
LAB Combined Stress 1M	9 177	9 806	14 012	5 410
M3	4.95	4.66	5.06	4.09
M4	1.38	1.39	1.41	1.35
LCR	190%	178%	240%	137%

Measure*	2017			
	31.12.2017	Mean	Maximum	Minimum
LAB Base Case 1M**	19 317	16 233	19 317	13 607
LAB Base Case 1Y**	11 404	11 331	12 426	10 134
LAB Bank Stress 1M**	13 057	11 240	13 133	9 512
LAB Market Stress 1M**	16 571	14 550	16 632	12 973
LAB Combined Stress 1M**	12 533	10 951	12 660	9 637
M3	4.52	4.71	4.93	4.29
M4	1.39	1.39	1.43	1.36
LCR	165%	178%	239%	142%

\*LAB measures are shown in PLN million; M3, M4 and LCR are relative measures presented as a decimal.

\*\* Mean, maximum and minimum are calculated for period starting from 6th December 2017.

The long-term coverage ratios (M3, M4) are characterized by high stability on safe level, above minimum established by regulatory authority equal to 1. In particular, M3 oscillated between 4.09 and 5.06 in 2018, whereas M4 between 1.35 and 1.41. The LCR measure remained on safe level, significantly exceeding 100%.

### Funding sources

The strategic assumptions concerning the diversification of funding sources and profitable structure of the balance sheet are reflected in the financial plan of the mBank Group defined by selected measures, e.g. L/D ratio (Loans to Deposits). The Bank measures a specific relation of loans to deposits in order to maintain a stable structure of its balance sheet. In 2018 the L/D ratio slightly changed from 73.9% to 75.9% for the Bank and from 92.3% to 92.9% for the Group. The Bank aims at building a stable deposit base by offering to clients deposit and investment products, regular and specific-purpose savings offerings, as well as operating deposits of the subsidiaries. Funds acquired from the Bank's clients constitute the major funding source for the business activity along with the portfolio of long-term loans from banks (with maturities over 1 year) (Note 29). The loans together with subordinated loans (Note 29) are the core funding source for the portfolio of mortgage loans in CHF. According to the suspension of granting new mortgage loans in CHF, Bank's receivables in this currency have been decreasing successively along with loans repayments. The funds obtained from the repayment of the mentioned loans are used to reduce the Bank's debt in CHF owed to the mBank's main shareholder. In 2018 the debt to Commerzbank AG was reduced by CHF 750 million - repayment of borrowings.

Moreover, in order to acquire funding (also in foreign currencies) the Bank uses mid-term and long-term instruments, including credit line facilities on the international markets, unsecured issuances, bilateral loans as well as FX swap and CIRS transactions.

In the Group except mBank, access to external funding have only mBank Hipoteczny via issuance of mortgage covered bonds and short-term debt securities and mLeasing via short-term debt securities.

When making funding-related decisions, in order to match the term structure of its funding sources with the structure of long-term assets, the Group takes into consideration the supervisory liquidity measures and limits, as well as the internal liquidity risk limits.

### mBank S.A. Group

Liquidity risk in the mBank Group is generated mainly by mBank's items. Nevertheless, liquidity risk level in the mBank Group subsidiaries, where liquidity risk was deemed significant, is also a subject to monitoring. In the subsidiaries generating the greatest liquidity risk (mHipoteczny and mLeasing) the Bank monitors the level of liquidity risk on a daily basis. The data provided by these companies allow for reporting contractual cash-flow mismatch as well as calculation of a realistic cash-flows mismatch based on LAB model and modelling assumptions for selected products according to risk profiles, funding possibilities and products specificity of the subsidiary. The levels of realistic, cumulative cash-flow mismatch in the mBank Group is presented in the following table:

Value of realistic, bucket and cumulative gap of cash flows misfit (in PLN million)				
Time range	gap ANL Bank Stress- 31.12.2018		gap ANL Bank Stress - 31.12.2017	
	bucket	cumulative	bucket	cumulative
up to 1 working day	19 809	19 809	21 132	21 132
up to 3 working days	624	20 434	809	21 941
up to 7 calendar days	(2 950)	17 484	(2 247)	19 694
up to 15 calendar days	(10)	17 474	(456)	19 238
up to 1 month	(387)	17 087	1 696	20 934
up to 2 months	2 503	19 589	(1 835)	19 099
up to 3 months	(269)	19 320	(755)	18 344
up to 4 months	(1 707)	17 613	(353)	17 991
up to 5 months	(570)	17 043	(335)	17 656
up to 6 months	(665)	16 378	61	17 717
up to 7 months	516	16 895	400	18 117
up to 8 months	(157)	16 738	(181)	17 936
up to 9 months	504	17 243	(981)	16 955
up to 10 months	608	17 851	(1 398)	15 557
up to 11 months	(254)	17 597	(42)	15 515
up to 12 months	716	18 313	(178)	15 337

LAB gaps mismatch in terms up to 1 month and up to 1 year within 2018 and supervisory liquidity measure LCR on Group level are presented in the following table:

Measure*	2018			
	31.12.2018	mean	maximum	minimum
LAB Base Case 1M	17 087	19 718	26 746	14 952
LAB Base Case 1Y	18 313	14 823	20 317	9 961
LAB Bank Stress 1M	13 384	13 876	19 883	9 123
LAB Market Stress 1M	15 231	16 652	21 331	12 349
LAB Combined Stress 1M	9 846	12 005	16 335	7 883
LCR Grupa	231%	216%	301%	165%

Measure*	2017			
	31.12.2017	mean	maximum	minimum
LAB Base Case 1M**	20 934	17 791	20 934	15 617
LAB Base Case 1Y**	15 337	14 716	16 666	10 039
LAB Bank Stress 1M**	14 674	12 847	14 853	10 879
LAB Market Stress 1M**	18 188	15 923	18 352	13 783
LAB Combined Stress 1M**	14 150	12 325	14 380	10 475
LCR Grupa	191%	190%	244%	161%

\*LAB measures are shown in PLN million; M3, M4 and LCR are relative measures presented as a decimal.

\*\*Mean, maximum and minimum are calculated for period starting from 6<sup>th</sup> December 2017

For other subsidiaries, due to lower total assets and simpler amounts products, the process of monitoring has been worked out based on two criteria: the size of the balance sheet and, if the subsidiary is covered by LCR measure for the Group in accordance with Commission Delegated Regulation (EU) No 2015/61 of October 10, 2014, its share in total outflows. In case of exceedance of imposed thresholds, the decision is made on the possible inclusion of the subsidiary into the liquidity risk management system.

### 3.9.1 Cash flows from transactions in non-derivative financial instruments

The table below shows cash flows the Group is required to settle, resulting from financial liabilities. The cash flows have been presented as at the year-end date, categorised by the remaining contractual maturities. The amounts denominated in foreign currencies were converted to Polish zloty at the average rate of exchange announced by the National Bank of Poland at the year-end date. The amounts disclosed in maturity dates analysis are undiscounted contractual cash flows.

Liabilities (by contractual maturity dates) as at 31.12.2018

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Amounts due to other banks	2 256 238	47 156	672 106	197 996	-	3 173 496
Amounts due to customers	85 556 018	7 477 488	6 153 475	2 249 094	1 605 173	103 041 248
Debt securities in issue	379 019	355 806	3 410 614	13 142 018	2 223 770	19 511 227
Subordinated liabilities	34 918	4 814	56 440	303 605	2 732 251	3 132 028
Other liabilities	2 051 526	1 378	438 963	-	-	2 491 867
<b>Total liabilities</b>	<b>90 277 719</b>	<b>7 886 642</b>	<b>10 731 598</b>	<b>15 892 713</b>	<b>6 561 194</b>	<b>131 349 866</b>
<b>Assets (by remaining contractual maturity dates)</b>						
Total assets	19 720 187	7 335 020	26 213 788	60 915 168	48 321 843	162 506 006
Net liquidity gap	70 557 532	551 622	(15 482 190)	(45 022 455)	(41 760 649)	31 156 140

Liabilities (by contractual maturity dates) as at 31.12.2017

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Amounts due to other banks	3 273 438	1 281 417	1 678 135	545 232	-	6 778 222
Amounts due to customers	76 572 571	6 795 738	4 018 099	3 293 933	1 613 293	92 293 634
Debt securities in issue	391 490	572 488	1 526 684	10 726 205	2 779 220	15 996 087
Subordinated liabilities	33 470	335	34 842	198 636	2 235 613	2 502 896
Other liabilities	1 673 239	6 924	292 787	-	-	1 972 950
<b>Total liabilities</b>	<b>81 944 208</b>	<b>8 656 902</b>	<b>7 550 547</b>	<b>14 764 006</b>	<b>6 628 126</b>	<b>119 543 789</b>
<b>Assets (by remaining contractual maturity dates)</b>						
Total assets	21 943 941	6 542 134	23 527 892	54 331 121	43 047 865	149 392 953
Net liquidity gap	(60 000 267)	(2 114 768)	15 977 345	39 567 115	36 419 739	29 849 164

The assets which ensure the payment of all the liabilities and lending commitments comprise cash in hand, cash at the Central Bank, cash in transit and treasury bonds and other eligible bonds; amounts due from banks; loans and advances to customers.

In the normal course of business, some of the loans granted to customers with the contractual repayment date falling due within the year, will be prolonged. Moreover, a part of debt securities, were pledged as collateral for liabilities. The Group could ensure cash for unexpected net outflows by selling securities and availing itself of other sources of financing, such as the market of securities secured with assets.

### 3.9.2 Cash flows from derivatives

#### Derivative financial instruments settled in net amounts

Derivative financial instruments settled in net amounts by the Group comprise:

- Futures,
- Forward Rate Agreements (FRA),
- Options,
- Warrants,
- Interest rate swaps (IRS),
- Cross currency interest rate swaps (CIRS),
- Security forwards.

The table below shows derivative financial liabilities of the Group, which valuation as of end of 2017 was negative, grouped by appropriate remaining maturities as at the balance sheet date and are presented as contractual maturities apart from Other up to 1 month and Futures contracts which are presented as net present value (NPV). The amounts denominated in foreign currencies were converted to Polish zloty at the average rate of exchange announced by the National Bank of Poland at the balance sheet date.

31.12.2018

Derivatives settled on a net basis	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Forward Rate Agreements (FRA)	31	284	2 814	700	-	3 829
Interest Rate Swaps (IRS)	13 853	142 352	389 687	1 142 976	77 461	1 766 329
- hedging Interest Rate Swaps	-	361	3 576	20 206	19 908	44 051
Cross Currency Interest Rate Swaps (CIRS)	7 652	(15 228)	(41 909)	(49 193)	(6 424)	(105 102)
Options	3 696	640	(2 447)	(202)	(50)	1 637
Other	2 134	3 376	8 742	18 833	-	33 085
<b>Total derivatives settled on a net basis</b>	<b>27 366</b>	<b>131 424</b>	<b>356 887</b>	<b>1 113 114</b>	<b>70 987</b>	<b>1 699 778</b>

31.12.2017

Derivatives settled on a net basis	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Forward Rate Agreements (FRA)	-	-	30	-	-	30
Overnight Index Swaps (OIS)	171	936	119	-	-	1 226
Interest Rate Swaps (IRS)	94 666	181 209	90 808	721 360	128 011	1 216 054
- hedging Interest Rate Swaps	-	572	4 944	38 677	22 579	66 772
Cross Currency Interest Rate Swaps (CIRS)	2 510	(3 853)	(1 234)	(7 170)	-	(9 747)
Options	1 613	2 605	4 291	14 790	(141)	23 158
Futures contracts	-	(1)	-	-	-	(1)
Other	1 130	2 668	2 967	17 498	-	24 263
<b>Total derivatives settled on a net basis</b>	<b>100 090</b>	<b>183 564</b>	<b>96 981</b>	<b>746 478</b>	<b>127 870</b>	<b>1 254 983</b>

#### Derivative financial instruments settled in gross amounts

Derivative financial instruments settled in gross amounts by the Group comprise foreign exchange derivatives: currency forwards and currency swaps.

The table below shows derivative financial liabilities/assets of the Group, which will be settled on a gross basis, grouped by appropriate remaining maturities as at the Balance Sheet date. The amounts denominated in foreign currencies were converted to Polish zloty at the average rate of exchange announced by the National Bank of Poland at the balance sheet date.

31.12.2018

Derivatives settled on a gross basis	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
<b>Currency derivatives:</b>						
-outflows	16 914 479	4 086 705	4 678 672	2 018 037	-	27 697 893
-inflows	16 911 612	4 074 380	4 655 793	1 987 573	-	27 629 358

31.12.2017

Derivatives settled on a gross basis	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
<b>Currency derivatives:</b>						
-outflows	19 322 812	5 798 526	3 991 301	1 018 469	-	30 131 108
-inflows	19 304 085	5 762 251	3 978 499	957 840	-	30 002 675

The amounts disclosed in the table are undiscounted contractual outflows/inflows.

The amounts presented in the table above are nominal cash flows of currency derivatives, which have not been settled, while the Note 20 shows nominal values of all open derivative transactions.

Detailed data concerning liquidity risk related to off-balance sheet items are presented in the Note 34.

### **3.10. Operational risk**

Operational risk is understood as the risk of loss resulting from a mismatch or unreliability of internal processes, systems, mistakes or activities taken by the employee of the Bank or external events. In accordance with the Risk Catalogue of mBank Group, operational risk includes, in particular, the following sub-categories:

- legal risk,
- IT risk,
- cyber risk,
- compliance risk,
- conduct risk,
- external fraud risk,
- outsourcing risk.

Operational risk does not include reputational risk, however materialisation of operational risk may increase reputational risk.

#### **Organisation of risk management**

Operational risk management is performed in mBank and, at the consolidated level, in mBank Group.

The Integrated Risk Management Department (DKR) is responsible for the measurement, control and monitoring of operational risk level in the Bank and in mBank Group.

Within the scope of its operational risk control function, the DKR closely co-operates with other units and projects within the Bank involved in operational risk, in particular with the Compliance Department, the Legal Department, the Internal Audit Department and the Security Department. The results of operational risk control and monitoring are reported to the Risk Committee of the Supervisory Board, the Management Board of the Bank, the committees of Business and Risk Forum of mBank Group, and the Chief Risk Officer.

While organising the operational risk management process, the Bank takes into account regulatory requirements, which are the starting point for preparation of framework for the operational risk control and management system in the Bank and the Group.

General principle of operational risk management in the Bank is to minimise it that is to reduce the causes of operational events, the probability of their occurrence and the severity of potential consequences. Cost vs benefits analysis is considered while deciding on an acceptable operational risk level.

### **Tools and measures**

Operational risk control and management consists of a set of activities aimed at identifying, monitoring, measurement, assessment, reporting as well as reduction, avoidance, transfer or acceptance of operational risk, the Bank is exposed to in particular areas of its operations. It is based on quantitative and qualitative methods and tools for operational risk control. The tools applied by the Bank intend to cause-oriented operational risk management and focus on bottom-up approach to identify risk.

Qualitative tools are aimed at establishing (within the Bank and the mBank Group) consistent qualitative assessment of internal and external factors affecting the operational risk management process.

The basic qualitative tool is the Internal Control System Self-assessment (ICS) process, which enables to identify and assess the most important operational risks and control mechanisms in the Group, and then to develop and implement necessary corrective action plans.

In addition, in order to control operational risk, mBank collects data about operational risk events and losses of the Group, collects and monitors key risk indicators, and develops and performs operational scenario analyses in order to identify exposure to potential high-severity events. At the same time, the communication with all areas of the Bank (business and support areas) is maintained for the purpose of monitoring and taking preventive actions once the risk of critical events has been signalled in any area.

### **Operational losses**

The vast majority of the Group's operational losses refers to the following business lines (separated in accordance with the CRR Regulation): commercial banking and retail banking.

In terms of losses by risk category, the Group incurs the highest losses in three categories of operational risk: (i) crimes committed by outsiders; (ii) execution, delivery and process management; (iii) customers, products and business practices.

The following table presents the distribution of actual net losses (net of recoveries) by operational risk category, incurred by the mBank Group in 2018:

<b>Operational risk category</b>	<b>Distribution</b>	<b>Value of net losses in relations to the value of gross profit</b>
Crimes committed by outsiders	26.4%	0.40%
Customers, products and business practices	53.7%	0.80%
Execution, delivery and process management	11.6%	0.17%
Other	8.3%	0.13%
Total	100.0%	1.50%

The level of operational risk losses is constantly monitored and regularly reported to the management and Supervisory Board of the Bank. Monitoring takes place at the level of individual transactions and at the level of the value of total losses. In the case of single operational events with a high loss or a total of losses exceeding the set thresholds, analysis of the causes and development of corrective action plans that will reduce the occurrence of similar losses in the future is required.

#### **3.10.1 Compliance risk**

Compliance risk management is realized in mBank, in particular, in accordance with the provisions of the Compliance Policy at mBank S.A. The Policy is a set of guidelines and organisational rules, that the Bank performs fulfilling the requirements of Polish law and taking into account compliance principles applicable in the Commerzbank Group, subject to stipulations of the Polish law. The Policy defines also the basic rules of conduct for the Bank's employees and the main processes of compliance risk identification that allow to manage compliance risk at all levels of the Bank's organisation.

Compliance risk is understood as a consequence of failure to observe the law, internal regulations and market standards adopted by the Bank. Compliance risk management aims to mitigate the risk connected with the Bank's failure to observe and comply with the law, internal regulations, and the market standards adopted by the Bank. Non-compliance of the Bank's operation with internal regulations, mentioned above, is understood as non-compliance of the internal regulations with the generally applicable law and market standards adopted by the Bank, including the failure to implement recommendations issued by the KNF and other supervisory authorities executing their tasks towards financial institutions.

The compliance risk management system at the Bank takes place at three independent levels. The first level refers to the management of risk related to operating activities. The second level comprises at least: risk management by employees holding dedicated positions or working in dedicated organisational sub-units, taking place irrespective of the risk management performed at the first level and the Compliance Department operations. The third level comprises operations of the Internal Audit Department. At all the three levels, within the risk management system, the Bank's employees, as part of performance of business duties, apply control mechanisms or monitor observance of control mechanism independently.

Ensuring compliance of the Bank's internal regulations with the provisions of Polish and international law and with the market standards adopted by the Bank as well as observing internal rules by the Bank's employees is aimed at mitigating compliance risk and eliminating or minimizing the possibility of occurrence of: legal risk, reputational risk, the risk of imposition of sanction and financial losses and the risk resulting from discrepancies in interpretation of the law.

All the Bank employees are responsible for the implementation of compliance risk management process in line with the scope of their duties as well as granted authorisations.

The Compliance Department is responsible for the coordination and supervision of the compliance risk management process. In particular the Compliance Department is:

- developing and implementing guidelines, rules and standard procedures at the Bank in the compliance area, including common standards applicable in the Commerzbank AG Group, subject to stipulations of the Polish legal requirements,
- exercising supervision over the execution of tasks from the compliance area, including advisory and merit-based instruction as well as controlling organisational units of the Bank responsible for their execution,
- exercising supervision, including advisory and merit-based instruction, over implementing common market standards in the compliance area within mBank Group by relevant compliance forces in foreign branches and in subsidiaries,
- identifying risks in the compliance area,
- implementing control policies and procedures within the scope of operation of the Compliance Department, to minimise the risks,
- adjusting Compliance Policy at mBank S.A. and internal regulations owned by the Compliance Department, to the changing legal conditions and market standards,
- building a compliance culture especially by preparing professional materials and organising and conducting training sessions for the Bank employees on issues related to compliance processes,
- maintaining ongoing contacts with the unit responsible for compliance in the Commerzbank AG Group in order to agree on the implementation of common standards.

The supervision over the introduction of common principles in the compliance area by the mBank Group entities is exercised in particular on the basis of concluded contracts and additional agreements that specify, among others, reporting obligations of subsidiaries in the compliance area and rules for conducting supervisory visits in those entities, performed by the Bank's authorised organizational units.

Neither the Director nor the employees of the Compliance Department execute processes which are then subject to control by the Compliance Department, are involved in operation which could result in a conflict of interests with their duties performed at the Compliance Department. In particular, their advisory functions with respect to performance of compliance tasks by organisational units cannot be combined with any other consultations provided to those units.

### **3.11. Business risk**

Business risk shall mean the risk of losses resulting from deviations between actual net operating result of the mBank Group and the planned level. The calculation of deviations between actual and planned values is done separately for revenues and costs. Business risk includes, in particular, strategic risk

connected with the possibility of occurrence of negative financial consequences as a result of wrong or disadvantageous decisions or their wrong implementation. It is assumed, that the results of the strategic decisions are reflected in deviations between actual operating result and the planned level in one-year horizon.

Business risk is included in the calculation of economic capital of mBank and mBank Group.

Controlling and Management Information Department is responsible for development of methodology and measurement of economic capital for business risk and preparing information on the changes of its level, as well as for the stress testing of business risk.

In order to manage effectively and reduce business risk, the following actions are taken:

- coordination of the planning process by the Controlling and Management Information Department, which includes also verification of the planned data,
- regular analysis of the causes of observed deviations of the actual financial performance of the mBank Group organizational units from the planned level,
- the results of the above analysis are included in the form of comments to the financial results of the Group provided to the Management Board,
- periodic verification of the adopted strategy,
- regular analysis of the competitors' activities.

### **3.12. Model risk**

Model risk is understood as the risk of negative consequences connected with the decisions made on the basis of the output data of models which have been improperly constructed or are improperly administered. Model risk may result in financial losses or in the loss of potential profits, improper business or strategic decisions or negatively influence the bank's reputation.

The following specific subcategories can be distinguished, in particular, in model risk:

- **Data risk** covering: availability, quality, retrieval, processing, aggregation, storage, ensuring sufficient length of time series, feeding models with data.
- **Assumptions/methodology risk** which determines the logic and functionality combined with the goals to be achieved, suitability to actual conditions and methods/tools/techniques used, inclusion of factors affecting the modelling process, dependence between complexity and resilience to overfitting, integration of simplifications with the characteristics of the modelled phenomenon, expert contribution, use of latent elements, stability of estimates with due regard to estimation errors.
- **Models administration risk** connected with the quality of documentation and regulations concerning the model management process, model risk, model implementation and use, information related to the quality of model operation and the process of communicating it, change management, overruling.
- **Risk inextricably linked with the restrictions** connected with modelling a given phenomenon - when aiming to achieve specific effectiveness of model operation, one should first test the susceptibility of a given phenomenon to modelling.
- **Risk of interdependence** - which occurs when estimating the aggregate risk level and results from the reliance on the same sources, construction techniques, assumptions, testing methods and use of other model components as input data on the assumption that the input models are of at least medium significance.

Model risk management is coordinated by the Validation Unit, which performs, in particular, the following tasks:

- develops policies and organizes the process of managing risk models,
- organizes and monitors the process of model risk assessment in the Bank's organizational units and the Group subsidiaries responsible for model development, and ensures consistency of model risk assessment within the Group.

Model risk is managed on a systemic basis by proper internal regulations concerning model and their risk management process, in particular monitoring and validation of models.

The Model Management Policy determines the participants and the framework for model management process, including issues related to the development of models in the Group, their approval, implementation, verification/validation, monitoring, implementation of changes and the associated reporting process. It also defines principles of models' significance classification and model risk measurement and monitoring in line with the requirements of Recommendation W published by the KNF.

An important role in the model and their risk management process is played by the Model Risk Committee, whose functions are described in Note 3.3.1. It recommends, among others, model risk tolerance level, which is finally approved by the Management Board and the Supervisory Board.

### **3.13. Reputational risk**

In today's competitive environment, the reputation of a company is increasingly gaining in importance. Banks, as public trust institutions, are expected not only to be profitable and offer shareholders an adequate return, but also to be ethical, environmentally friendly, and socially responsible.

The aim of management of reputational risk, defined as a risk resulting from a negative perception of the image of the bank or other member of the group among their stakeholders, is to identify, assess and reduce reputational risk in specific processes in order to protect and strengthen the good name of mBank and mBank Group.

The all Bank's organizational units, foreign branches, and subsidiaries are directly responsible for any reputational risk arising from their own business activities. The key role in reputational risk management is played by the Communication and Marketing Strategy Department, which is in charge of shaping the image and brand of the bank and mBank Group.

Communication and Marketing Strategy Department is responsible for:

- development and realisation of external communication strategy of mBank and mBank Group,
- planning and realisation of marketing activities for business lines, with exclusion of retail banking (where the responsibility rests with the Retail Banking Marketing Department),
- monitoring of activities related to the bank's image, reputation and recognition,
- management of crisis situations which bear the reputational risk for the bank and the mBank Group.

Important roles in the reputational risk management are played by other organizational units of the bank, including Compliance Department and Integrated Risk Management Department, which is responsible for: development of reputational risk management strategy in cooperation with other organizational units and supervision over the Internal Control System Self-assessment (ICS) including also aspects of reputational risk.

The following tools and methods are used in mBank to monitor and manage reputational risk:

- mBank's values (client-centric organization, simplicity, professionalism, engagement and forward looking), which are the mBank's code used while building either business relations or internal inside of the Group,
- engagement culture survey - perception of mBank by its employees,
- Corporate Social Responsibility: taking responsible action for the benefit of customers, employees, the environment and local communities (including employee volunteer work) and participation in projects of the mBank Foundation,
- monitoring of press publications, comments in the Internet and social media,
- customer satisfaction analysis in retail and corporate banking,
- new product process: reputational risk is one of the aspects analyzed during the new products' implementation process,
- analysis of customers' complaints.

Reputational Risk Management Strategy of mBank Group describes rules and components of reputational risk management.

### **3.14. Capital risk**

Capital risk management is performed, at an individual level, in mBank and, at a consolidated level, in mBank Group.

Controlling and Management Information Department is responsible for:

- development of the Capital Management Policy of mBank Group;
- measurement of efficiency of the capital utilization and monitoring return on capital ratios, as well as updating the respective methodology;
- forecasting and planning own funds for the Bank and mBank Group.

Integrated Risk Management Department is responsible for:

- monitoring and reporting of capital adequacy (including planning and forecasting), risk bearing capacity and risk profile of the Group;
- development of the Group's risk bearing capacity concept and the methodology of limiting regulatory and internal capital;
- conducting sensitivity analyses, stress tests and analyses of influence of new products, new calculation methods and new regulatory requirements (including also the use of the AIRB method) for capital adequacy.

In the mBank Group there is a capital management process in order to prevent materialization of capital risk, understood as risk resulting from the lack of capital as well as lack of the possibility to achieve sufficient capital adequate to the business activity's risk undertaken by the Bank, required to absorb unexpected losses and meet regulatory requirements enabling further independent functioning of the Bank.

The capital management in mBank Group is organised as a process including planning, steering and controlling regulatory and internal capital. Within the framework of capital management process, regular monitoring of capital adequacy and effectiveness is conducted, aimed at assurance that adequate and optimum level of capital is maintained in mBank Group. This is supported by stress test analyses, aiming to provide in depth view on current capital position, as well as its possible development in the future.

The capital management process in mBank Group is documented and the core element of this documentation is the Capital Management Policy. Its underlying assumption is to ensure effective planning and utilisation of the capital base within the mBank and mBank Group, among others, through determining the Bank's dividend policy. This is provided mainly by applying risk appetite guidelines and developing guidelines to assure sufficient capital to cover risks identified in business activity, as well as defining the organisational framework for the efficient functioning of capital management system.

The Capital Management Policy is based on two fundamental pillars:

- maintenance of optimal level and structure of own funds, assuring capital adequacy above the established minimum requirement (including risk appetite defined by the Management Board) as well as ensuring coverage against all material risks identified in mBank Group's activity,
- effective use of the capital base, guaranteeing achievement of expected returns, including return on regulatory capital and risk adjusted capital.

In addition, the document focuses on capital management in an environment of capital shortage, in particular in case of activation of the capital protection plan.

### **3.15. Regulatory risk**

Regulatory risk, understood as the risk of changes in legal regulations or introduction of new regulations concerning specific area of the Group's activity affecting capital adequacy or liquidity, is addressed by the Group in the framework of the capital and liquidity risk management process. In mBank Group this risk is related, in particular, to the FX mortgage loan portfolio.

### **3.16. Fair value of assets and liabilities**

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

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

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

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

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

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

**Positions that are recognised in GL through amortised cost**

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

	31.12.2018	
	Carrying value	Fair value
<b>Financial assets at amortised cost</b>		
<b>Debt securities</b>	<b>9 000 539</b>	<b>9 148 798</b>
<b>Loans and advances to banks</b>	<b>2 546 346</b>	<b>2 521 793</b>
<b>Loans and advances to customers, including:</b>	<b>92 017 432</b>	<b>91 924 443</b>
<b>Loans and advances to individuals</b>	<b>48 924 332</b>	<b>49 612 551</b>
Current accounts	5 809 899	5 972 042
Term loans	42 754 960	43 281 036
Other	359 473	359 473
<b>Loans and advances to corporate entities</b>	<b>42 456 817</b>	<b>41 673 943</b>
Current accounts	5 331 403	5 217 161
Term loans, including finance lease	33 581 972	32 913 340
Reverse repo / buy sell back transactions	1 146 263	1 146 263
Other loans and advances	2 382 247	2 382 247
Other	14 932	14 932
<b>Loans and advances to public sector</b>	<b>636 283</b>	<b>637 949</b>
<b>Financial liabilities at amortised cost</b>		
<b>Amounts due to other banks</b>	<b>3 078 387</b>	<b>3 076 822</b>
<b>Amounts due to customers</b>	<b>102 009 062</b>	<b>101 932 151</b>
<b>Debt securities in issue</b>	<b>18 049 583</b>	<b>18 236 156</b>
<b>Subordinated liabilities</b>	<b>2 474 163</b>	<b>2 492 101</b>

	31.12.2017	
	Carrying value	Fair value
<b>Financial assets at amortised cost</b>		
<b>Loans and advances to banks</b>	<b>1 707 722</b>	<b>1 701 570</b>
<b>Loans and advances to customers</b>	<b>84 475 844</b>	<b>84 924 846</b>
<b>Loans and advances to individuals</b>	<b>46 567 862</b>	<b>47 629 716</b>
Current accounts	6 669 099	6 825 992
Term loans	39 898 763	40 803 724
<b>Loans and advances to corporate entities</b>	<b>36 605 346</b>	<b>35 993 148</b>
Current accounts	4 975 919	4 851 402
Term loans	29 502 709	29 014 447
Reverse repo / buy sell back transactions	57 119	57 119
Other loans and advances	2 069 599	2 070 180
<b>Loans and advances to public sector</b>	<b>995 009</b>	<b>994 355</b>
<b>Other receivables</b>	<b>307 627</b>	<b>307 627</b>
<b>Financial liabilities at amortised cost</b>		
<b>Amounts due to other banks</b>	<b>5 073 351</b>	<b>5 100 040</b>
<b>Amounts due to customers</b>	<b>91 496 027</b>	<b>91 518 916</b>
<b>Debt securities in issue</b>	<b>14 322 852</b>	<b>14 685 791</b>
<b>Subordinated liabilities</b>	<b>2 158 143</b>	<b>2 137 590</b>

Differences between fair value presented in the table above and in the financial statements for the year 2017 and for the third quarter of 2017 result from the update of the methodology for estimating the fair value of financial assets.

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

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

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

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

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

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

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

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

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

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

The table below presents the fair value hierarchy of financial assets and liabilities measured at fair value in accordance with the assumptions and methods described above, exclusively for disclosure as at 31 December 2018 and 31 December 2017.

31.12.2018	Including:	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
<b>VALUATION ONLY FOR PURPOSES OF DISCLOSURE</b>				
<b>FINANCIAL ASSETS</b>				
Debt securities	9 148 798	9 148 798	-	-
Loans and advances to banks	2 521 793	-	-	2 521 793
Loans and advances to customers	91 924 443	-	-	91 924 443
<b>FINANCIAL LIABILITIES</b>				
Amounts due to other banks	3 076 822	-	474 235	2 602 587
Amounts due to customers	101 932 151	-	4 251 823	97 680 328
Debt securities in issue	18 236 156	10 114 558	-	8 121 598
Subordinated liabilities	2 492 101	-	2 492 101	-
<b>Total financial assets</b>	<b>103 595 034</b>	<b>9 148 798</b>	<b>-</b>	<b>94 446 236</b>
<b>Total financial liabilities</b>	<b>125 737 230</b>	<b>10 114 558</b>	<b>7 218 159</b>	<b>108 404 513</b>
31.12.2017	Including:	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
<b>VALUATION ONLY FOR PURPOSES OF DISCLOSURE</b>				
<b>FINANCIAL ASSETS</b>				
Loans and advances to banks	1 701 570	-	-	1 701 570
Loans and advances to customers	84 924 846	-	-	84 924 846
<b>FINANCIAL LIABILITIES</b>				
Amounts due to other banks	5 100 040	-	3 421 029	1 679 011
Amounts due to customers	91 518 916	-	5 020 661	86 498 255
Debt securities in issue	14 685 791	7 801 818	-	6 883 973
Subordinated liabilities	2 137 590	-	2 137 590	-
<b>Total financial assets</b>	<b>86 626 416</b>	<b>-</b>	<b>-</b>	<b>86 626 416</b>
<b>Total financial liabilities</b>	<b>113 442 337</b>	<b>7 801 818</b>	<b>10 579 280</b>	<b>95 061 239</b>

### **Level 1**

Level 1 of financial assets includes the value of treasury securities and EIB bonds whose valuation consists in the direct use of market current prices of these instruments originating from active and liquid financial markets.

Level 1 of financial liabilities includes the fair value of bonds issued by the Bank and its subsidiary, mFinance France (Note 29). For the purpose of disclosures the Group applied market price of the issued debt securities.

### **Level 2**

Level 2 includes the fair value of long-term loans received from banks, the fair value of long-term deposits placed by customers and the fair value of the loans received from the EIB (Note 29). In addition, at level 2, the Group has presented subordinated liabilities.

The fair value of financial liabilities included in level 2 with more than 1 year to maturity is based on cash flows discounted using interest rates. For received loans in EUR the Bank used the swap curve amended by the spread determined based on observable Commerzbank CDS quotations in EUR for various maturities and a fixed spread which represents the assumed credit spread differential for Bank risk (derived from market quotation of bond issued under the EMTN programme). For the loans in other currencies, the above

spreads for EUR were applied and cross currency swaps quotations to EUR. In case of the loans received from European Investment Bank in EUR, the Bank used EIB yield curve and the value of margin which was agreed upon the last contract for a loan. Based on that assumption, the spread of Bank to market swap curve was estimated. In case of deposits the Bank used the curve based on money market rates, as well as FRA contracts and IRS contracts for appropriate currencies and maturities. For debt securities in issue the Bank used the prices directly from the market for these securities. For the purpose of measurement of subordinated liabilities the Bank used obtained primary market spreads of subordinated bonds issued by the Bank and if required corresponding cross-currency basis swap levels for the respective maturities.

### **Level 3**

Level 3 includes:

- (i) the fair value of loans and advances to banks and loans and advances to customers, which is disclosed, as described earlier, based on quotation of median credit spreads for Moody's ratings.
- (ii) the fair value of the mortgage bonds and other debt securities issued by mBank Hipoteczny. For the valuation the Group has applied the technique of estimation of interest flow using swap curve and discounting with the rate amended by credit spread which is obtainable in case of issue depending on currency and maturity of financial instrument.
- (iii) liabilities due to banks and to customers with maturity up to one year, for which the Group assumed that their fair value is equal to the carrying value.
- (iv) the fair value of liabilities due to banks and to customers with maturity exceeding one year, for which were used valuation methods using at least one significant input data not based on observable market data.

### **Positions that are recognised in GL through 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 Group at their fair values.

31.12.2018	Including:	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
<b>RECURRING FAIR VALUE MEASUREMENTS</b>				
<b>Financial assets</b>				
<b>Financial assets held for trading and derivatives held for hedges</b>	<b>2 104 302</b>	<b>748 294</b>	<b>1 006 079</b>	<b>349 929</b>
<b>Loans and advances to customers</b>	<b>43 166</b>	-	-	<b>43 166</b>
- Corporate customers	43 166	-	-	43 166
<b>Debt securities</b>	<b>1 055 057</b>	<b>748 294</b>	-	<b>306 763</b>
- General governments	748 294	748 294	-	-
- Credit institutions	166 305	-	-	166 305
- Other financial corporations	72 626	-	-	72 626
- Non-financial corporations	67 832	-	-	67 832
<b>Derivative financial instruments, including:</b>	<b>1 006 079</b>	-	<b>1 006 079</b>	-
<b>Derivative financial instruments held for trading:</b>	<b>707 089</b>	-	<b>707 089</b>	-
- interest rate derivatives	405 799	-	405 799	-
- foreign exchange derivatives	139 030	-	139 030	-
- market risks derivatives	162 260	-	162 260	-
<b>Derivative financial instruments held for hedging:</b>	<b>298 990</b>	-	<b>298 990</b>	-
- derivatives designated as fair value hedges	107 466	-	107 466	-
- derivatives designated as cash flow hedges	191 524	-	191 524	-
<b>Non-trading financial assets mandatorily at fair value through profit or loss</b>	<b>2 836 060</b>	<b>770</b>	-	<b>2 835 290</b>
<b>Loans and advances to customers</b>	<b>2 705 155</b>	-	-	<b>2 705 155</b>
- Individual customers	2 370 872	-	-	2 370 872
- Corporate customers	321 380	-	-	321 380
- General governments	12 903	-	-	12 903
<b>Debt securities</b>	<b>58 130</b>	-	-	<b>58 130</b>
- Other financial corporations	58 130	-	-	58 130
<b>Equity securities</b>	<b>72 775</b>	<b>770</b>	-	<b>72 005</b>
- Other financial corporations	12 934	770	-	12 164
- Non-financial corporations	59 841	-	-	59 841
<b>Financial assets at fair value through other comprehensive income</b>	<b>24 338 284</b>	<b>22 481 825</b>	<b>589 901</b>	<b>1 266 558</b>
<b>Debt securities</b>	<b>24 338 284</b>	<b>22 481 825</b>	<b>589 901</b>	<b>1 266 558</b>
- Central banks	589 901	-	589 901	-
- General governments	21 287 623	21 251 235	-	36 388
- Credit institutions	361 980	-	-	361 980
- Other financial corporations	1 488 643	1 230 590	-	258 053
- Non-financial corporations	610 137	-	-	610 137
<b>Total financial assets</b>	<b>29 278 646</b>	<b>23 230 889</b>	<b>1 595 980</b>	<b>4 451 777</b>

31.12.2018	Including:	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
<b>FINANCIAL LIABILITIES</b>				
<b>Derivative financial instruments, including:</b>	<b>981 117</b>	-	<b>981 117</b>	-
<b>Derivative financial instruments held for trading</b>	<b>986 253</b>	-	<b>986 253</b>	-
- interest rate derivatives	579 788	-	579 788	-
- foreign exchange derivatives	235 762	-	235 762	-
- market risks derivatives	170 703	-	170 703	-
<b>Derivative financial instruments held for hedging</b>	<b>(5 136)</b>	-	<b>(5 136)</b>	-
- derivatives designated as fair value hedges	9	-	9	-
- derivatives designated as cash flow hedges	(5 145)	-	(5 145)	-
<b>Total financial liabilities</b>	<b>981 117</b>	-	<b>981 117</b>	-

**TOTAL RECURRING FAIR VALUE MEASUREMENTS**

<b>FINANCIAL ASSETS</b>	<b>29 278 646</b>	<b>23 230 889</b>	<b>1 595 980</b>	<b>4 451 777</b>
<b>FINANCIAL LIABILITIES</b>	<b>981 117</b>	-	<b>981 117</b>	-

Assets Measured at Fair Value Based on Level 3 - changes in 2018	Debt trading securities	Non-trading debt securities mandatorily at fair value through profit or loss	Non-trading equity securities mandatorily at fair value through profit or loss	Debt securities at fair value through other comprehensive income	Equity securities at fair value through other comprehensive income
<b>As at the beginning of the period</b>	<b>288 676</b>	-	-	<b>1 214 940</b>	<b>86 639</b>
Transfer between asset categories due to the implementation of IFRS 9 as at 01.01.2018	-	46 538	40 101	-	(86 639)
<b>Restated opening balance</b>	<b>288 676</b>	<b>46 538</b>	<b>40 101</b>	<b>1 214 940</b>	-
<b>Gains and losses for the period:</b>	<b>2 065</b>	<b>11 592</b>	-	<b>3 791</b>	-
Recognised in profit or loss:	2 065	11 592	-	-	-
- Net trading income	2 065	4 564	-	-	-
- Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	-	7 028	-	-	-
Recognised in other comprehensive income:	-	-	-	3 791	-
- Financial assets at fair value through other comprehensive income	-	-	-	3 791	-
Purchases	1 244 432	-	56 900	1 629 915	-
Redemptions	(439 375)	-	-	(251 779)	-
Sales	(5 472 304)	-	(24 996)	(1 586 363)	-
Issues	4 683 269	-	-	256 054	-
<b>As at the end of the period</b>	<b>306 763</b>	<b>58 130</b>	<b>72 005</b>	<b>1 266 558</b>	-

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

31.12.2017	Including:	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
<b>RECURRING FAIR VALUE MEASUREMENTS</b>				
<b>FINANCIAL ASSETS</b>				
<b>TRADING SECURITIES</b>	<b>1 525 382</b>	<b>1 236 546</b>	<b>160</b>	<b>288 676</b>
<i>Debt securities</i>	<b>1 523 908</b>	<b>1 235 232</b>	-	<b>288 676</b>
- government bonds	1 232 515	1 232 515	-	-
- deposit certificates	14 096	-	-	14 096
- banks bonds	98 601	-	-	98 601
- corporate bonds	178 696	2 717	-	175 979
<i>Equity securities</i>	<b>1 474</b>	<b>1 314</b>	<b>160</b>	-
- listed	1 314	1 314	-	-
- unlisted	160	-	160	-
<b>DERIVATIVE FINANCIAL INSTRUMENTS</b>	<b>1 236 303</b>	-	<b>1 236 303</b>	-
<i>Derivative financial instruments held for trading</i>	<b>1 146 956</b>	-	<b>1 146 956</b>	-
- interest rate derivatives	708 582	-	708 582	-
- foreign exchange derivatives	393 723	-	393 723	-
- market risks derivatives	44 651	-	44 651	-
<i>Derivative financial instruments held for hedging</i>	<b>89 347</b>	-	<b>89 347</b>	-
- derivatives designated as fair value hedges	59 652	-	59 652	-
- derivatives designated as cash flow hedges	29 695	-	29 695	-
<b>INVESTMENT SECURITIES</b>	<b>32 144 699</b>	<b>28 520 206</b>	<b>2 322 914</b>	<b>1 301 579</b>
<i>Debt securities</i>	<b>32 057 074</b>	<b>28 519 220</b>	<b>2 322 914</b>	<b>1 214 940</b>
- government bonds	27 583 694	27 583 694	-	-
- money bills	2 322 914	-	2 322 914	-
- deposit certificates	221 700	-	-	221 700
- banks bonds	204 436	-	-	204 436
- corporate bonds	1 688 420	935 526	-	752 894
- communal bonds	35 910	-	-	35 910
<i>Equity securities</i>	<b>87 625</b>	<b>986</b>	-	<b>86 639</b>
- unlisted	87 625	986	-	86 639
<b>TOTAL FINANCIAL ASSETS</b>	<b>34 906 384</b>	<b>29 756 752</b>	<b>3 559 377</b>	<b>1 590 255</b>
<b>FINANCIAL LIABILITIES</b>				
<b>Derivative financial instruments, including:</b>	<b>1 095 365</b>	-	<b>1 095 365</b>	-
<b>Derivative financial instruments held for trading</b>	<b>1 069 691</b>	-	<b>1 069 691</b>	-
- interest rate derivatives	658 744	-	658 744	-
- foreign exchange derivatives	376 854	-	376 854	-
- market risks derivatives	34 093	-	34 093	-
<b>Derivative financial instruments held for hedging</b>	<b>25 674</b>	-	<b>25 674</b>	-
- derivatives designated as fair value hedges	24 188	-	24 188	-
- derivatives designated as cash flow hedges	1 486	-	1 486	-
<b>Total financial liabilities</b>	<b>1 095 365</b>	-	<b>1 095 365</b>	-
<b>TOTAL RECURRING FAIR VALUE MEASUREMENTS</b>				
<b>FINANCIAL ASSETS</b>	<b>34 906 384</b>	<b>29 756 752</b>	<b>3 559 377</b>	<b>1 590 255</b>
<b>FINANCIAL LIABILITIES</b>	<b>1 095 365</b>	-	<b>1 095 365</b>	-

Assets Measured at Fair Value Based on Level 3 - changes in 2017	Debt trading securities	Debt investment securities	Equity investment securities
<b>As at the beginning of the period</b>	<b>290 544</b>	<b>901 885</b>	<b>65 261</b>
<b>Gains and losses for the period:</b>	<b>3 274</b>	<b>(16 036)</b>	<b>3 339</b>
Recognised in profit or loss:	3 274	(7 511)	(4 751)
- Net trading income	3 274	-	-
- Gains less losses from investment securities, investments in subsidiaries and associates	-	(7 511)	(4 751)
Recognised in other comprehensive income:	-	(8 525)	8 090
- Available for sale financial assets	-	(8 525)	8 090
Purchases	1 038 365	478 498	22 636
Redemptions	(222 187)	(106 496)	-
Sales	(7 315 111)	(1 689 984)	(4 500)
Issues	6 493 791	1 647 073	-
Transfers out of Level 3	-	-	(97)
<b>As at the end of the period</b>	<b>288 676</b>	<b>1 214 940</b>	<b>86 639</b>

Transfers between levels in 2017	Transfer into level 1	Transfer out of level 1	Transfer into level 2	Transfer out of level 2
<b>Investment securities</b>	<b>97</b>	-	-	-
Equity securities	97	-	-	-

In 2017, one transfer from level 3 to level 1 of the fair value hierarchy took place and concerned a company whose shares were admitted to public trading.

With regard to financial instruments valued in repetitive way to the fair value classified as level 1 and 2 in hierarchy of fair value, any cases in which transfer between these levels may occur, are monitored by Integrated Risk and Capital Management Department on the basis of internal rules. In case if there is no market price used to a direct valuation for more than 5 working days, the method of valuation is changed, i.e. change from marked-to-market valuation to marked-to-model valuation under the assumption that the valuation model for the respective type of this instrument has been already approved. The return to marked-to-market valuation method takes place after a period of at least 10 working days in which the market price was available on a continuous basis. If there is no market prices for a debt treasury bonds the above terms are respectively 2 and 5 working days.

### **Level 1**

As at 31 December 2018, at level 1 of the fair value hierarchy, the Group has presented the fair value of held for trading government bonds in the amount of PLN 748 294 thousand (see Note 20) and the fair value of government bonds at fair value through other comprehensive income in the amount of PLN 21 251 235 thousand (31 December 2017 respectively: PLN 1 232 515 thousand and 27 583 694 thousand). Level 1 includes the fair value of corporate bonds in the amount of PLN 1 230 590 thousand (31 December 2017 – PLN 938 243 thousand).

In addition, as at 31 December 2018 level 1 includes the value of the registered privileged shares of Giełda Papierów Wartościowych in the amount of PLN 770 thousand (31 December 2017: PLN 986 thousand). As at 31 December 2017 level 1 includes the value of the shares of listed companies in the amount of PLN 1 314 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 includes the fair values of bills issued by NBP in the amount of PLN 589 901 thousand (31 December 2017: PLN 2 322 914 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 31 December 2018 and 31 December 2017, level 2 also includes the value of options referencing on the WIG 20 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 (bonds and deposit certificates) in the amount of PLN 1 595 063 thousand (31 December 2017: PLN 1 467 706 thousand). As at 31 December 2018, the amount includes the fair value of a debt instrument measured at fair value through profit or loss, resulting from the reclassification of Visa Inc.'s preference shares.

Level 3 includes also the fair value of local government bonds in the amount of PLN 36 388 thousand (31 December 2017 - PLN 35 910 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. Impact of change in credit spreads on the fair value of debt securities classified as level 3 is presented in the table below. The amount reflects change in credit risk in relation to purchase date.

Impact of change in credit spreads on the fair value of debt securities classified as level 3 is presented in the table below. The amount reflects change in credit risk in relation to purchase date by the Group.

Issuer	Change of fair value resulting from change in credit risk	
	31.12.2018	31.12.2017
Credit institutions	631	(286)
Non-financial customers	(2 120)	(6 497)
<b>Total</b>	<b>(1 489)</b>	<b>(6 783)</b>

Level 3 as at 31 December 2018 includes the value of loans and advances to customers in the amount of PLN 2 748 321 thousand.

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

Moreover, level 3 covers mainly the fair value of equity securities amounting to PLN 72 005 thousand (31 December 2017: PLN 86 639 thousand). As at 31 December 2017, these amount includes the value of preferred stock in Visa Inc. in the amount of PLN 46 538 thousand. The other equity securities presented at level 3 have been valued using the market multiples method. The market multiples method, consists of valuating the equity capital of a company by using a relation between the market values of the own equity capital or market values of the total capital invested in comparable companies (goodwill) and selected economic and financial figures.

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

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

##### Impairment of loans and advances

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

to repayments and recovery from collateral. The rules of determining write-downs and provisions for impairment of credit exposures have been described under Note 3.4.6.

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

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

#### 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.

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

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

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

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

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

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

#### Leasing classification

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

## **5. Business segments**

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

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

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

- The Retail Banking segment, which divides its customers into mBank customers and Private Banking customers and which offers a full range of the Bank's banking products and services as well as specialized products offered by a number of subsidiaries belonging to the Retail Banking segment. The key products in this segment include current and savings accounts (including accounts in foreign currencies), term deposits, lending products (retail mortgage loans and non-mortgage loans such as cash loans, car loans, overdrafts, credit cards and other loan products), debit cards, insurance products, investment products, brokerage and leasing services offered to both individual customers and to micro-businesses. The results of the Retail Banking segment include the results of foreign branches of mBank in the Czech Republic and Slovakia. The Retail Banking segment also includes the results of mFinanse S.A. and as well as the results of retail segments of mLeasing Sp. z o.o., Asekum Sp. z o.o. and mBank Hipoteczny S.A.

- The Corporates and Financial Markets segment, which is divided into two sub-segments:
- *Corporate and Investment Banking* sub-segment (business line), which targets small, medium and large-sized companies and public sector entities. The key products offered to these customers include transactional banking products and services including current account products, multi-functional internet banking, tailor-made cash management and trade finance services, term deposits, foreign exchange transactions, a comprehensive offer of short-term financing and investment loans, cross-border credit, project finance, structured and mezzanine finance services, investment banking products including foreign exchange options, forward contracts, interest rate derivatives and commodity swaps and options, structured deposit products with embedded options (interest on structured deposit products are directly linked to the performance of certain underlying financial instruments such as foreign exchange options, interest rate options and stock options), debt origination for corporate clients, treasury bills and bonds, non-government debt, medium-term bonds, buy sell back and sell buy back transactions and repo transactions, as well as leasing, factoring and brokerage services. The Corporate and Investment Banking sub-segment includes the results of the following subsidiaries: mFactoring S.A., Garbary Sp. z o.o., Tele-Tech Investment Sp. z o.o. as well as the results of corporate segments of mLeasing Sp. z o. o., Asekum Sp. z o.o. and mBank Hipoteczny S.A.
- *Financial Markets* sub-segment (business line) consists primarily of treasury, financial markets, and financial institutions operations, manages the liquidity, interest rate and foreign exchange risks of the Bank, its trading and investment portfolios, and conducts market making in PLN denominated cash and derivative instruments. The Bank also maintains an extensive correspondent banking network and also develops relationships with other banks providing products such as current accounts, overdrafts, stand alone and syndicated loans and loans insured by KUKI to support the Polish export market. This sub-segment also includes the results of mFinance France S.A. as well as the results of mLeasing Sp. z o.o and mBank Hipoteczny S.A. with regard to activities concerning funding.
- Operations which are not included in the Retail Banking segment and the Corporates and Financial Markets segment are reported under "Other". This segment includes the results of mCentrum Operacji Sp. z o.o., BDH Development Sp. z o.o., Future Tech Fundusz Inwestycyjny Zamknięty.

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

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

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

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

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

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

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

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

In connection with the change the cost allocation key for Bank Guarantee Fund since the beginning of 2018, the comparative data for 2017 and the three quarters of 2017 regarding overhead costs by business segment activities of mBank S.A. Group have been changed accordingly".

**Business segment reporting on the activities of mBank S.A. Group  
for the period from 1 January to 31 December 2018  
(PLN'000)**

	Corporates & Financial Markets		Retail Banking (including Private Banking)	Other	Total figure for the Group	Statement of financial position reconciliation/ income statement reconciliation
	Corporate and Investment Banking	Financial Markets				
<b>Net interest income</b>	<b>922 829</b>	<b>253 535</b>	<b>2 310 513</b>	<b>9 597</b>	<b>3 496 474</b>	<b>3 496 474</b>
- sales to external clients	931 528	671 346	1 886 643	6 957	3 496 474	
- sales to other segments	(8 699)	(417 811)	423 870	2 640	-	
<b>Net fee and commission income</b>	<b>456 746</b>	<b>(10 050)</b>	<b>538 818</b>	<b>(9 664)</b>	<b>975 850</b>	<b>975 850</b>
<b>Dividend income</b>	<b>-</b>	<b>4</b>	<b>-</b>	<b>3 554</b>	<b>3 558</b>	<b>3 558</b>
<b>Trading income</b>	<b>252 755</b>	<b>(32 091)</b>	<b>127 263</b>	<b>(591)</b>	<b>347 336</b>	<b>347 336</b>
<b>Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss</b>	<b>(54 142)</b>	<b>-</b>	<b>(112 711)</b>	<b>6 812</b>	<b>(160 041)</b>	<b>(160 041)</b>
<b>Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates</b>	<b>181</b>	<b>18 181</b>	<b>-</b>	<b>(3 867)</b>	<b>14 495</b>	<b>14 495</b>
<b>Other operating income</b>	<b>83 025</b>	<b>1 613</b>	<b>309 651</b>	<b>13 331</b>	<b>407 620</b>	<b>407 620</b>
<b>Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss</b>	<b>(183 907)</b>	<b>161</b>	<b>(343 399)</b>	<b>(428)</b>	<b>(527 573)</b>	<b>(527 573)</b>
<b>Overhead costs</b>	<b>(647 635)</b>	<b>(98 438)</b>	<b>(1 159 946)</b>	<b>(5 321)</b>	<b>(1 911 340)</b>	<b>(1 911 340)</b>
<b>Amortisation</b>	<b>(81 123)</b>	<b>(10 818)</b>	<b>(159 726)</b>	<b>(925)</b>	<b>(252 592)</b>	<b>(252 592)</b>
<b>Other operating expenses</b>	<b>(49 070)</b>	<b>(2 157)</b>	<b>(121 255)</b>	<b>(20 471)</b>	<b>(192 953)</b>	<b>(192 953)</b>
<b>Operating profit</b>	<b>699 659</b>	<b>119 940</b>	<b>1 389 208</b>	<b>(7 973)</b>	<b>2 200 834</b>	<b>2 200 834</b>
<b>Taxes on Group balance sheet items</b>	<b>(153 919)</b>	<b>(36 533)</b>	<b>(205 899)</b>	<b>(5 409)</b>	<b>(401 760)</b>	<b>(401 760)</b>
<b>Share in profits (losses) of entities under the equity method</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1 240</b>	<b>1 240</b>	<b>1 240</b>
<b>Gross profit of the segment</b>	<b>545 740</b>	<b>83 407</b>	<b>1 183 309</b>	<b>(12 142)</b>	<b>1 800 314</b>	<b>1 800 314</b>
Income tax					(483 945)	(483 945)
Net profit attributable to Owners of mBank S.A.					1 316 451	1 316 451
Net profit attributable to non-controlling interests					(82)	(82)
<b>Assets of the segment</b>	<b>42 262 523</b>	<b>45 241 697</b>	<b>56 475 056</b>	<b>1 770 843</b>	<b>145 750 119</b>	<b>145 750 119</b>
<b>Liabilities of the segment</b>	<b>32 620 034</b>	<b>28 783 798</b>	<b>67 336 104</b>	<b>1 794 103</b>	<b>130 534 039</b>	<b>130 534 039</b>
Expenditures incurred on fixed assets and intangible assets	228 759	16 396	270 194	17 001	532 350	

**Business segment reporting on the activities of mBank S.A. Group  
for the period from 1 January to 31 December 2017  
(PLN'000)**

	Corporates & Financial Markets		Retail Banking (including Private Banking)	Other	Total figure for the Group	Statement of financial position reconciliation/ income statement reconciliation
	Corporate and Investment Banking	Financial Markets				
<b>Net interest income</b>	<b>832 749</b>	<b>282 176</b>	<b>2 013 103</b>	<b>7 632</b>	<b>3 135 660</b>	<b>3 135 660</b>
- sales to external clients	897 740	595 308	1 638 103	4 509	3 135 660	
- sales to other segments	(64 991)	(313 132)	375 000	3 123	-	
<b>Net fee and commission income</b>	<b>406 289</b>	<b>(7 602)</b>	<b>582 321</b>	<b>11 150</b>	<b>992 158</b>	<b>992 158</b>
<b>Dividend income</b>	<b>-</b>	<b>11</b>	<b>-</b>	<b>3 417</b>	<b>3 428</b>	<b>3 428</b>
<b>Trading income</b>	<b>246 341</b>	<b>(64 902)</b>	<b>114 184</b>	<b>(1 560)</b>	<b>294 063</b>	<b>294 063</b>
<b>Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates</b>	<b>(6 050)</b>	<b>20 783</b>	<b>-</b>	<b>(18 670)</b>	<b>(3 937)</b>	<b>(3 937)</b>
<b>Other operating income</b>	<b>58 067</b>	<b>877</b>	<b>55 871</b>	<b>127 545</b>	<b>242 360</b>	<b>242 360</b>
<b>Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss</b>	<b>(168 099)</b>	<b>2 119</b>	<b>(342 625)</b>	<b>884</b>	<b>(507 721)</b>	<b>(507 721)</b>
<b>Overhead costs</b>	<b>(639 970)</b>	<b>(93 360)</b>	<b>(1 059 197)</b>	<b>(26 422)</b>	<b>(1 818 949)</b>	<b>(1 818 949)</b>
<b>Amortisation</b>	<b>(74 088)</b>	<b>(9 849)</b>	<b>(137 278)</b>	<b>(3 004)</b>	<b>(224 219)</b>	<b>(224 219)</b>
<b>Other operating expenses</b>	<b>(40 138)</b>	<b>(1 147)</b>	<b>(89 603)</b>	<b>(79 283)</b>	<b>(210 171)</b>	<b>(210 171)</b>
<b>Operating profit</b>	<b>615 101</b>	<b>129 106</b>	<b>1 136 776</b>	<b>21 689</b>	<b>1 902 672</b>	<b>1 902 672</b>
<b>Taxes on Group balance sheet items</b>	<b>(141 748)</b>	<b>(32 264)</b>	<b>(195 832)</b>	<b>(5 412)</b>	<b>(375 256)</b>	<b>(375 256)</b>
<b>Share in profits (losses) of entities under the equity method</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>486</b>	<b>486</b>	<b>486</b>
<b>Gross profit of the segment</b>	<b>473 353</b>	<b>96 842</b>	<b>940 944</b>	<b>16 763</b>	<b>1 527 902</b>	<b>1 527 902</b>
Income tax					(432 832)	(432 832)
Net profit attributable to Owners of mBank S.A.					1 091 530	1 091 530
Net profit attributable to non-controlling interests					3 540	3 540
<b>Assets of the segment</b>	<b>37 438 110</b>	<b>41 469 251</b>	<b>50 963 246</b>	<b>1 553 412</b>	<b>131 424 019</b>	<b>131 424 019</b>
<b>Liabilities of the segment</b>	<b>31 408 233</b>	<b>27 320 647</b>	<b>57 764 732</b>	<b>638 851</b>	<b>117 132 463</b>	<b>117 132 463</b>
Expenditures incurred on fixed assets and intangible assets	199 415	19 834	260 484	25 084	504 817	

Information about geographical areas on the activities of mBank S.A. Group for the period	from 1 January to 31 December 2018		
	Poland	Foreign Countries	Total
Net interest income	3 308 372	188 102	<b>3 496 474</b>
Net fee and commission income	953 989	21 861	<b>975 850</b>
Dividend income	3 558	-	<b>3 558</b>
Trading income	338 557	8 779	<b>347 336</b>
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	(160 041)	-	<b>(160 041)</b>
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates	14 495	-	<b>14 495</b>
Other operating income	405 076	2 544	<b>407 620</b>
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(507 719)	(19 854)	<b>(527 573)</b>
Overhead costs	(1 779 253)	(132 087)	<b>(1 911 340)</b>
Amortisation	(247 951)	(4 641)	<b>(252 592)</b>
Other operating expenses	(190 565)	(2 388)	<b>(192 953)</b>
Operating profit	2 138 518	62 316	<b>2 200 834</b>
Taxes on Group balance sheet items	(378 064)	(23 696)	<b>(401 760)</b>
Share in profits (losses) of entities under the equity method	1 240	-	<b>1 240</b>
Gross profit of the segment	1 761 694	38 620	<b>1 800 314</b>
Income tax			(483 945)
Net profit attributable to Owners of mBank S.A.			1 316 451
Net profit attributable to non-controlling interests			(82)
<b>Assets of the segment, including:</b>	138 339 905	7 410 214	<b>145 750 119</b>
- tangible assets	1 541 714	19 487	1 561 201
- deferred income tax assets	957 159	1 917	959 076
<b>Liabilities of the segment</b>	120 308 585	10 225 454	<b>130 534 039</b>

Information about geographical areas on the activities of mBank S.A. Group for the period	from 1 January to 31 December 2017		
	Poland	Foreign Countries	Total
Net interest income	2 980 836	154 824	<b>3 135 660</b>
Net fee and commission income	985 828	6 330	<b>992 158</b>
Dividend income	3 428	-	<b>3 428</b>
Trading income	286 125	7 938	<b>294 063</b>
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates	(3 937)	-	<b>(3 937)</b>
Other operating income	239 157	3 203	<b>242 360</b>
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(497 246)	(10 475)	<b>(507 721)</b>
Overhead costs	(1 689 882)	(129 067)	<b>(1 818 949)</b>
Amortisation	(219 946)	(4 273)	<b>(224 219)</b>
Other operating expenses	(207 598)	(2 573)	<b>(210 171)</b>
Operating profit	1 876 765	25 907	<b>1 902 672</b>
Taxes on Group balance sheet items	(352 524)	(22 732)	<b>(375 256)</b>
Share in profits (losses) of entities under the equity method	486	-	<b>486</b>
Gross profit of the segment	<b>1 524 727</b>	<b>3 175</b>	<b>1 527 902</b>
Income tax			(432 832)
Net profit attributable to Owners of mBank S.A.			1 091 530
Net profit attributable to non-controlling interests			3 540
<b>Assets of the segment, including:</b>	125 313 613	6 110 406	<b>131 424 019</b>
- tangible assets	1 458 141	11 239	1 469 380
- deferred income tax assets	626 903	2 347	629 250
<b>Liabilities of the segment</b>	108 200 503	8 931 960	<b>117 132 463</b>

## 6. Net interest income

	Year ended 31 December	
	2018	2017
<b>Interest income</b>		
<b>Interest income accounted for using the effective interest method</b>	<b>3 868 051</b>	<b>3 773 079</b>
Interest income of financial assets at amortised cost, including:	3 379 450	3 079 904
- Loans and advances	3 116 363	3 014 793
- Debt securities	203 518	n/a
- Cash and short-term placements	55 687	59 872
- Other	3 882	5 239
Interest income on financial assets at fair value through other comprehensive income	488 601	693 175
- Debt securities	488 601	n/a
Investment securities	n/a	693 175
<b>Income similar to interest on financial assets at fair value through profit or loss, including:</b>	<b>650 139</b>	<b>278 995</b>
Financial assets held for trading	73 693	62 806
- Loans and advances	1 324	n/a
- Debt securities	72 369	62 806
Non-trading financial assets mandatorily at fair value through profit or loss, including:	271 239	n/a
- Loans and advances	271 239	n/a
Interest income on derivatives classified into banking book	180 409	133 601
Interest income on derivatives concluded under the fair value hedge	84 441	66 808
Interest income on derivatives concluded under the cash flow hedge	40 357	15 780
<b>Total interest income</b>	<b>4 518 190</b>	<b>4 052 074</b>

	Year ended 31 December	
	2018	2017
<b>Interest expenses</b>		
Financial liabilities measured at amortised cost, including:	(1 007 267)	(908 427)
- Deposits	(576 285)	(493 083)
- Loans received	(29 243)	(55 469)
- Issue of debt securities	(318 870)	(280 211)
- Subordinated liabilities	(75 300)	(69 017)
- Other financial liabilities	(7 569)	(10 647)
Other	(14 449)	(7 987)
<b>Total interest expense</b>	<b>(1 021 716)</b>	<b>(916 414)</b>

Interest income related to impaired financial assets amounted to PLN 110 512 thousand (for the period ended 31 December 2017: PLN 102 887 thousand).

Net interest income per client groups is as follows:

	Year ended 31 December	
	2018	2017
<b>Interest income</b>		
From banking sector	421 394	331 151
From other customers, including:	4 096 796	3 720 923
- individual clients	1 995 135	1 731 968
- corporate clients	1 461 832	1 293 963
- public sector	639 829	694 992
<b>Total interest income</b>	<b>4 518 190</b>	<b>4 052 074</b>
<b>Interest expenses</b>		
From banking sector	(62 337)	(71 652)
From other customers, including:	(565 209)	(495 534)
- individual clients	(284 255)	(292 739)
- corporate clients	(241 688)	(177 656)
- public sector	(39 266)	(25 139)
<b>Debt securities in issue</b>	<b>(318 870)</b>	<b>(280 211)</b>
<b>Subordinated liabilities</b>	<b>(75 300)</b>	<b>(69 017)</b>
<b>Total interest expense</b>	<b>(1 021 716)</b>	<b>(916 414)</b>

## 7. Net fee and commission income

	Year ended 31 December	
	2018	2017
<b>Fee and commission income</b>		
Payment cards-related fees	389 950	372 887
Credit-related fees and commissions	381 995	324 784
Commissions for agency service regarding sale of insurance products of external financial entities	100 639	187 388
Fees from brokerage activity and debt securities issue	104 494	135 450
Commissions from bank accounts	207 941	186 677
Commissions from money transfers	133 297	119 876
Commissions due to guarantees granted and trade finance commissions	84 727	71 395
Commissions for agency service regarding sale of other products of external financial entities	103 189	136 558
Commissions on trust and fiduciary activities	26 478	26 344
Fees from portfolio management services and other management-related fees	11 594	14 794
Fees from cash services	54 788	53 258
Other	42 690	30 262
<b>Fee and commission income</b>	<b>1 641 782</b>	<b>1 659 673</b>

	Year ended 31 December	
	2018	2017
<b>Fee and commission expense</b>		
Payment cards-related fees	(213 566)	(244 656)
Commissions paid to external entities for sale of the Bank's products	(141 527)	(130 686)
Commissions paid for agency service regarding sale of insurance products of external financial entities	(5 147)	(2 515)
Discharged brokerage fees	(26 772)	(28 626)
Cash services	(50 060)	(47 537)
Fees to NBP and KIR	(13 456)	(13 057)
Other discharged fees	(215 404)	(200 438)
<b>Total fee and commission expense</b>	<b>(665 932)</b>	<b>(667 515)</b>

In 2018, in connection with the implementation of IFRS 15, the Group netted part of its revenues and expenses due to fees and commissions from card organizations required by the new regulations. The change in the presentation did not affect the net result on fees and commissions.

## 8. Dividend income

	Year ended 31 December	
	2018	2017
Trading securities	4	11
Available for sale securities	n/a	3 417
Financial assets at fair value through other comprehensive income	3 554	n/a
<b>Total dividend income</b>	<b>3 558</b>	<b>3 428</b>

## 9. Net trading income

	Year ended 31 December	
	2018	2017
<b>Foreign exchange result</b>	<b>323 472</b>	<b>289 112</b>
Net exchange differences on translation	388 092	268 997
Net transaction gains/(losses)	(64 620)	20 115
<b>Gains or losses on financial assets and liabilities held for trading</b>	<b>30 571</b>	<b>17 606</b>
Derivatives, including:	27 699	17 810
- <i>Interest-bearing instruments</i>	18 732	11 645
- <i>Market risk instruments</i>	8 967	6 165
Equity instruments	(823)	(74)
Debt securities	3 558	(130)
Loans and advances	137	-
<b>Gains or losses from hedge accounting</b>	<b>(6 707)</b>	<b>(12 655)</b>
Net profit on hedged items	(76 367)	72 015
Net profit on fair value hedging instruments	66 268	(78 131)
Ineffective portion of cash flow hedge	3 392	(6 539)
<b>Net trading income</b>	<b>347 336</b>	<b>294 063</b>

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

The Group applies fair value hedge accounting and cash flow hedge accounting. Detailed information on hedge accounting are included in Note 20 "Financial assets held for trading and derivatives held for hedges".

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

	Year ended 31 December	
	2018	2017
<b>Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss</b>		
Equity instruments	(217)	n/a
Debt securities	7 028	n/a
Loans and advances	(166 852)	n/a
<b>Total gains or losses on non-trading financial assets mandatorily at fair value through profit or loss</b>	<b>(160 041)</b>	<b>n/a</b>

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

	Year ended 31.12.2018
Gains less losses related to sale of debt securities measured at fair value through other comprehensive income	16 465
Gains less losses related to sale of investments in subsidiaries and associates	(4 034)
Gains less losses from derecognition, including:	2 064
- Financial assets at amortised cost	2 064
<b>Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates</b>	<b>14 495</b>

#### Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss by instrument

	Year ended 31 December 2018	
	Gains	Losses
Loans and advances	7 266	(5 202)
<b>Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss</b>	<b>7 266</b>	<b>(5 202)</b>

### Gains and losses from investment securities, investments in subsidiaries and associates

	Year ended 31.12.2017
Sale/redemption of financial assets available for sale	22 244
Gains less losses related to sale of subsidiaries and associates	(6 177)
Impairment of investment equity securities	(4 751)
Impairment of available for sale debt securities	(7 511)
Impairment of investments in subsidiaries	(7 742)
<b>Total gains less losses from investment securities, investments in subsidiaries and associates</b>	<b>(3 937)</b>

### 12. Other operating income

	Year ended 31 December	
	2018	2017
Income from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories	68 363	139 377
Income from services provided	21 980	20 545
Net income from operating lease	2 215	5 158
Income due to release of provisions for future commitments	7 343	33 229
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	448	1 530
Income from compensations, penalties and fines received	333	478
Net revenues from the sale of an organised part of the company mFinanse S.A.	255 536	-
Other	51 402	42 043
<b>Total other operating income</b>	<b>407 620</b>	<b>242 360</b>

Net revenues from the sale of an organised part of the company mFinanse S.A. concern to the transaction described in Note 44 to these consolidated financial statements.

In 2017, income from sale or liquidation of tangible fixed assets, intangible assets as well as assets held for disposal comprises primarily income of the company Archicom Polska S.A. (previously mLocum S.A.) from developer activity.

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

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

Net income from operating lease generated in 2018 and 2017 is presented below.

	Year ended 31 December	
	2018	2017
<b>Net income from operating lease, including:</b>		
- Income from operating lease	48 949	51 417
- Depreciation cost of fixed assets provided under operating lease	(46 734)	(46 259)
<b>Total net income from operating lease</b>	<b>2 215</b>	<b>5 158</b>

### 13. Overhead costs

	Year ended 31 December	
	2018	2017
Staff-related expenses	(952 291)	(902 879)
Material costs, including:	(744 903)	(705 197)
- costs of administration and real estate services	(366 005)	(358 892)
- IT costs	(164 335)	(151 898)
- marketing costs	(135 282)	(112 099)
- consulting costs	(68 606)	(70 011)
- other material costs	(10 675)	(12 297)
Taxes and fees	(25 971)	(23 169)
Contributions and transfers to the Bank Guarantee Fund	(180 434)	(180 076)
Contributions to the Social Benefits Fund	(7 741)	(7 628)
<b>Total overhead costs</b>	<b>(1 911 340)</b>	<b>(1 818 949)</b>

The item "Material costs" includes operating lease payment costs of tangible assets (mainly real estate) of PLN 27 997 thousand (2017: PLN 28 566 thousand).

Staff-related expenses in 2018 and 2017 are presented below.

	Year ended 31 December	
	2018	2017
Wages and salaries	(776 676)	(738 705)
Social security expenses	(126 303)	(118 570)
Employee contributions related to post-employment benefits	(26)	(702)
Remuneration concerning share-based payments, including:	(10 703)	(9 703)
- share-based payments settled in mBank S.A. shares	(10 224)	(8 700)
- cash-settled share-based payments	(479)	(1 003)
Other staff expenses	(38 583)	(35 199)
<b>Staff-related expenses, total</b>	<b>(952 291)</b>	<b>(902 879)</b>

Cash-settled share-based payments relate to the costs of incentive programmes existing in the Group entities. Detailed information regarding incentive programmes to which share-based payments relate, is included under the Note 42 "Share-based incentive programmes".

#### 14. Other operating expenses

	Year ended 31 December	
	2018	2017
Costs arising from sale or liquidation of fixed assets, intangible assets, assets held for resale and inventories	(42 497)	(97 363)
Provisions for future commitments	(50 141)	(50 193)
Costs arising from provisions created for other receivables (excluding loans and advances)	(1 686)	(1 201)
Donations made	(14 539)	(2 655)
Costs of sale of services	(391)	(1 579)
Compensation, penalties and fines paid	(2 197)	(2 500)
Costs arising from receivables and liabilities recognised as prescribed, remitted and uncollectible	(138)	(54)
Impairment provisions created for tangible fixed assets and intangible assets	-	(8 200)
Other operating costs	(81 364)	(46 426)
<b>Total other operating expenses</b>	<b>(192 953)</b>	<b>(210 171)</b>

In 2018, provisions for future commitments include provisions for legal proceedings of PLN 23 587 thousand (2017: - PLN 32 997 thousand) (Note 31).

Other operating costs include debt collection expenses in the amount of PLN 36 941 thousand (31 December 2017: PLN 21 861 thousand).

Costs arising from sale or liquidation of fixed assets, intangible assets, assets held for resale and inventories comprise primarily the expenses incurred by Archicom Polska S.A. (previously mLocum S.A.) in connection with its developer activity.

Costs of services provided concern non-banking services.

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

	Year ended 31 December	
	2018	2017
<b>Financial assets at amortised cost, including:</b>	<b>(537 931)</b>	<b>(473 621)</b>
- Debt securities	(52)	n/a
Stage 1	(52)	n/a
- Loans and advances	(537 879)	(473 621)
Stage 1	(64 034)	n/a
Stage 2	(41 355)	n/a
Stage 3	(441 675)	n/a
POCI	9 185	n/a
<b>Financial assets at fair value through other comprehensive income</b>	<b>95</b>	<b>n/a</b>
- Debt securities	95	n/a
Stage 1	408	n/a
Stage 2	(313)	n/a
<b>Commitments and guarantees given</b>	<b>10 263</b>	<b>(34 100)</b>
Stage 1	(753)	n/a
Stage 2	(3 596)	n/a
Stage 3	14 379	n/a
POCI	233	n/a
<b>Net impairment losses on financial assets not measured at fair value through profit or loss</b>	<b>(527 573)</b>	<b>(507 721)</b>

## 16. Income tax expense

	Year ended 31 December	
	2018	2017
Current tax	(767 217)	(562 504)
Deferred income tax	283 272	129 672
<b>Total income tax</b>	<b>(483 945)</b>	<b>(432 832)</b>
<b>Profit before tax</b>	<b>1 800 314</b>	<b>1 527 902</b>
Tax calculated at Polish current tax rate (19%)	(342 060)	(290 301)
Effect of different tax rates in other countries	163	165
Income not subject to tax	4 915	15 748
Costs other than tax deductible costs *)	(146 802)	(158 484)
Other positions affecting income tax	6 816	716
Inactive tax losses	(6 977)	(676)
<b>Total tax liability</b>	<b>(483 945)</b>	<b>(432 832)</b>
<b>Effective tax rate calculation</b>		
Profit (loss) before income tax	1 800 314	1 527 902
Income tax	(483 945)	(432 832)
<b>Effective tax rate</b>	<b>26.88%</b>	<b>28.33%</b>

\*) The position includes i.a. impact of banking tax introduced by the Act on Tax on Certain Financial Institutions from 15 January 2016 (Journal of Laws 2016, item 68) in 2018, resulting in the additional tax charge in the amount of PLN 76 334 thousand, and non-deductible costs according to Article 16 item 1 of Corporate Income Tax Act from 15 February 1992 (Journal of Laws No 21, item 86).

Information about deferred income tax is presented under Note 34. The tax on the Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the parent as presented above.

## 17. Earnings per share

### Earnings per share for 12 months

	Year ended 31 December	
	2018	2017
<b>Basic:</b>		
Net profit attributable to Owners of mBank S.A.	1 316 451	1 091 530
Weighted average number of ordinary shares	42 318 253	42 290 313
<b>Net basic profit per share (in PLN per share)</b>	<b>31.11</b>	<b>25.81</b>
<b>Diluted:</b>		
Net profit attributable to Owners of mBank S.A., applied for calculation of diluted earnings per share	1 316 451	1 091 530
Weighted average number of ordinary shares	42 318 253	42 290 313
Adjustments for:		
- share options	25 522	23 070
Weighted average number of ordinary shares for calculation of diluted earnings per share	42 343 775	42 313 383
<b>Diluted earnings per share (in PLN per share)</b>	<b>31.09</b>	<b>25.80</b>

According to IAS 33, the Bank prepares a calculation of the diluted earnings per share taking into account contingently issuable shares as part of the incentive programmes described in the Note 42. The calculations did not include those elements of the incentive programmes, which were antidilutive for the presented reporting periods that could potentially dilute basic earnings per share in the future.

The basic earnings per share are computed as the quotient of the Bank stockholders' share of the profit and the weighted average number of ordinary shares during the year.

The diluted earnings per share are calculated as ratio of net profits attributable to Bank's shareholder and the weighted average number of ordinary shares as if all possible ordinary shares causing the dilution were replaced with shares. The Bank has one category of potential ordinary shares causing the dilution: share options. The number of diluting shares is computed as the number of shares that would be issued if all share options were executed at the market price, determined as the average annual closing price of the Bank's shares.

## 18. Other comprehensive income

Disclosure of tax effects relating to each component of other comprehensive income	Year ended 31 December 2018			Year ended 31 December 2017		
	Before-tax amount	Tax (expense) benefit	Net amount	Before-tax amount	Tax (expense) benefit	Net amount
<b>Items that may be reclassified subsequently to the the income statement</b>	<b>141 211</b>	<b>(29 297)</b>	<b>111 914</b>	<b>220 732</b>	<b>(52 447)</b>	<b>168 285</b>
Exchange differences on translation of foreign operations	60	-	60	477	-	477
Cash flow hedges	109 681	(20 840)	88 841	(4 511)	858	(3 653)
Change in valuation of available for sale financial assets	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	224 766	(53 305)	171 461
Debt instruments at fair value through other comprehensive income	31 470	(8 457)	23 013	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>
<b>Items that will not be reclassified to the income statement</b>	<b>(3 135)</b>	<b>587</b>	<b>(2 548)</b>	<b>(3 786)</b>	<b>720</b>	<b>(3 066)</b>
Actuarial gains and losses relating to post-employment benefits	(3 135)	587	(2 548)	(3 786)	720	(3 066)
<b>Total comprehensive income (net)</b>	<b>138 076</b>	<b>(28 710)</b>	<b>109 366</b>	<b>216 946</b>	<b>(51 727)</b>	<b>165 219</b>

The table below presents detailed information concerning net other comprehensive income for the years 2018 and 2017.

	Year ended 31 December	
	2018	2017
<b>Items that may be reclassified subsequently to the the income statement, including:</b>	<b>111 914</b>	<b>168 285</b>
<b>Exchange differences on translating foreign operations</b>	<b>60</b>	<b>477</b>
Unrealised gains or losses on exchange differences on translation of foreign operations included in other comprehensive income	60	477
<i>Unrealised gains (positive differences) arising during the year (net)</i>	<i>117</i>	<i>1 221</i>
<i>Unrealised losses (negative differences) arising during the year (net)</i>	<i>(57)</i>	<i>(744)</i>
<b>Cash flows hedges [effective part]</b>	<b>88 841</b>	<b>(3 653)</b>
Unrealised gain or losses included in other comprehensive income	88 841	(3 653)
<i>Unrealized gains arising during the year (net)</i>	<i>88 841</i>	<i>1 468</i>
<i>Unrealized losses arising during the year (net)</i>	<i>-</i>	<i>(5 121)</i>
<b>Available-for-sale financial assets</b>	<b>n/a</b>	<b>171 461</b>
Unrealised gains on debt instruments arising during the year (net)	n/a	224 243
Unrealised losses on debt instruments arising during the year (net)	n/a	(46 772)
Reclassification adjustments of gains (losses) on debt instruments to the income statement (net)	n/a	(17 832)
Unrealised gains on equity instruments arising during the year (net)	n/a	12 287
Unrealised losses on equity instruments arising during the year (net)	n/a	(44)
Reclassification adjustments of gains (losses) on equity instruments to the income statement (net)	n/a	(421)
<b>Valuation of debt instruments at fair value through other comprehensive income (net)</b>	<b>23 013</b>	<b>n/a</b>
Unrealised gains or losses on valuation of debt instruments included in other comprehensive income	36 350	n/a
<i>Unrealised gains on debt instruments arising during the year (net)</i>	<i>62 966</i>	<i>n/a</i>
<i>Unrealised losses on debt instruments arising during the year (net)</i>	<i>(26 616)</i>	<i>n/a</i>
Reclassification adjustments of gains (losses) on debt instruments to the income statement (net)	(13 337)	n/a
<b>Items that will not be reclassified to profit or loss</b>	<b>(2 548)</b>	<b>(3 066)</b>
Actuarial gains and losses relating to post-employment benefits	(2 548)	(3 066)
<i>Actuarial gains</i>	<i>-</i>	<i>51</i>
<i>Actuarial losses</i>	<i>(2 548)</i>	<i>(3 117)</i>
<b>Total comprehensive income (net), attributable to:</b>	<b>109 366</b>	<b>165 219</b>

In 2018 unrealized gains on debt instruments arising during the year in the amount of PLN 62 966 thousand relate mainly to positive valuation of debt securities of the banking book, caused by a decrease in interest rates in the last quarter of 2018, resulting from interest rate drops in global markets.

In 2017, unrealized gains on debt instruments arising during the year in the amount of PLN 224 243 thousand relate mainly to positive valuation of debt securities of the banking book, caused by a decrease in interest rates in the first half of 2017, resulting from interest rate drops in global markets.

## 19. Cash and balances with central bank

	31.12.2018	31.12.2017
Cash on hand	1 724 452	1 286 132
Cash balances at central banks	7 474 812	6 098 737
<b>Total cash and cash balances with central banks</b>	<b>9 199 264</b>	<b>7 384 869</b>

On the basis of the Act on the National Bank of Poland of 29 August 1997, mBank holds a mandatory reserve deposit. The arithmetic mean of daily balances of the mandatory reserve that the mBank is obliged to maintain during a given period in the current account with NBP amounted to:

- PLN 3 129 048 thousand for the period from 31 December 2018 to 30 January 2019,
- PLN 2 736 636 thousand for the period from 30 November 2017 to 1 January 2018.

As at 31 December 2018, the mandatory reserve in Central Bank bore 0.50% interest (31 December 2017: 1.35%).

## 20. Financial assets and liabilities held for trading and derivatives held for hedges

### Financial assets held for trading and derivatives held for hedges

	31.12.2018	31.12.2017
<b>Derivatives</b>	<b>1 006 079</b>	<b>1 236 303</b>
- Derivatives held for trading classified into banking book	81 480	220 694
- Derivatives held for trading classified into trading book	916 006	1 003 020
- Derivatives designated as fair value hedges	175 649	93 752
- Derivatives designated as cash flow hedges	196 668	30 312
- Offsetting effect	(363 724)	(111 475)
<b>Equity instruments</b>	<b>-</b>	<b>1 474</b>
- Other financial corporations	-	160
- Non-financial corporations	-	1 314
<b>Debt securities</b>	<b>1 055 057</b>	<b>1 523 908</b>
- General governments	748 294	1 232 515
<i>pledged securities</i>	538 345	25 837
- Credit institutions	166 305	112 697
- Other financial corporations	72 626	80 260
- Non-financial corporations	67 832	98 436
<b>Loans and advances to customers</b>	<b>43 166</b>	<b>n/a</b>
- Corporate customers	43 166	n/a
<b>Total financial assets held for trading and derivatives held for hedging</b>	<b>2 104 302</b>	<b>2 761 685</b>

Trading securities include securities used to secure sell-buy-back transactions with customers, the market value of which as at 31 December 2018 amounted to PLN 538 345 thousand (31 December 2017: PLN 25 837 thousand).

### Financial liabilities held for trading and derivatives held for hedges

	31.12.2018	31.12.2017
Derivatives	981 117	1 095 365
- Derivatives held for trading classified into banking book	74 986	97 284
- Derivatives held for trading classified into trading book	995 156	1 107 929
- Derivatives designated as fair value hedges	10 660	4 284
- Derivatives designated as cash flow hedges	-	2 103
- Offsetting effect	(99 685)	(116 235)
<b>Financial liabilities held for trading and derivatives held for hedging</b>	<b>981 117</b>	<b>1 095 365</b>

## Derivative financial instruments

The Group has the following types of derivative instruments:

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

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

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

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

**Currency and interest rate options** are agreements, pursuant to which the selling party grants the buying party the right, but not an obligation, to purchase (call option) or sell (put option) a specific quantity of a foreign currency or a financial instrument at a predefined price on or by a specific date or within an agreed period. In return for accepting currency or interest rate risk, the buyer offers the seller a premium. An option can be either a public instrument traded at a stock exchange or a private instrument negotiated between the Group and a customer (private transaction). The Group is exposed to credit risk related to purchased options only up to the balance sheet value of such options, i.e. the fair value of the options.

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

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

The fair values of derivatives held by the Bank is presented in the table below.

As at 31 December 2018	Contract amount		Fair value	
	Purchase	Disposal	Assets	Liabilities
<b>Derivatives held for trading</b>				
- Currency forwards	16 612 859	16 730 475	48 959	83 547
- Currency swaps	12 618 508	12 664 389	43 967	39 092
- Cross-currency interest rate swaps	14 303 665	14 385 388	19 317	76 435
- OTC currency options bought and sold	2 682 292	2 653 710	28 815	36 688
<b>Total OTC derivatives</b>	<b>46 217 324</b>	<b>46 433 962</b>	<b>141 058</b>	<b>235 762</b>
- Currency futures	214 746	214 838	(2 028)	-
<b>Total foreign exchange derivatives</b>	<b>46 432 070</b>	<b>46 648 800</b>	<b>139 030</b>	<b>235 762</b>
<b>Interest rate derivatives</b>				
- Interest rate swap, OIS	180 292 858	180 292 858	695 672	663 013
- Forward rate agreements	3 950 000	4 160 000	94	62
- OTC interest rate options	442 582	627 381	430	602
<b>Total interest rate derivatives</b>	<b>184 685 440</b>	<b>185 080 239</b>	<b>696 196</b>	<b>663 677</b>
<b>Market risk transactions</b>	<b>1 616 088</b>	<b>2 669 503</b>	<b>162 260</b>	<b>170 703</b>
<b>Total derivative assets / liabilities held for trading</b>	<b>232 733 598</b>	<b>234 398 542</b>	<b>997 486</b>	<b>1 070 142</b>
<b>Derivatives held for hedging</b>				
Derivatives designated as fair value hedges	13 615 516	13 615 516	175 649	10 660
- Interest rate swaps	13 615 516	13 615 516	175 649	10 660
Derivatives designated as cash flow hedges	11 530 000	11 530 000	196 668	-
- Interest rate swaps	11 530 000	11 530 000	196 668	-
<b>Total derivatives held for hedging</b>	<b>25 145 516</b>	<b>25 145 516</b>	<b>372 317</b>	<b>10 660</b>
<b>Offsetting effect</b>	<b>-</b>	<b>-</b>	<b>(363 724)</b>	<b>(99 685)</b>
<b>Total recognised derivative assets/ liabilities</b>	<b>257 879 114</b>	<b>259 544 058</b>	<b>1 006 079</b>	<b>981 117</b>
<b>Short-term (up to 1 year)</b>	<b>80 901 241</b>	<b>81 921 038</b>	<b>88 402</b>	<b>320 223</b>
<b>Long-term (over 1 year)</b>	<b>176 977 873</b>	<b>177 623 020</b>	<b>917 677</b>	<b>660 894</b>

As at 31 December 2017	Contract amount		Fair value	
	Purchase	Disposal	Assets	Liabilities
<b>Derivatives held for trading</b>				
- Currency forwards	18 628 052	18 846 094	103 092	266 381
- Currency swaps	13 448 601	13 342 269	133 340	50 823
- Cross-currency interest rate swaps	11 936 364	11 850 069	124 380	23 570
- OTC currency options bought and sold	1 809 601	1 802 752	32 911	36 080
<b>Total OTC derivatives</b>	<b>45 822 618</b>	<b>45 841 184</b>	<b>393 723</b>	<b>376 854</b>
- Currency futures	86 599	86 897	-	-
<b>Total foreign exchange derivatives</b>	<b>45 909 217</b>	<b>45 928 081</b>	<b>393 723</b>	<b>376 854</b>
<b>Interest rate derivatives</b>				
- Interest rate swap, OIS	149 054 812	149 054 813	782 159	791 641
- Forward rate agreements	1 125 000	3 350 000	711	81
- OTC interest rate options	376 149	493 415	2 470	2 544
<b>Total OTC interest rate derivatives</b>	<b>150 555 961</b>	<b>152 898 228</b>	<b>785 340</b>	<b>794 266</b>
- Interest rate futures	10 767	491	-	-
<b>Total interest rate derivatives</b>	<b>150 566 728</b>	<b>152 898 719</b>	<b>785 340</b>	<b>794 266</b>
<b>Market risk transactions</b>	<b>1 304 405</b>	<b>1 862 741</b>	<b>44 651</b>	<b>34 093</b>
<b>Total derivative assets / liabilities held for trading</b>	<b>197 780 350</b>	<b>200 689 541</b>	<b>1 223 714</b>	<b>1 205 213</b>
<b>Derivatives held for hedging</b>				
Derivatives designated as fair value hedges	9 456 452	9 456 452	93 752	4 284
- Interest rate swaps	9 456 452	9 456 452	93 752	4 284
Derivatives designated as cash flow hedges	5 965 000	5 965 000	30 312	2 103
- Interest rate swaps	5 965 000	5 965 000	30 312	2 103
<b>Total derivatives held for hedging</b>	<b>15 421 452</b>	<b>15 421 452</b>	<b>124 064</b>	<b>6 387</b>
<b>Offsetting effect</b>	-	-	<b>(111 475)</b>	<b>(116 235)</b>
<b>Total recognised derivative assets/ liabilities</b>	<b>213 201 802</b>	<b>216 110 993</b>	<b>1 236 303</b>	<b>1 095 365</b>
<b>Short-term (up to 1 year)</b>	<b>76 997 463</b>	<b>80 094 156</b>	<b>407 334</b>	<b>387 154</b>
<b>Long-term (over 1 year)</b>	<b>136 204 339</b>	<b>136 016 837</b>	<b>828 969</b>	<b>708 211</b>

Except of valuation of derivatives, the offsetting effect includes PLN 7 210 thousand of placed collaterals and PLN 246 348 thousand of collaterals received in connection with the derivative transactions subject to compensation (31 December 2017: PLN 30 572 thousand and PLN 34 551 thousand respectively).

In the both reporting periods, market risk transactions comprise the fair values of: stock index options, shares and other equity securities, futures for commodities, swap contracts for commodities.

As at 31 December 2018 and 31 December 2017, the Bank did not hold any financial assets and financial liabilities designated upon initial recognition as at fair value through the income statement.

### Credit quality of financial assets held for trading and derivatives according to internal rating system

Sub-portfolio	31.12.2018		31.12.2017	
	Derivatives	Loans and advances to customers	Derivatives	Loans and advances to customers
1	718 194	-	392 057	n/a
2	313 999	-	659 324	n/a
3	256 684	43 166	156 945	n/a
4	60 931	-	88 046	n/a
5	10 158	-	14 249	n/a
6	-	-	87	n/a
7	-	-	7 857	n/a
8	9 556	-	26 878	n/a
default	281	-	2 335	n/a
Offsetting effect	(363 724)	-	(111 475)	
<b>Total</b>	<b>1 006 079</b>	<b>43 166</b>	<b>1 236 303</b>	<b>n/a</b>

Rating	31.12.2018	31.12.2017
	Debt securities	Debt securities
AAA	748 294	2 717
AA- to AA+	-	5 000
A- to A+	83 232	1 247 196
BBB+ to BBB-	176 169	200 897
BB+ to BB-	47 362	61 712
B+ to B-	-	5 908
Unrated	-	478
<b>Total</b>	<b>1 055 057</b>	<b>1 523 908</b>

### Hedge accounting

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

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

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

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

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

### Fair value hedge accounting

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

At the end of each month, the Group evaluates effectiveness of the applied hedging by carrying out analysis of changes in fair value of the hedged and hedging instruments in respect of the hedged risk in order to

confirm that hedging relationships are effective in accordance with the accounting policy described in Note 2.14.

Description of the hedging relation

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

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

Hedged items

The hedged items are:

- three tranches of fixed interest rate Eurobonds issued by mFF with a total nominal value of EUR 1 500 000 thousand,
- one tranche of fixed interest rate Eurobonds issued by mFF with a total nominal value of CHF 200 000 thousand,
- fixed interest rate mortgage bonds issued by mBH with a nominal value of EUR 104 000 thousand,
- fixed interest rate loans received by mBank from European Investment Bank with a nominal value of respectively EUR 500 000 thousand, CHF 113 110 thousand and CHF 175 560 thousand,
- fixed rate bonds issued by mBank S.A. with a nominal value of CHF 180 000 thousand,
- fixed rate bonds issued by mBank S.A. with a nominal value of EUR 500 000 thousand.

Hedging instruments

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

**Nominal values of hedging derivatives - fair value hedging**

31.12.2018	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
<b>Interest rate swaps (IRS)</b>						
<b>Nominal value</b>	-	-	2 150 000	8 330 308	3 135 208	<b>13 615 516</b>

Presentation of the result from hedged and hedging transactions

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

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

	Year ended 31 December	
	2018	2017
Interest income on derivatives concluded under the fair value hedge accounting (Note 6)	84 441	66 808
Net profit on hedged items (Note 9)	(76 367)	72 015
Net profit on fair value hedging instruments (Note 9)	66 268	(78 131)
<b>The total results of fair value hedge accounting recognised in the income statement</b>	<b>74 342</b>	<b>60 692</b>

**Cash flow hedge accounting**

The Group applies cash flow hedge accounting of the part of loans at a variable interest rate indexed to the market rate portfolio, granted by the Bank. An Interest Rate Swap is the hedging instrument changing the variable interest rate to a fixed interest rate. The interest rate risk is the hedged risk within applied by the Group cash flow hedge accounting. The ineffective portion of the gains or losses on the hedging instrument is presented in Note 9 in the position "Other net trading income and result on hedge accounting". Portion of the gains or losses on the hedging instrument that is an effective hedge, is presented in the statement of comprehensive income as "Cash flow hedges (net)".

### Nominal values of hedging derivatives - cash flow hedges

31.12.2018	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
<b>INTEREST RATE RISK</b>						
<b>Interest rate swaps (IRS) hedging cash flows arising from granted loans with a variable interest rate denominated in PLN</b>						
<b>Nominal value</b>	150 000	750 000	300 000	10 330 000	-	<b>11 530 000</b>
<b>The average rate of fixed leg</b>	1,965%	1,822%	2,013%	2,189%	-	-

The period from January 2019 to October 2023 is the period in which the cash flows are expected, and when they are expected to have an impact on the result.

The following note presents other comprehensive income due to cash flow hedges as at 31 December 2018 and 31 December 2017.

	Year ended 31 December	
	2018	2017
<b>Other gross comprehensive income from cash flow hedge at the beginning of the period</b>	<b>(6 418)</b>	<b>(1 907)</b>
- Unrealised gains/losses included in other gross comprehensive income during the reporting period	109 681	(4 511)
<b>Accumulated other gross comprehensive income at the end of the reporting period</b>	<b>103 263</b>	<b>(6 418)</b>
Deferred income tax on accumulated other comprehensive income at the end of the reporting period	(19 620)	1 220
<b>Accumulated other net comprehensive income at the end of the reporting period</b>	<b>83 643</b>	<b>(5 198)</b>
Impact on other comprehensive income in the reporting period (gross)	109 681	(4 511)
Deferred tax on cash flow hedges	(20 840)	858
<b>Impact on other comprehensive income in the reporting period (net)</b>	<b>88 841</b>	<b>(3 653)</b>

	Year ended 31 December	
	2018	2017
<b>Gains/losses recognised in comprehensive income (gross) during the reporting period, including:</b>		
- Unrealised gains/losses included in other comprehensive income (gross)	109 681	(4 511)
- Amount included as interest income in income statement during the reporting period	40 357	15 780
- Ineffective portion of hedge recognised included in other net trading income in income statement	3 392	(6 539)
<b>Impact on other comprehensive income in the reporting period (gross)</b>	<b>153 430</b>	<b>4 730</b>

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

	Year ended 31 December	
	2018	2017
Interest income on derivatives concluded under the cash flow hedge (Note 6)	40 357	15 780
Ineffective portion of cash flow hedge (Note 9)	3 392	(6 539)
<b>The total results of cash flow hedge accounting recognised in the income statement</b>	<b>43 749</b>	<b>9 241</b>

Below is given the timetable prepared as at 31 December 2018, presenting the periods in which the cash flows from loans secured under the cash flow hedge accounting were expected and their impact on the profit and loss account.

Cash flows from loans secured under the cash flow hedge accounting (PLN 000's)		
up to 3 months	period from 3 months to 1 year	period from 1 year to 5 years
47 130	136 956	401 142

Below is given the timetable prepared as at 31 December 2017, presenting the periods in which the cash flows from loans secured under the cash flow hedge accounting are expected and their impact on the profit and loss account.

Cash flows from loans secured under the cash flow hedge accounting (PLN 000's)		
up to 3 months	period from 3 months to 1 year	period from 1 year to 5 years
25 720	77 036	297 008

The fair value equal to book value of derivatives hedging was presented above in this Note.

## 21. Non-trading financial assets mandatorily at fair value through profit or loss

	31.12.2018	31.12.2017
<b>Equity instruments</b>	<b>72 775</b>	<b>n/a</b>
- Other financial corporations	12 934	n/a
- Non-financial corporations	59 841	n/a
<b>Debt securities</b>	<b>58 130</b>	<b>n/a</b>
- Other financial corporations	58 130	n/a
<b>Loans and advances to customers</b>	<b>2 705 155</b>	<b>n/a</b>
Individual customers	2 370 872	n/a
Corporate customers	321 380	n/a
Public sector customers	12 903	n/a
<b>Total non-trading financial assets mandatorily at fair value through profit or loss</b>	<b>2 836 060</b>	<b>n/a</b>
Short-term (up to 1 year) gross	1 705 855	n/a
Long-term (over 1 year) gross	1 130 205	n/a

## Credit quality of non-trading financial assets mandatorily at fair value through profit or loss according to internal rating system

Rating	31.12.2018
	Debt securities
A- to A+	58 130
<b>Total</b>	<b>58 130</b>

Sub-portfolio	31.12.2018
	Loans and advances to customers
1	113 769
2	541 462
3	490 355
4	779 991
5	358 643
6	43 171
7	176 974
default	200 790
<b>Total</b>	<b>2 705 155</b>

## 22. Financial assets at fair value through other comprehensive income

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

As at 31 December 2018, the carrying values of debt securities with fixed interest rates amounted to PLN 13 140 147 thousand and debt securities with variable interest rates PLN 11 202 672 thousand.

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

In accordance with the Act of 10 June 2016 on the Bank Guarantee Fund (BFG), Deposit Guarantee Scheme and Resolution, as at 31 December 2018 the Bank held government bonds and bills included in the statement of financial position in the amount of PLN 547 895 thousand with a nominal value of PLN 541 169 thousand, which were pledged as collateral for the BFG and were deposited in a separate account at the National Depository of Securities.

In addition the Bank held government bonds, which were securing the payment commitment to the BFG guarantee fund and forced restructuring fund in the amount of PLN 128 915 thousand.

### Movements in expected credit losses allowance on financial assets at fair value through other comprehensive income

As at 31 December 2018	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Changes in credit risk	As at the end of the period
<b>Debt securities</b>	<b>(4 655)</b>	-	-	-	<b>(757)</b>	<b>1 838</b>	<b>(961)</b>	<b>(4 535)</b>
Stage 1	(4 655)	-	51	-	(757)	1 838	(648)	(4 171)
Stage 2	-	-	(51)	-	-	-	(313)	(364)
<b>Expected credit losses allowance, total</b>	<b>(4 655)</b>	-	-	-	<b>(757)</b>	<b>1 838</b>	<b>(961)</b>	<b>(4 535)</b>

### Explanation of changes in the financial instruments gross carrying amount impacting the changes on expected credit losses allowance

As at 31 December 2018	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Other movements	As at the end of the period
<b>Debt securities</b>	<b>23 495 687</b>	-	-	-	<b>17 796 819</b>	<b>(17 882 894)</b>	<b>933 207</b>	<b>24 342 819</b>
Stage 1	23 495 687	-	(21 472)	-	17 796 819	(17 882 894)	932 958	24 321 098
Stage 2	-	-	21 472	-	-	-	249	21 721
<b>Financial assets at fair value through other comprehensive income, gross</b>	<b>23 495 687</b>	-	-	-	<b>17 796 819</b>	<b>(17 882 894)</b>	<b>933 207</b>	<b>24 342 819</b>

**Credit quality of financial assets at fair value through other comprehensive income according to internal rating system**

As at 31 December 2018	Stage 1	Stage 2	Stage 3	POCI	Total
<b>Debt securities at fair value through other comprehensive income</b>					
AAA	22 662 959	-	-	-	22 662 959
A- do A+	547 751	-	-	-	547 751
BBB+ do BBB-	578 615	-	-	-	578 615
BB+ do BB-	431 396	21 721	-	-	453 117
B+ do B-	60 887	-	-	-	60 887
Unrated	39 490	-	-	-	39 490
<b>Gross carrying amount</b>	<b>24 321 098</b>	<b>21 721</b>	-	-	<b>24 342 819</b>
Accumulated impairment	(4 171)	(364)	-	-	(4 535)
<b>Total carrying amount</b>	<b>24 316 927</b>	<b>21 357</b>	-	-	<b>24 338 284</b>

The note below presents the carrying amount of investment securities in accordance with IAS 39 as at 31 December 2017.

Investment securities	31.12.2017
<b>Equity securities</b>	<b>87 625</b>
- Other financial corporations	83 122
- Non-financial corporations	4 503
<b>Debt securities:</b>	<b>32 057 074</b>
- Central banks	2 322 914
- General governments, including:	27 619 604
<i>pledged securities</i>	6 299 892
- Credit institutions	426 136
- Other financial corporations	1 103 781
- Non-financial corporations	584 639
<b>Total investment securities</b>	<b>32 144 699</b>

As at 31 December 2017, equity securities include fair value of preferred shares of Visa Inc. in the amount of PLN 46 538 thousand.

As at 31 December 2017 the Bank created provisions for impairment of equity securities valued at fair value in the amount of PLN 23 886 thousand.

As at 31 December 2017, the carrying values of debt securities with fixed interest rates amounted to PLN 23 647 422 thousand and debt securities with variable interest rates PLN 8 409 652 thousand.

The above note includes government bonds pledged under the Bank Guarantee Fund (BFG), government bonds pledged as sell-buy-back transactions, government bonds pledged as collateral for the loans received from the European Investment Bank and government bonds pledged as collateral for deposit placed by the customer.

In accordance with the Act of 10 June 2016 on the Bank Guarantee Fund (BFG), Deposit Guarantee Scheme and Resolution, as at 31 December 2017 the Group held government bonds and bills included in the statement of financial position in the amount of PLN 619 906 thousand with a nominal value of PLN 605 378 thousand, which were pledged as collateral for the BFG and were deposited in a separate account at the National Depository of Securities.

### Movements in investment securities

	31.12.2017
<b>Investment securities</b>	
<b>As at the beginning of the period</b>	<b>31 393 352</b>
Exchange differences	(62 431)
Additions	110 448 810
Disposals (sale, redemption, forfeiture, reclassification)	(109 804 061)
Losses from impairment of investment equity securities	(4 751)
Gains / (losses) from changes in fair value	173 780
<b>As at the end of the period</b>	<b>32 144 699</b>

As at 31 December 2017 there are no provisions for impairment of investment debt securities.

### Movements in provisions for losses on investment securities

	31.12.2017
<b>Provisions for losses on debt securities</b>	
<i>- Listed</i>	
<b>As at the beginning of the period</b>	-
Allowance for impairment	(7 511)
Reclassification	7 511
<b>As at the end of the period</b>	-
<b>Provisions for losses on equity securities</b>	
<b>As at the beginning of the period</b>	<b>(19 135)</b>
Allowance for impairment	(4 751)
<b>As at the end of the period</b>	<b>(23 886)</b>
<b>Total provisions for investment securities</b>	
<b>As at the beginning of the period</b>	<b>(19 135)</b>
Allowance for impairment	(12 262)
Reclassification	7 511
<b>As at the end of the period</b>	<b>(23 886)</b>

### Debt Instruments: treasury bonds and other eligible debt securities

31 December 2017	Investment debt securities
Rating	
AAA	3 134 954
AA- to AA+	11 522
A- to A+	27 152 710
BBB+ to BBB-	1 287 840
BB+ to BB-	301 725
B+ to B-	95 122
Unrated	73 201
<b>Total</b>	<b>32 057 074</b>

### 23. Financial assets at amortised cost

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

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

#### Loans and advances to banks

	<b>31.12.2018</b>
Current accounts	417 968
Placements with other banks (up to 3 months)	265 443
<b>Included in cash equivalents (Note 41)</b>	<b>683 411</b>
Loans and advances	138 483
Other receivables	1 725 970
<b>Total (gross) loans and advances to banks</b>	<b>2 547 864</b>
<b>Provisions created for loans and advances to banks (negative amount)</b>	<b>(1 518)</b>
<b>Total (net) loans and advances to banks</b>	<b>2 546 346</b>
Short-term (up to 1 year) gross	2 331 361
Long-term (over 1 year) gross	216 503

The item "Other receivables" includes cash collaterals in the amount of PLN 372 352 thousand, placed by the Group under the derivative transactions (Note 35).

As at 31 December 2018, the variable rate loans to banks amounted to PLN 109 591 thousand (31 December 2017 – PLN 178 668 thousand) and the fixed rate loans to banks amounted to PLN 28 892 thousand (31 December 2017 – PLN 5 823 thousand).

As at 31 December 2018 and 31 December 2017 the term placements with other banks were fixed rated. An average interest rate for placements in other banks and loans granted to other banks amounted to 1.66% (2017 - 1.59%).

The following table presents receivables from Polish and foreign banks:

<b>31.12.2018</b>	<b>Loans and advances to Polish banks</b>	<b>Loans and advances to foreign banks</b>
Gross carrying amount	398 161	2 149 703
Accumulated impairment	(102)	(1 416)
<b>Loans and advances to banks, net</b>	<b>398 059</b>	<b>2 148 287</b>

### Loans and advances to customers

Loans and advances to customers 31.12.2018	Gross carrying amount	Individual customers	Corporate customers	Public sector customers
Current accounts	12 073 809	6 474 555	5 598 673	581
Term loans, including:	68 498 140	43 720 475	24 141 323	636 342
- housing and mortgage loans to individual customers	34 696 807	34 696 807	-	-
Reverse repo / buy-sell-back	1 146 263	-	1 146 263	-
Finance leases	10 555 560	-	10 555 560	-
Other loans and advances	2 411 802	-	2 411 802	-
Other receivables	374 405	359 473	14 932	-
<b>Total gross carrying amount</b>	<b>95 059 979</b>	<b>50 554 503</b>	<b>43 868 553</b>	<b>636 923</b>
Loans and advances to customers 31.12.2018	Accumulated impairment	Individual customers	Corporate customers	Public sector customers
Current accounts	(931 926)	(664 656)	(267 270)	-
Term loans, including:	(1 837 896)	(965 515)	(871 741)	(640)
- housing and mortgage loans to individual customers	(453 300)	(453 300)	-	-
Finance leases	(243 170)	-	(243 170)	-
Other loans and advances	(29 555)	-	(29 555)	-
<b>Total accumulated impairment</b>	<b>(3 042 547)</b>	<b>(1 630 171)</b>	<b>(1 411 736)</b>	<b>(640)</b>
<b>Total gross carrying amount</b>	<b>95 059 979</b>	<b>50 554 503</b>	<b>43 868 553</b>	<b>636 923</b>
Total accumulated impairment	(3 042 547)	(1 630 171)	(1 411 736)	(640)
<b>Total carrying amount</b>	<b>92 017 432</b>	<b>48 924 332</b>	<b>42 456 817</b>	<b>636 283</b>
Short-term (up to 1 year) gross	34 577 060			
Long-term (over 1 year) gross	60 482 919			

As at 31 December 2018, gross amount of variable interest rate loans amounted to PLN 93 800 372 thousand and fixed interest rate loans amounted to PLN 1 259 607 thousand. An average interest rate for loans granted to customers (excluding reverse repos) amounted to 3.44%.

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

In 2018, the above note includes receivables in the amount of PLN 174 563 thousand from the National Depository of Securities CCP in connection with the Brokerage Office activity.

In addition, the item "other" includes cash collaterals in the amount of PLN 15 844 thousand placed by the Bank under derivatives transactions (Note 35).

Loans and advances include receivables under finance leases.

	<b>31.12.2018</b>
<b>Gross investment in finance leases, receivable:</b>	<b>11 361 707</b>
- not later than 1 year	4 095 825
- later than 1 year and not later than 5 years	6 647 061
- later than 5 years	618 821
Unearned future finance income on finance leases (negative amount)	(806 147)
<b>Net investment in finance leases</b>	<b>10 555 560</b>
<b>Net investment in finance leases, receivable:</b>	<b>10 555 560</b>
- not later than 1 year	3 783 358
- later than 1 year and not later than 5 years	6 212 978
- later than 5 years	559 224
<b>Net investment in finance leases</b>	<b>10 555 560</b>
<b>Impairment provisions for finance leases receivable</b>	<b>(243 170)</b>
<b>Net carrying amount of finance leases receivable</b>	<b>10 312 390</b>
<b>Unguaranteed residual value accruing to the lessor</b>	<b>1 292 750</b>

The table below presents the currency structure of housing and mortgage loans granted to individual customers.

	<b>31.12.2018</b>
<b>Housing and mortgage loans to individuals (in PLN 000's), including:</b>	<b>34 696 807</b>
- PLN	13 677 352
- CHF	14 511 213
- EUR	3 195 334
- CZK	3 058 557
- USD	230 361
- Other currency	23 990
<b>Housing and mortgage loans to individuals in original currencies (main currencies in 000's)</b>	
- PLN	13 677 352
- CHF	3 802 131
- EUR	743 101
- CZK	18 281 871
- USD	61 271

### Credit quality of financial assets at amortised cost according to internal rating system

As at 31 December 2018	Stage 1	Stage 2	Stage 3	POCI	Total
<b>Debt securities at amortised cost</b>					
AAA	9 000 626	-	-	-	9 000 626
<b>Gross carrying amount</b>	<b>9 000 626</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9 000 626</b>
Accumulated impairment	(87)	-	-	-	(87)
<b>Total carrying amount</b>	<b>9 000 539</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9 000 539</b>

As at 31 December 2018	Stage 1	Stage 2	Stage 3	POCI	Total
<b>Loans and advances to banks at amortised cost</b>					
1	893 874	-	-	-	893 874
2	325 879	-	-	-	325 879
3	5 231	-	-	-	5 231
4	59 152	-	-	-	59 152
5	3 697	-	-	-	3 697
8	1 257 281	-	-	-	1 257 281
other	2 750	-	-	-	2 750
<b>Gross carrying amount</b>	<b>2 547 864</b>	-	-	-	<b>2 547 864</b>
Accumulated impairment	(1 518)	-	-	-	(1 518)
<b>Total carrying amount</b>	<b>2 546 346</b>	-	-	-	<b>2 546 346</b>

<b>Loans and advances to customers at amortised cost</b>					
1	11 534 632	201 345	-	-	11 735 977
2	27 589 499	2 082 781	-	2 661	29 674 941
3	13 029 134	728 754	-	1 072	13 758 960
4	20 626 287	1 775 307	-	4 809	22 406 403
5	4 766 727	1 753 110	-	4 435	6 524 272
6	244 921	332 892	-	322	578 135
7	543 371	1 780 967	-	12 973	2 337 311
8	1 644 959	88	-	-	1 645 047
other	2 180 138	59 301	-	-	2 239 439
default	-	-	3 976 749	182 745	4 159 494
<b>Gross carrying amount</b>	<b>82 159 668</b>	<b>8 714 545</b>	<b>3 976 749</b>	<b>209 017</b>	<b>95 059 979</b>
Accumulated impairment	(214 875)	(220 963)	(2 599 882)	(6 827)	(3 042 547)
<b>Total carrying amount</b>	<b>81 944 793</b>	<b>8 493 582</b>	<b>1 376 867</b>	<b>202 190</b>	<b>92 017 432</b>

### Movements in expected credit losses allowance

As at 31 December 2018	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Changes in credit risk	Write-offs	Other movements	As at the end of the period
<b>Debt securities</b>	(35)	-	-	-	(23)	-	(29)	-	-	(87)
Stage 1	(35)	-	-	-	(23)	-	(29)	-	-	(87)
<b>Loans and advances to banks</b>	(1 536)	-	-	-	(606)	880	(494)	238	-	(1 518)
Stage 1	(1 309)	-	-	-	(606)	880	(483)	-	-	(1 518)
Stage 2	-	-	-	-	-	-	-	-	-	-
Stage 3	(227)	-	-	-	-	-	(11)	238	-	-
<b>Loans and advances to customers</b>	(3 078 070)	-	-	-	(188 648)	137 779	(560 901)	648 915	(1 622)	(3 042 547)
Stage 1	(149 633)	(149 649)	42 082	3 743	(96 559)	36 778	98 591	-	(228)	(214 875)
Stage 2	(174 334)	137 521	(73 792)	62 750	(16 648)	9 850	(166 154)	-	(156)	(220 963)
Stage 3	(2 754 103)	12 128	31 710	(64 187)	(82 226)	90 215	(481 096)	648 915	(1 238)	(2 599 882)
POCI	-	-	-	(2 306)	6 785	936	(12 242)	-	-	(6 827)
<b>Expected credit losses allowance, total</b>	<b>(3 079 641)</b>	-	-	-	<b>(189 277)</b>	<b>138 659</b>	<b>(561 424)</b>	<b>649 153</b>	<b>(1 622)</b>	<b>(3 044 152)</b>

### Explanation of changes in the gross carrying amount impacting the changes on expected credit losses allowance

As at 31 December 2018	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Modifications of contractual cash flows of financial assets	Write-offs	Other movements	As at the end of the period
<b>Debt securities</b>	8 520 207	-	-	-	2 036 547	(1 480 189)	(75 939)	-	-	9 000 626
Stage 1	8 520 207	-	-	-	2 036 547	(1 480 189)	(75 939)	-	-	9 000 626
<b>Loans and advances to banks</b>	1 708 759	-	-	-	1 790 086	(964 901)	-	(238)	14 158	2 547 864
Stage 1	1 708 532	-	-	-	1 790 086	(964 901)	-	-	14 147	2 547 864
Stage 3	227	-	-	-	-	-	-	(238)	11	-
<b>Loans and advances to customers</b>	83 624 960	-	-	-	26 053 153	(12 413 576)	-	(648 917)	(1 555 641)	95 059 979
Stage 1	70 925 605	1 710 111	(2 068 766)	(276 865)	24 060 991	(10 721 825)	-	-	(1 469 583)	82 159 668
Stage 2	8 339 503	(1 654 938)	2 171 992	(274 141)	1 491 510	(1 287 334)	-	-	(72 047)	8 714 545
Stage 3	4 153 483	(55 173)	(103 226)	543 889	395 366	(271 463)	-	(648 917)	(37 210)	3 976 749
POCI	206 369	-	-	7 117	105 286	(132 954)	-	-	23 199	209 017
<b>Financial assets at amortised cost, gross</b>	<b>93 853 926</b>	-	-	-	<b>29 879 786</b>	<b>(14 858 666)</b>	<b>(75 939)</b>	<b>(649 155)</b>	<b>(1 541 483)</b>	<b>106 608 469</b>

### Financial effect of collaterals

31.12.2018	Gross amount	Accumulated impairment	Accumulated impairment without cash flow from collaterals	Financial effect of collaterals
<b>Balance sheet data</b>				
Loans and advances to banks	2 547 864	(1 518)	(1 531)	13
Loans and advances to customers	95 059 979	(3 042 547)	(3 694 415)	651 868
Individual customers	50 554 503	(1 630 171)	(1 821 699)	191 528
- housing and mortgage loans	34 696 807	(453 300)	(582 009)	128 709
Corporate customers	43 868 553	(1 411 736)	(1 872 036)	460 300
Public sector customers	636 923	(640)	(680)	40
<b>Total balance sheet data</b>	<b>97 607 843</b>	<b>(3 044 065)</b>	<b>(3 695 946)</b>	<b>651 881</b>
<b>Off-balance sheet data</b>				
Loan commitments and other commitments	27 864 392	(57 914)	(59 752)	1 838
Guarantees, banker's acceptances, documentary and commercial letters of credit	8 541 433	(51 495)	(55 163)	3 668
<b>Total off-balance sheet data</b>	<b>36 405 825</b>	<b>(109 409)</b>	<b>(114 915)</b>	<b>5 506</b>

The following note presents loans and advances to banks as well as loans and advances to customers according to IAS 39, as at 31 December 2017.

### Loans and advances to banks

	31.12.2017
Current accounts	458 406
Placements with other banks (up to 3 months)	748 470
<b>Included in cash equivalents (Note 41)</b>	<b>1 206 876</b>
Loans and advances	184 491
Other receivables	317 382
<b>Total (gross) loans and advances to banks</b>	<b>1 708 749</b>
<b>Provisions created for loans and advances to banks (negative amount)</b>	<b>(1 027)</b>
<b>Total (net) loans and advances to banks</b>	<b>1 707 722</b>
Short-term (up to 1 year) gross	1 669 990
Long-term (over 1 year) gross	38 759

The item "Other receivables" includes cash collaterals in the amount of PLN 259 111 thousand placed with other banks under the derivative transactions concluded by the Bank (Note 35).

The following table presents receivables from Polish and foreign banks:

	31.12.2017
Loans and advances to Polish banks (gross)	376 516
Provisions created for loans and advances to Polish banks	(58)
Loans and advances to foreign banks (gross)	1 332 233
Provisions created for loans and advances to foreign banks	(969)
<b>Total (net) loans and advances to banks</b>	<b>1 707 722</b>

As at 31 December 2017, the variable interest rate loans to banks amounted to PLN 178 668 thousand and the fixed interest rate loans to banks amounted to PLN 5 823 thousand.

As at 31 December 2017 the term placements with other banks were fixed interest PLN 748 470 thousand. An average interest rate for placements in other banks and loans granted to other banks amounted to 1.59%.

The following table presents the changes in provisions for losses on loans and advances to banks

	<b>31.12.2017</b>
<b>Provisions for loans and advances to banks as at the beginning of the period</b>	<b>(2 257)</b>
- provisions created	(1 193)
- release of provision	2 311
- foreign exchange differences	112
<b>Provisions for loans and advances to banks as at the end of the period</b>	<b>(1 027)</b>

As at 31 December 2017, the amount of provisions created for loans and advances to banks includes the amount of PLN 217 thousand of provision for individually impaired loans.

Loans and advances to banks	31.12.2017	
	exposure in PLN '000	share/coverage (%)
Neither past due nor impaired	1 708 532	99.99
Past due but not impaired	-	-
Impaired	217	0.01
<b>Total, gross</b>	<b>1 708 749</b>	<b>100.00</b>
Provision (provision for impaired loans and advances as well as IBNI provision)	(1 027)	0.06
<b>Total, net</b>	<b>1 707 722</b>	<b>99.94</b>

Loans and advances to banks neither past due nor impaired.

Sub-portfolio	<b>31.12.2017</b>
1	1 028 422
2	518 535
3	38 430
4	37 521
5	9
6	2 144
7	-
8	82 208
Other*	1 263
<b>Total</b>	<b>1 708 532</b>

\*) position "other" concerns these entities, which do not use the same rating systems as mBank.

### Loans and advances to customers

	<b>31.12.2017</b>
<b>Loans and advances to individuals:</b>	<b>48 142 786</b>
- current accounts	7 324 329
- term loans, including:	40 818 457
housing and mortgage loans	32 593 180
<b>Loans and advances to corporate entities:</b>	<b>37 941 722</b>
- current accounts	5 187 588
- term loans:	30 599 981
corporate & institutional enterprises	5 030 702
medium & small enterprises	25 569 279
- reverse repo / buy-sell-back transactions	57 119
- other	2 097 034
<b>Loans and advances to public sector</b>	<b>995 570</b>
<b>Other receivables</b>	<b>307 627</b>
<b>Total (gross) loans and advances to customers</b>	<b>87 387 705</b>
Provisions for loans and advances to customers (negative amount)	(2 911 861)
<b>Total (net) loans and advances to customers</b>	<b>84 475 844</b>
Short-term (up to 1 year) gross	32 103 351
Long-term (over 1 year) gross	55 284 354

As at 31 December 2017, variable interest rate loans amounted to PLN 85 942 267 thousand and fixed interest rate loans amounted to PLN 1 445 438 thousand. The average interest rate for loans granted to customers (excluding reverse repos) amounted to 3.38%.

In 2017, the item "other" includes receivables from the National Depository of Securities CCP in the amount of PLN 155 195 thousand in connection with the Brokerage Office activity.

As at 31 December 2017 the item "other" includes cash collaterals in the amount of PLN 106 274 thousand, placed by the Group under derivatives transactions (Note 35).

The table below presents the provisions for loans and advances as at 31 December 2017.

	<b>31.12.2017</b>
<b>Incurred but not identified losses</b>	
Gross balance sheet exposure	82 883 395
Impairment provisions for exposures analysed according to portfolio approach	(243 810)
<b>Net balance sheet exposure</b>	<b>82 639 585</b>
<b>Receivables with impairment</b>	
Gross balance sheet exposure	4 504 310
Provisions for receivables with impairment	(2 668 051)
<b>Net balance sheet exposure</b>	<b>1 836 259</b>

The table below presents the movements in provisions for loans and advances for the period from 1 January to 31 December 2017.

MOVEMENTS IN PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS AS OF 2017	Provisions as at 01.01.2017	Provisions created	Release of provisions	Reclassification and foreign exchange differences	Write-offs	Provisions as at 31.12.2017
<b>Loans and advances to individuals</b>	<b>(1 515 339)</b>	<b>(962 150)</b>	<b>644 694</b>	<b>42 604</b>	<b>215 267</b>	<b>(1 574 924)</b>
Current accounts	(614 379)	(365 080)	230 620	7 928	85 681	(655 230)
Term loans, including:	(900 960)	(597 070)	414 074	34 676	129 586	(919 694)
Housing and mortgage loans	(515 928)	(254 664)	217 073	34 730	62 595	(456 194)
Other	-	-	-	-	-	-
<b>Loans and advances to corporate entities</b>	<b>(1 301 407)</b>	<b>(384 490)</b>	<b>227 022</b>	<b>17 641</b>	<b>104 858</b>	<b>(1 336 376)</b>
Current accounts	(190 490)	(96 967)	62 726	(7 152)	20 214	(211 669)
Term loans, including:	(1 056 923)	(286 949)	162 362	23 678	60 560	(1 097 272)
Corporate & institutional enterprises	(28 788)	(13 875)	29 702	1 289	-	(11 672)
Medium & small enterprises	(1 028 135)	(273 074)	132 660	22 389	60 560	(1 085 600)
Other	(53 994)	(574)	1 934	1 115	24 084	(27 435)
<b>Loans and advances to public sector</b>	<b>(749)</b>	<b>(105)</b>	<b>290</b>	<b>3</b>	<b>-</b>	<b>(561)</b>
<b>Total movements in provisions for loans and advances to customers</b>	<b>(2 817 495)</b>	<b>(1 346 745)</b>	<b>872 006</b>	<b>60 248</b>	<b>320 125</b>	<b>(2 911 861)</b>

Loans and advances include receivables under finance leases.

	31.12.2017
<b>Gross investment in finance leases, receivable:</b>	<b>8 755 621</b>
- not later than 1 year	2 660 832
- later than 1 year and not later than 5 years	5 476 270
- later than 5 years	618 519
Unearned future finance income on finance leases (negative amount)	(714 033)
<b>Net investment in finance leases</b>	<b>8 041 588</b>
<b>Net investment in finance leases, receivable:</b>	<b>8 041 588</b>
- not later than 1 year	2 396 582
- later than 1 year and not later than 5 years	5 073 161
- later than 5 years	571 845
<b>Net investment in finance leases</b>	<b>8 041 588</b>
<b>Impairment provisions for finance leases receivable</b>	<b>(206 251)</b>
<b>Net carrying amount of finance leases receivable</b>	<b>7 835 337</b>
<b>Unguaranteed residual value accruing to the lessor</b>	<b>1 114 218</b>

Loans and advances to customers	31.12.2017	
	exposure in PLN '000	share/coverage (%)
Neither past due nor impaired	79 806 600	91.33
Past due but not impaired	3 076 795	3.52
Impaired	4 504 310	5.15
<b>Total, gross</b>	<b>87 387 705</b>	<b>100.00</b>
Provision (provision for impaired loans and advances as well as IBNI provision)	(2 911 861)	3.33
<b>Total, net</b>	<b>84 475 844</b>	<b>96.67</b>

The total amount of recognized provision for loans and advances has been PLN 2 911 861 thousand of which PLN 2 668 051 thousand represents the individually impaired loans and advances to customers and the remaining amount of PLN 243 810 thousand represented the portfolio.

91.33% of the loans and advances to customers portfolio has been considered to be neither past due nor impaired.

### Loans and advances neither past due nor impaired

31 grudnia 2017 r.	Individuals			Corporate entities					Public sector	Other receivables	Total - Loans and advances to customers
Sub-portfolio	Current accounts	Term loans	including: housing and mortgage loans	Current accounts	Term loans		Reverse repo / buy-sell-back transactions	Other			
					corporate & institutional enterprises	medium & small enterprises					
1	138 424	8 427 345	8 551 318	186 271	149 788	797 545	-	20 675	147 877	-	9 867 925
2	1 379 136	19 652 477	18 012 857	993 997	1 709 084	2 601 603	-	198 937	657 772	-	27 193 006
3	1 303 710	4 286 430	2 637 681	970 511	1 606 349	9 645 778	-	6	158 022	-	17 970 806
4	2 023 991	3 790 851	812 252	2 029 931	1 267 643	6 181 383	-	-	30 955	-	15 324 754
5	741 318	1 250 346	498 776	505 421	101 397	3 068 802	-	-	-	-	5 667 284
6	70 484	132 784	78 324	14 797	1 329	272 323	-	-	-	-	491 717
7	136 879	266 697	168 271	32 770	3 093	503 347	-	-	-	-	942 786
8	46 379	-	-	37 934	-	-	57 119	-	-	307 600	449 032
other*)	-	-	-	-	-	-	-	1 850 981	-	27	1 851 008
Default category	1 353	29 475	26 945	1	-	17 453	-	-	-	-	48 282
<b>Total</b>	<b>5 841 674</b>	<b>37 836 405</b>	<b>30 786 424</b>	<b>4 771 633</b>	<b>4 838 683</b>	<b>23 088 234</b>	<b>57 119</b>	<b>2 070 599</b>	<b>994 626</b>	<b>307 627</b>	<b>79 806 600</b>

\*) position "other" concerns these entities, which do not use the same rating systems as mBank.

### Loans and advances past due but not impaired

Gross amounts of loans and advances, which were past due but not impaired are presented below by classes of assets. No impairment is recognized in respect of loans and advances past due for less than 90 days, unless other available information indicates their impairment.

31 grudnia 2017 r.	Individuals			Corporate entities					Public sector	Other receivables	Total - Loans and advances to customers
Sub-portfolio	Current accounts	Term loans	including: housing and mortgage loans	Current accounts	Term loans		Reverse repo / buy-sell-back transactions	Other			
					corporate & institutional enterprises	medium & small enterprises					
Past due up to 30 days	528 690	1 108 989	747 655	49 686	49 125	782 716	-	-	-	-	2 519 206
Past due 31 - 60 days	45 849	163 419	96 222	12 851	10 957	153 825	-	-	-	-	386 901
Past due 61 - 90 days	19 706	51 037	19 951	3 385	167	46 816	-	-	-	-	121 111
Past due over 90 days	12 583	31 125	8 037	586	-	4 339	-	-	944	-	49 577
<b>Total</b>	<b>606 828</b>	<b>1 354 570</b>	<b>871 865</b>	<b>66 508</b>	<b>60 249</b>	<b>987 696</b>	<b>-</b>	<b>-</b>	<b>944</b>	<b>-</b>	<b>3 076 795</b>

### Loans and advances individually impaired

As at 31 December 2017, loans and advances individually impaired amounted to PLN 1 836 259 thousand. Gross amounts of loans and advances individually impaired (i.e., before taking into consideration the cash flows from collateral held and expected repayments) are presented below by classes of assets.

31 grudnia 2017 r.	Individuals			Corporate entities					Public sector	Other receivables	Total - Loans and advances to customers
Sub-portfolio	Current accounts	Term loans	including: housing and mortgage loans	Current accounts	Term loans		Reverse repo / buy-sell-back transactions	Other			
					corporate & institutional enterprises	medium & small enterprises					
Loans and advances with impairment	875 827	1 627 482	934 891	349 447	131 770	1 493 349	-	26 435	-	-	4 504 310
Provisions for loans and advances with impairment	(594 480)	(826 865)	(426 667)	(196 861)	(10 542)	(1 012 868)	-	(26 435)	-	-	(2 668 051)

The Bank applies a conservative approach in the area of verification of collateral value and setting of acceptable LtV ratio levels. The policy, in this respect, imposes particularly significant restrictions in case of transactions with probability of default higher than average (non-purpose loans and consolidation loans) and/or secured on low-liquid real estate (localized on not well developed markets).

### Financial effect of collaterals

The note below presents the influence of value of collaterals received by the Bank in relation to the loans granted by the Bank on the provisions level.

31.12.2017	Gross amount	Accumulated impairment	Accumulated impairment without cash flow from collaterals	Financial effect of collaterals
<b>Balance sheet data</b>				
Loans and advances to banks	1 708 749	(1 027)	(1 028)	1
Loans and advances to customers	87 387 705	(2 911 861)	(3 795 569)	883 708
Individual customers	48 142 786	(1 574 924)	(1 899 083)	324 159
- housing and mortgage loans	32 593 180	(456 194)	(734 237)	278 043
Corporate customers	35 787 569	(1 336 376)	(1 895 901)	559 525
Public sector customers	995 570	(561)	(585)	24
<b>Total balance sheet data</b>	<b>89 096 454</b>	<b>(2 912 888)</b>	<b>(3 796 597)</b>	<b>883 709</b>
<b>Off-balance sheet data</b>				
Loan commitments and other commitments	26 271 712	(26 571)	(30 374)	3 803
Guarantees, banker's acceptances, documentary and commercial letters of credit	7 143 651	(49 144)	(67 103)	17 959
<b>Total off-balance sheet data</b>	<b>33 415 363</b>	<b>(75 715)</b>	<b>(97 477)</b>	<b>21 762</b>

## 24. Investments in associates

As at December 31, 2018, the Group did not have any investments in associates.

On 2 June 2017, mBank S.A. signed a preliminary conditional agreement on the sale of mLocum S.A. shares to Archicom S.A. After meeting the conditions precedent, on 31 July 2017 were sold 14 120 880 shares representing 51% of the share capital of mLocum S.A.

From 31 July 2017, the mLocum's shares held by the Bank were presented in the statement of financial position under position "Investments in associates".

On 3 January 2018, an amendment to the Statute of mLocum S.A. was registered, regarding the change of the name of the company and its branches. Currently, the company is called Archicom Polska S.A.

Sale of the remaining 8 026 120 shares representing 28.99% of the share capital of Archicom Polska S.A. (previously mLocum S.A.) took place on 20 December 2018. Thus, the share sale transaction was finalized.

Information on the interest in the associate measured using the equity method as at December 31, 2017, is provided below.

31 December 2017 (in PLN 000's)

Name of the company	Country of registration	Assets	Liabilities	Revenues	Net profit / (loss)	% interest held	Carrying value
Archicom Polska S.A. (previously mLocum S.A.)	Poland	221 516	87 554	117 680	24 419	28.99	28 680

## 25. Non-current assets held for sale

As at 31 December 2017, as non-current assets (disposal groups), the Group disclosed the value of the property owned by Garbary Sp. z o.o.

On 28 December 2017, the company Garbary Sp. z o.o. signed a preliminary agreement for sale of real estate placed at Garbary 101/111 Street in Poznań. On 27 April 2018, the company Garbary Sp. z o.o. signed the final agreement on the sale of real estate.

## 26. Intangible assets

	31.12.2018	31.12.2017
Goodwill	3 532	3 532
Patents, licences and similar assets, including:	440 636	379 288
- computer software	367 822	264 764
Other intangible assets	1 968	3 150
Intangible assets under development	330 039	324 672
<b>Total intangible assets</b>	<b>776 175</b>	<b>710 642</b>

In 2018 and 2017, the Group performed impairment tests of intangible assets under development and goodwill. As a result of the tests, impairment has been not stated.

### Movements in intangible assets

Movements in intangible assets from 1 January to 31 December 2018	Development costs	Patents, licences and other similar assets		Other intangible assets	Intangible assets under development	Goodwill	Total intangible assets
			including: computer software				
Gross value of intangible assets as at the beginning of the period: 01.01.2018	39	1 232 207	857 666	21 863	324 672	4 728	1 583 509
<b>Increase (due to)</b>	-	<b>201 242</b>	<b>165 210</b>	<b>53</b>	<b>244 410</b>	-	<b>445 705</b>
- purchase	-	20 365	12 456	15	188 003	-	208 383
- transfer from intangible assets under development	-	178 028	152 669	38	-	-	178 066
- development costs	-	-	-	-	22 727	-	22 727
- other increases	-	2 849	85	-	33 680	-	36 529
<b>Decrease (due to)</b>	-	<b>(104 010)</b>	<b>(4 235)</b>	<b>(1 481)</b>	<b>(239 043)</b>	-	<b>(344 534)</b>
- sale	-	(4 099)	(3 116)	(700)	(684)	-	(5 483)
- liquidation	-	(99 598)	(1 119)	-	(1)	-	(99 599)
- transfer to intangible assets given to use	-	-	-	-	(178 066)	-	(178 066)
- other decreases	-	(313)	-	(781)	(60 292)	-	(61 386)
Gross value of intangible assets as at the end of the period: 31.12.2018	39	1 329 439	1 018 641	20 435	330 039	4 728	1 684 680
Accumulated amortization as at the beginning of the period: 01.01.2018	(39)	(852 919)	(592 902)	(18 713)	-	-	(871 671)
<b>Amortization for the period (due to)</b>	-	<b>(35 884)</b>	<b>(57 917)</b>	<b>246</b>	-	-	<b>(35 638)</b>
- amortization	-	(132 250)	(61 161)	(998)	-	-	(133 248)
- other increases	-	(636)	(56)	-	-	-	(636)
- sale	-	2 718	2 709	700	-	-	3 418
- liquidation	-	94 284	591	-	-	-	94 284
- other decreases	-	-	-	544	-	-	544
Accumulated amortization as at the end of the period: 31.12.2018	(39)	(888 803)	(650 819)	(18 467)	-	-	(907 309)
Impairment losses as at the beginning of the period: 01.01.2018	-	-	-	-	-	(1 196)	(1 196)
Impairment losses as at the end of the period: 31.12.2018	-	-	-	-	-	(1 196)	(1 196)
Net value of intangible assets as at the end of the period: 31.12.2018	-	440 636	367 822	1 968	330 039	3 532	776 175

Movements in intangible assets from 1 January to 31 December 2017	Development costs	Patents, licences and other similar assets		Other intangible assets	Intangible assets under development	Goodwill	Total intangible assets
			including: computer software				
Gross value of intangible assets as at the beginning of the period: 01.01.2017	39	1 116 349	803 771	21 834	227 525	4 728	1 370 475
<b>Increase (due to)</b>	-	<b>136 276</b>	<b>55 175</b>	<b>152</b>	<b>214 162</b>	-	<b>350 590</b>
- purchase	-	58 178	3 746	150	161 705	-	220 033
- transfer from intangible assets under development	-	75 923	51 429	2	-	-	75 925
- development costs	-	-	-	-	22 853	-	22 853
- other increases	-	2 175	-	-	29 604	-	31 779
<b>Decrease (due to)</b>	-	<b>(20 418)</b>	<b>(1 280)</b>	<b>(123)</b>	<b>(117 015)</b>	-	<b>(137 556)</b>
- liquidation	-	(19 988)	(983)	(9)	-	-	(19 997)
- transfer to intangible assets given to use	-	-	-	-	(75 925)	-	(75 925)
- non-current assets held for sale	-	(68)	(68)	-	-	-	(68)
- other decreases	-	(362)	(229)	(114)	(41 090)	-	(41 566)
Gross value of intangible assets as at the end of the period: 31.12.2017	39	1 232 207	857 666	21 863	324 672	4 728	1 583 509
Accumulated amortization as at the beginning of the period: 01.01.2017	(39)	(768 825)	(535 463)	(17 752)	-	-	(786 616)
<b>Amortization for the period (due to)</b>	-	<b>(84 094)</b>	<b>(57 439)</b>	<b>(961)</b>	-	-	<b>(85 055)</b>
- amortization	-	(104 127)	(58 534)	(1 056)	-	-	(105 183)
- liquidation	-	19 987	983	9	-	-	19 996
- non-current assets held for sale	-	68	68	-	-	-	68
- other decreases	-	(22)	44	86	-	-	64
Accumulated amortization as at the end of the period: 31.12.2017	(39)	(852 919)	(592 902)	(18 713)	-	-	(871 671)
Impairment losses as at the beginning of the period: 01.01.2017	-	-	-	-	-	(1 196)	(1 196)
Impairment losses as at the end of the period: 31.12.2017	-	-	-	-	-	(1 196)	(1 196)
Net value of intangible assets as at the end of the period: 31.12.2017	-	379 288	264 764	3 150	324 672	3 532	710 642

## 27. Tangible assets

	31.12.2018	31.12.2017
Tangible assets, including:	668 460	623 228
- land	1 033	1 038
- buildings and structures	160 804	162 546
- equipment	177 868	161 574
- vehicles	219 275	224 964
- other fixed assets	109 480	73 106
Fixed assets under construction	116 566	135 510
<b>Total tangible assets</b>	<b>785 026</b>	<b>758 738</b>

### Movements in tangible assets

Movements in tangible assets from 1 January to 31 December 2018	Land	Buildings and structures	Equipment	Vehicles	Other tangible assets	Tangible assets under construction	Total
<b>Wartość brutto rzeczowych aktywów trwałych na początek okresu: 01.01.2018 r.</b>	<b>1 038</b>	<b>331 062</b>	<b>715 308</b>	<b>338 785</b>	<b>430 954</b>	<b>135 646</b>	<b>1 952 793</b>
<b>Increase (due to)</b>	-	<b>10 513</b>	<b>96 051</b>	<b>88 654</b>	<b>67 617</b>	<b>136 896</b>	<b>399 731</b>
- purchase	-	433	41 605	88 634	4 837	105 079	240 588
- transfer from tangible assets under construction	-	6 258	49 715	-	61 325	-	117 298
- other increases	-	3 822	4 731	20	1 455	31 817	41 845
<b>Decrease (due to)</b>	<b>(5)</b>	<b>(20 043)</b>	<b>(45 054)</b>	<b>(93 635)</b>	<b>(88 989)</b>	<b>(155 976)</b>	<b>(403 702)</b>
- sale	(5)	(19 941)	(12 494)	(84 218)	(4 141)	-	(120 799)
- liquidation	-	(102)	(31 833)	(799)	(84 820)	(17)	(117 571)
- transfer to tangible assets	-	-	-	-	-	(117 298)	(117 298)
- other decreases	-	-	(727)	(8 618)	(28)	(38 661)	(48 034)
<b>Gross value of tangible assets as at the end of the period</b>	<b>1 033</b>	<b>321 532</b>	<b>766 305</b>	<b>333 804</b>	<b>409 582</b>	<b>116 566</b>	<b>1 948 822</b>
<b>Accumulated depreciation as at the beginning of the period</b>	-	<b>(109 377)</b>	<b>(545 534)</b>	<b>(113 821)</b>	<b>(357 717)</b>	-	<b>(1 126 449)</b>
<b>Depreciation for the period (due to)</b>	-	<b>(2 081)</b>	<b>(34 703)</b>	<b>(708)</b>	<b>57 615</b>	-	<b>20 123</b>
- depreciation charge	-	(6 948)	(75 010)	(54 725)	(29 395)	-	(166 078)
- other increases	-	-	(147)	-	(458)	-	(605)
- sale	-	4 832	8 766	48 121	3 155	-	64 874
- liquidation	-	35	31 587	537	84 313	-	116 472
- other decreases	-	-	101	5 359	-	-	5 460
<b>Accumulated depreciation as at the end of the period</b>	-	<b>(111 458)</b>	<b>(580 237)</b>	<b>(114 529)</b>	<b>(300 102)</b>	-	<b>(1 106 326)</b>
<b>Impairment losses as at the beginning of the period</b>	-	<b>(59 139)</b>	<b>(8 200)</b>	-	<b>(131)</b>	<b>(136)</b>	<b>(67 606)</b>
- decrease	-	9 869	-	-	131	136	10 136
<b>Impairment losses as at the end of the period</b>	-	<b>(49 270)</b>	<b>(8 200)</b>	-	-	-	<b>(57 470)</b>
<b>Net value of tangible assets as at the end of the period</b>	<b>1 033</b>	<b>160 804</b>	<b>177 868</b>	<b>219 275</b>	<b>109 480</b>	<b>116 566</b>	<b>785 026</b>

Movements in tangible assets from 1 January to 31 December 2017	Land	Buildings and structures	Equipment	Vehicles	Other tangible assets	Tangible assets under construction	Total
<b>Gross value of tangible assets as at the beginning of the period: 01.01.2017</b>	<b>1 335</b>	<b>355 270</b>	<b>678 663</b>	<b>346 202</b>	<b>424 269</b>	<b>74 695</b>	<b>1 880 434</b>
<b>Increase (due to)</b>	<b>-</b>	<b>3 009</b>	<b>71 914</b>	<b>73 432</b>	<b>23 883</b>	<b>139 992</b>	<b>312 230</b>
- purchase	-	27	39 377	73 432	3 643	121 369	237 848
- transfer from tangible assets under construction	-	2 982	32 072	-	20 229	-	55 283
- other increases	-	-	465	-	11	18 623	19 099
<b>Decrease (due to)</b>	<b>(297)</b>	<b>(27 217)</b>	<b>(35 269)</b>	<b>(80 849)</b>	<b>(17 198)</b>	<b>(79 041)</b>	<b>(239 871)</b>
- sale	-	(22 208)	(19 069)	(73 813)	(7 418)	-	(122 508)
- liquidation	-	(1 002)	(15 155)	(775)	(8 713)	-	(25 645)
- transfer to tangible assets	-	-	-	-	-	(55 283)	(55 283)
- non-current assets held for sale	(297)	(4 007)	(509)	(1 023)	(367)	-	(6 203)
- other decreases	-	-	(536)	(5 238)	(700)	(23 758)	(30 232)
<b>Gross value of tangible assets as at the end of the period: 31.12.2017</b>	<b>1 038</b>	<b>331 062</b>	<b>715 308</b>	<b>338 785</b>	<b>430 954</b>	<b>135 646</b>	<b>1 952 793</b>
<b>Accumulated depreciation as at the beginning of the period: 01.01.2017</b>	<b>-</b>	<b>(109 203)</b>	<b>(504 511)</b>	<b>(106 803)</b>	<b>(343 140)</b>	<b>-</b>	<b>(1 063 657)</b>
<b>Depreciation for the period (due to)</b>	<b>-</b>	<b>(174)</b>	<b>(41 023)</b>	<b>(7 018)</b>	<b>(14 577)</b>	<b>-</b>	<b>(62 792)</b>
- depreciation charge	-	(7 073)	(72 934)	(54 863)	(30 425)	-	(165 295)
- other increases	-	-	(20)	-	-	-	(20)
- sale	-	5 976	16 037	43 186	7 838	-	73 037
- liquidation	-	484	14 978	714	7 246	-	23 422
- non-current assets held for sale	-	439	450	669	341	-	1 899
- other decreases	-	-	466	3 276	423	-	4 165
<b>Accumulated depreciation as at the end of the period: 31.12.2017</b>	<b>-</b>	<b>(109 377)</b>	<b>(545 534)</b>	<b>(113 821)</b>	<b>(357 717)</b>	<b>-</b>	<b>(1 126 449)</b>
<b>Impairment losses as at the beginning of the period: 01.01.2017</b>	<b>-</b>	<b>(59 139)</b>	<b>-</b>	<b>-</b>	<b>(131)</b>	<b>(136)</b>	<b>(59 406)</b>
- increase	-	-	(8 200)	-	-	-	(8 200)
<b>Impairment losses as at the end of the period: 31.12.2017</b>	<b>-</b>	<b>(59 139)</b>	<b>(8 200)</b>	<b>-</b>	<b>(131)</b>	<b>(136)</b>	<b>(67 606)</b>
<b>Net value of tangible assets as at the end of the period: 31.12.2017</b>	<b>1 038</b>	<b>162 546</b>	<b>161 574</b>	<b>224 964</b>	<b>73 106</b>	<b>135 510</b>	<b>758 738</b>

The recoverable value of impaired tangible assets is the net selling price determined on the basis of market prices for similar assets.

As part of its activities as a lessor, the mBank Group presents within tangible assets those assets which are leased to third parties under operating lease agreements. The table below presents future minimum lease payments under non-cancellable operating lease agreements with the Group as a lessor.

	31.12.2018	31.12.2017
<b>Minimum lease payments under non-cancellable operating lease</b>		
Up to 1 year	35 437	41 646
Over 1 year up to 5 years	29 610	36 036
<b>Total</b>	<b>65 047</b>	<b>77 682</b>

The Group presents depreciation of tangible assets leased under operating lease agreements as net income from operating lease (Note 12).

## 28. Other assets

	31.12.2018	31.12.2017
<b>Other assets, including:</b>	<b>1 178 279</b>	<b>770 068</b>
- debtors	456 157	207 794
- interbank balances	20 432	27 405
- settlements of securities transactions	11 346	24 375
- other accruals	187 196	167 007
- accrued income	69 666	86 519
- inventories	343 215	209 395
- other	90 267	47 573
<b>Total other assets</b>	<b>1 178 279</b>	<b>770 068</b>
Short-term (up to 1 year)	1 053 791	522 240
Long-term (over 1 year)	124 488	247 828

In 2018 and in 2017, the item "settlements of securities transactions" is connected in its entirety with the Brokerage Office activity.

As at 31 December 2018 and as at 31 December 2017, the value of inventories primarily results from the business of the companies: mLeasing and BDH Development.

Throughout the year 2018 and 2017, the Group did not capitalize borrowing costs.

As at 31 December 2018, the above note includes financial assets in amount of PLN 487 935 thousand (31 December 2017: PLN 259 574 thousand).

### Other financial assets included in the note above

	31.12.2018	31.12.2017
<b>Gross other financial assets, including:</b>	<b>504 365</b>	<b>274 136</b>
- Not past due	493 982	264 758
- Past due from 1 to 90 days	5 702	4 520
- Past due over 90 days	4 681	4 858
- Provisions for impaired assets (negative amount)	(16 430)	(14 562)
<b>Net other financial assets</b>	<b>487 935</b>	<b>259 574</b>

### Movements of impairment allowance for other assets

	31.12.2018
<b>As at the beginning of the period</b>	<b>14 562</b>
Change in the period (due to)	1 868
- increase of provisions	2 353
- release of provisions	(371)
- write-offs	(132)
- foreign exchange differences	18
<b>As at the end of the period</b>	<b>16 430</b>

### 29. Financial liabilities measured at amortised cost

#### Amounts due to other banks

	31.12.2018	31.12.2017
Current accounts	864 189	885 080
Term deposits	156 391	90 442
Loans and advances received	747 381	3 394 339
Repo / sell-buy-back transactions	800 543	182 295
Liabilities in respect of cash collaterals	348 776	414 798
Payables to be settled	3 286	5 595
Other	157 821	100 802
<b>Amounts due to other banks</b>	<b>3 078 387</b>	<b>5 073 351</b>
Short-term (up to 1 year)	2 890 328	4 555 384
Long-term (over 1 year)	188 059	517 967

As at 31 December 2018, the fixed interest rate term deposits accepted from other banks amounted to PLN 156 391 thousand (31 December 2017: - PLN 90 442 thousand). In the both reporting periods there were no variable interest rate term deposits.

As at 31 December 2018 and 31 December 2017 loans and advances received from other banks were variable interest rate loans.

The average interest rate for loans and deposits received from other banks in 2018 amounted to 1.09% (31 December 2017 - 0.80%).

mBank S.A. did not provide collateral related to loans from other banks. The Group did not note any violations of contractual terms related to liabilities in respect of loans received.

**Amounts due to customers**

	<b>31.12.2018</b>	<b>31.12.2017</b>
<b>Individual customers:</b>	<b>65 923 565</b>	<b>55 693 608</b>
Current accounts	52 064 464	43 733 114
Term deposits	13 701 560	11 819 154
Other liabilities, due to:	157 541	141 340
- liabilities in respect of cash collaterals	51 390	62 279
- other	106 151	79 061
<b>Corporate customers:</b>	<b>35 346 303</b>	<b>34 589 603</b>
Current accounts	21 595 872	21 463 748
Term deposits	8 985 380	8 037 151
Loans and advances received	3 457 264	4 142 944
Repo transactions	713 081	439 637
Other liabilities, due to:	594 706	506 123
- liabilities in respect of cash collaterals	345 314	348 268
- other	249 392	157 855
<b>Public sector customers:</b>	<b>739 194</b>	<b>1 212 816</b>
Current accounts	462 435	623 231
Term deposits	276 200	585 389
Other liabilities, due to:	559	4 196
- liabilities in respect of cash collaterals	-	4 196
- other	559	-
<b>Total amounts due to customers</b>	<b>102 009 062</b>	<b>91 496 027</b>
Short-term (up to 1 year)	97 735 387	86 874 677
Long-term (over 1 year)	4 273 675	4 621 350

As at 31 December 2018, the majority of the deposits from retail and corporate customers bore fixed interest rates. The average interest rate for amounts due to customers (excluding repos) amounted to 0.67% (31 December 2017: 0.67%).

As at 31 December 2018, the balance of loans and advances received includes the loan received from European Investment Bank in the amount of PLN 3 457 264 thousand (31 December 2017: PLN 4 142 944 thousand). The loan was collateralized with treasury bonds, which have been presented as pledged assets under Note 22 and Note 35.

## Debt securities issued

As at 31 December 2018

Debt securities in issue by category	Currency	Nominal value	Contractual interest rate	Guarantee/collateral	Redemption date	Carrying value
<b>Short-term issues</b>		<b>3 587 600</b>				<b>3 625 541</b>
Coupon bonds	PLN	20 000	3.23%	no collateral	16-01-2019	20 298
Coupon bonds	PLN	60 000	3.17%	no collateral	21-01-2019	60 368
Coupon bonds	PLN	300 000	2.14%	no collateral	27-06-2019	299 984
Coupon bonds	PLN	200 000	2.16%	no collateral	14-08-2019	200 980
Coupon bonds	PLN	80 000	2.79%	no collateral	21-06-2019	80 061
Mortgage bonds (Public)	PLN	215 000	0.55%	mortgage bond register	15-10-2019	215 161
Mortgage bonds (Public)	EUR	10 000	2.17%	mortgage bond register	04-01-2019	9 998
Bonds	PLN	15 000	2.13%	no collateral	08-01-2019	14 993
Bonds	PLN	20 000	2.17%	no collateral	09-01-2019	19 989
Bonds	PLN	50 000	2.17%	no collateral	11-01-2019	49 967
Bonds	PLN	30 000	2.17%	no collateral	15-01-2019	29 973
Bonds	PLN	15 000	2.17%	no collateral	16-01-2019	14 986
Bonds	PLN	10 000	2.17%	no collateral	17-01-2019	9 990
Bonds	PLN	10 000	2.17%	no collateral	18-01-2019	9 989
Bonds	PLN	15 000	2.17%	no collateral	21-01-2019	14 981
Bonds	PLN	20 000	2.17%	no collateral	22-01-2019	19 974
Bonds	PLN	10 000	2.13%	no collateral	23-01-2019	9 986
Bonds	PLN	30 000	2.17%	no collateral	25-01-2019	29 955
Bonds	PLN	3 200	2.04%	no collateral	25-01-2019	3 196
Bonds	PLN	25 000	2.17%	no collateral	28-01-2019	24 958
Bonds	PLN	25 000	2.17%	no collateral	14-02-2019	24 933
Bonds	PLN	15 000	2.17%	no collateral	15-02-2019	14 959
Bonds	PLN	40 000	2.17%	no collateral	20-02-2019	39 878
Bonds	PLN	10 000	2.17%	no collateral	21-02-2019	9 969
Bonds	PLN	10 000	2.17%	no collateral	25-02-2019	9 966
Bonds	PLN	10 000	2.17%	no collateral	26-02-2019	9 966
Bonds	PLN	10 000	2.17%	no collateral	27-02-2019	9 965
Bonds	PLN	19 400	2.17%	no collateral	20-03-2019	19 308
Bonds	PLN	50 000	2.19%	no collateral	25-03-2019	49 747
Bonds	PLN	50 000	2.19%	no collateral	27-03-2019	49 741
Bonds	PLN	50 000	2.19%	no collateral	29-03-2019	49 735
Bonds	PLN	10 000	2.17%	no collateral	05-04-2019	9 943
Bonds	EUR	2 150 000	2.375%	no collateral	01-04-2019	2 187 644

Debt securities in issue by category	Currency	Nominal value	Contractual interest rate	Guarantee/collateral	Redemption date	Carrying value
<b>Long-term issues</b>		<b>14 330 914</b>				<b>14 424 042</b>
Bonds	CHF	686 988	0.57%	no collateral	07-06-2022	692 679
Bonds	EUR	2 150 000	0.57%	no collateral	05-09-2022	2 165 045
Coupon bonds	PLN	50 000	0.565%	no collateral	09-01-2020	50 224
Mortgage bonds (Public)	EUR	129 000	0.57%	mortgage bond register	28-07-2020	132 427
Mortgage bonds (Public)	EUR	34 400	0.565%	mortgage bond register	28-02-2029	39 171
Mortgage bonds (Public)	EUR	86 000	0.57%	mortgage bond register	30-05-2029	97 008
Mortgage bonds (Public)	PLN	283 200	0.57%	mortgage bond register	28-07-2022	285 799
Mortgage bonds (Public)	PLN	196 000	0.57%	mortgage bond register	20-02-2023	197 422
Mortgage bonds (Public)	PLN	200 000	0.57%	mortgage bond register	28-04-2022	200 491
Mortgage bonds (Public)	EUR	86 000	0.57%	mortgage bond register	25-02-2022	87 843
Mortgage bonds (Public)	PLN	250 000	0.565%	mortgage bond register	16-10-2023	250 682
Mortgage bonds (Public)	EUR	47 300	0.57%	mortgage bond register	24-04-2025	47 742
Mortgage bonds (Public)	EUR	215 000	0.565%	mortgage bond register	24-06-2020	214 827
Mortgage bonds (Public)	PLN	415 200	0.57%	mortgage bond register	10-09-2020	415 270
Mortgage bonds (Public)	PLN	255 000	0.57%	mortgage bond register	20-09-2021	254 815
Mortgage bonds (Public)	PLN	300 000	0.565%	mortgage bond register	05-03-2021	300 248
Mortgage bonds (Public)	EUR	215 000	0.57%	mortgage bond register	21-06-2021	214 729
Mortgage bonds (Public)	PLN	150 000	0.565%	mortgage bond register	28-04-2020	152 801
Mortgage bonds (Public)	EUR	206 400	0.57%	mortgage bond register	20-09-2026	202 144
Mortgage bonds (Public)	EUR	107 070	0.57%	mortgage bond register	01-02-2024	109 172
Mortgage bonds (Public)	PLN	499 700	0.57%	mortgage bond register	10-09-2022	499 332
Mortgage bonds (Public)	PLN	740 000	0.565%	mortgage bond register	15-09-2023	737 493
Mortgage bonds (Public)	EUR	301 000	0.57%	mortgage bond register	22-06-2022	303 669
Mortgage bonds (Public)	EUR	1 290 000	0.57%	mortgage bond register	05-03-2025	1 320 665
Mortgage bonds (Public)	PLN	310 000	0.57%	mortgage bond register	10-06-2024	309 697
Bonds	EUR	2 150 000	0.565%	guarantee	26-11-2021	2 146 426
Bonds	EUR	2 150 000	0.57%	guarantee	26-09-2020	2 155 657
Bonds	CHF	763 156	0.565%	guarantee	28-03-2023	767 060
<b>Debt securities in issue (carrying value in PLN '000)</b>						<b>18 049 583</b>

**As at 31 December 2017**

Debt securities in issue by category	Currency	Nominal value	Contractual interest rate	Guarantee/collateral	Redemption date	Carrying value
<b>Short-term issues</b>		<b>2 270 220</b>				<b>2 160 720</b>
Bonds	PLN	10 000	2.03%	no collateral	05-01-2018	9 998
Bonds	PLN	15 000	2.13%	no collateral	05-01-2018	14 995
Bonds	PLN	20 000	2.01%	no collateral	08-01-2018	20 267
Bonds	PLN	20 000	2.26%	no collateral	10-01-2018	19 988
Bonds	PLN	30 000	2.13%	no collateral	10-01-2018	29 982
Bonds	PLN	10 000	2.09%	no collateral	11-01-2018	10 625
Bonds	PLN	20 000	2.00%	no collateral	11-01-2018	19 988
Bonds	PLN	10 000	2.26%	no collateral	12-01-2018	9 993
Bonds	PLN	20 000	2.15%	no collateral	12-01-2018	19 986
Bonds	PLN	20 000	2.15%	no collateral	12-01-2018	19 986
Bonds	PLN	15 000	2.13%	no collateral	16-01-2018	14 986
Bonds	PLN	12 000	2.13%	no collateral	26-01-2018	11 982
Bonds	PLN	20 000	2.13%	no collateral	26-01-2018	20 017
Bonds	PLN	15 000	2.26%	no collateral	05-02-2018	14 966
Bonds	PLN	20 000	2.10%	no collateral	06-02-2018	19 957
Bonds	PLN	20 000	2.03%	no collateral	09-02-2018	19 955
Bonds	PLN	20 000	2.13%	no collateral	09-02-2018	19 953
Bonds	PLN	20 000	2.13%	no collateral	09-02-2018	19 953
Bonds	PLN	20 000	2.13%	no collateral	13-02-2018	19 948
Mortgage bonds (in EUR)	EUR	31 282	0.529%	mortgage bond register	15-02-2018	31 339
Bonds	PLN	10 000	2.13%	no collateral	16-02-2018	9 972
Bonds	PLN	20 000	2.10%	no collateral	16-02-2018	19 945
Bonds	PLN	20 000	2.09%	no collateral	16-02-2018	19 946
Bonds	PLN	20 000	2.09%	no collateral	19-02-2018	19 942
Bonds	PLN	50 000	2.09%	no collateral	02-03-2018	49 824
Bonds	PLN	30 000	2.26%	no collateral	05-03-2018	29 880
Bonds	PLN	10 000	2.13%	no collateral	05-03-2018	9 962
Bonds	PLN	32 000	2.26%	no collateral	08-03-2018	31 865
Bonds	PLN	20 000	2.02%	no collateral	19-03-2018	19 912
Bonds	PLN	18 000	2.12%	no collateral	20-03-2018	17 917
Bonds	PLN	40 000	2.02%	no collateral	21-03-2018	39 819
Bonds	PLN	50 000	2.12%	no collateral	21-03-2018	49 766
Bonds	PLN	20 000	2.12%	no collateral	22-03-2018	19 905
Bonds	PLN	9 200	2.02%	no collateral	28-03-2018	9 155
Bonds	PLN	20 000	2.11%	no collateral	27-04-2018	19 862
Bonds	PLN	25 000	2.11%	no collateral	17-05-2018	24 798
Bonds	PLN	20 000	2.21%	no collateral	07-06-2018	19 808
Bonds	PLN	50 000	2.11%	no collateral	13-06-2018	49 516
Bonds	PLN	10 000	2.11%	no collateral	13-06-2018	9 903
Mortgage bonds (in PLN)	PLN	200 000	3.50%	mortgage bond register	15-06-2018	200 259
Bonds	PLN	10 000	2.21%	no collateral	21-06-2018	9 895
Bonds	PLN	20 000	2.30%	no collateral	04-09-2018	19 685
Bonds	CHF	823 913	2.50%	guarantee	08-10-2018	716 247
Mortgage bonds (in EUR)	EUR	208 545	0.801%	mortgage bond register	22-10-2018	208 768
Mortgage bonds (in EUR)	EUR	83 418	1.115%	mortgage bond register	22-10-2018	83 503
Bonds	CZK	81 862	2.32%	guarantee	06-12-2018	81 802

Debt securities in issue by category		Nominal value	Contractual interest rate	Guarantee/collateral	Redemption date	Carrying value
<b>Long-term issues</b>		<b>12 584 085</b>				<b>12 162 132</b>
Bonds	PLN	20 000	3.26%	no collateral	16-01-2019	20 289
Bonds	PLN	60 000	3.18%	no collateral	21-01-2019	60 347
Bonds	EUR	2 212 000	2.375%	guarantee	01-04-2019	2 118 706
Mortgage bonds	PLN	80 000	2.81%	mortgage bond register	21-06-2019	79 999
Mortgage bonds	EUR	208 545	0.541%	mortgage bond register	15-10-2019	208 566
Mortgage bonds	PLN	47 900	2.91%	mortgage bond register	28-04-2020	48 767
Mortgage bonds	PLN	100 000	2.91%	mortgage bond register	28-04-2020	101 824
Mortgage bonds	EUR	208 545	2.91%	mortgage bond register	24-06-2020	208 248
Mortgage bonds	EUR	125 127	2.75%	mortgage bond register	28-07-2020	125 615
Mortgage bonds	PLN	465 200	2.83%	mortgage bond register	10-09-2020	464 924
Bonds	EUR	2 212 000	1.398%	guarantee	26-09-2020	2 089 634
Mortgage bonds	PLN	300 000	2.93%	mortgage bond register	05-03-2021	300 076
Mortgage bonds	EUR	208 545	0.541%	mortgage bond register	21-06-2021	208 147
Mortgage bonds	PLN	255 000	2.87%	mortgage bond register	20-09-2021	254 668
Bonds	EUR	2 212 000	2.00%	guarantee	26-11-2021	2 079 370
Mortgage bonds	EUR	83 418	1.135%	mortgage bond register	25-02-2022	83 663
Mortgage bonds	PLN	200 000	2.59%	mortgage bond register	28-04-2022	200 369
Mortgage bonds	EUR	291 963	0.612%	mortgage bond register	22-06-2022	291 246
Mortgage bonds	PLN	283 200	2.74%	mortgage bond register	28-07-2022	285 704
Mortgage bonds	PLN	500 000	2.48%	mortgage bond register	10-09-2022	499 315
Mortgage bonds	PLN	196 000	2.74%	mortgage bond register	20-02-2023	197 326
Bonds	CHF	795 455	1.005%	guarantee	28-03-2023	716 059
Mortgage bonds	PLN	739 900	2.54%	mortgage bond register	15-09-2023	737 406
Mortgage bonds	PLN	250 000	2.68%	mortgage bond register	16-10-2023	250 533
Mortgage bonds	EUR	103 855	0.94%	mortgage bond register	01-02-2024	104 470
Mortgage bonds	EUR	45 880	1.285%	mortgage bond register	24-04-2025	45 988
Mortgage bonds	EUR	54 222	1.18%	mortgage bond register	20-09-2026	54 179
Mortgage bonds	EUR	145 982	1.183%	mortgage bond register	20-09-2026	145 920
Mortgage bonds	EUR	33 367	3.50%	mortgage bond register	28-02-2029	33 773
Mortgage bonds	EUR	62 564	3.50%	mortgage bond register	15-03-2029	63 363
Mortgage bonds	EUR	83 418	3.50%	mortgage bond register	30-05-2029	83 638
<b>Debt securities in issue (carrying value in PLN '000)</b>						<b>14 322 852</b>

The Group did not note any violations of contractual terms related to liabilities in respect of issued debt securities.

### Movements in debt securities in issue

	31.12.2018	31.12.2017
<b>As at the beginning of the period</b>	<b>14 322 852</b>	<b>12 660 389</b>
Additions (issue)	7 859 225	5 597 924
Disposals (redemption)	(4 594 996)	(3 483 381)
Exchange differences	309 692	(683 234)
Other changes	152 810	231 154
<b>Debt securities in issue as at the end of the period</b>	<b>18 049 583</b>	<b>14 322 852</b>

### Issues in 2018

#### ■ New debt securities issue program (EMTN)

On 11 April 2018, the Management Board of mBank SA adopted a resolution regarding a consent to establish a new programme for the issuance of debt instruments (Euro Medium Term Note Program) directly by the Bank, in many tranches and currencies, with various interest structures and due dates, up to the total amount of EUR 3 000 000 thousand ("New EMTN Programme"). The amount of EUR 3 000 000 thousand is the equivalent of PLN 12 573 300 thousand according to the average exchange rate of the National Bank of Poland of 11 April 2018.

The new EMTN Programme will be established by the way of update of the existing debt instruments programme of mFinance France S.A. (mFF) of a incorporated under the laws of France with its registered office in Paris, subsidiary of mBank S.A. The update does not affect the existence of the instruments already issued by mFF nor the validity of the guarantee granted by the Bank with regard to those instruments.

Under the New EMTN Programme, the Bank made two issues:

- on June 7, 2018, the Bank issued bonds with a total value of CHF 180 000 thousand (equivalent of PLN 660 906 thousand at the average exchange rate of the National Bank of Poland as of 7 June 2018), maturing on 7 June 2022,
  - on September 5, 2018, the Bank issued bonds with a total value of EUR 500 000 thousand (equivalent of PLN 2 159 150 thousand at the average exchange rate of the National Bank of Poland as of 5 September 2018), maturing on 5 September 2022.
- In 2018, mBank Hipoteczny S.A. (mBH) made the following issues of debt securities:
- the first issue of mortgage bonds in the amount of PLN 300,000 thousand EUR from the international issuance program of mortgage bonds (equivalent to PLN 1,271,760 thousand according to the average exchange rate of the National Bank of Poland as at 26 April 2018);
  - issue of covered bonds in the amount of PLN 310,000 thousand PLN from the Polish program of issuing mortgage bonds;
  - issue of short-term bonds with a nominal value of 622,000 thousand PLN and long-term bonds with a nominal value of PLN 250,000 thousand.

### **Redemption in 2018**

- In 2018, mBank mBH made the following redeems of issued debt securities:
- redemption in according to the terms of the issue of mortgage covered bonds in the amount of PLN 7,500 thousand EUR issued in 2014,
  - redemption accordance with the terms of issuing mortgage covered bonds in the amount of 20,000 thousand. EUR issued in 2014,
  - redemption accordance with the terms of the issue of mortgage covered bonds in the amount of PLN 50,000 thousand EUR issued in 2013,
  - redemption accordance with the terms of issuing mortgage covered bonds in the amount of PLN 200,000 PLN issued in 2012,
  - redemption of short-term bonds with a nominal value of PLN 322,000 PLN issued in 2018,
  - redemption of short-term bonds with a nominal value of PLN 500,700 PLN issued in 2017.
- In 2018, the company mFinance France (mFF) the following redeems of issued debt securities:
- Bonds with a nominal value of CHF 500 000 thousand issued on October 8, 2013,
  - Bonds with a nominal value of CZK 200 000 thousand issued on December 6, 2013.

### **Issues in 2017**

- In 2017, mBank mBH issued long-term mortgage bonds with a nominal value of PLN 1 500 000 thousand, and the nominal value of EUR 124 900 thousand (equivalent to PLN 520 945 thousand according to the average exchange rate of the National Bank of Poland as at 31 December 2017). Moreover, the company has issued the short-term bonds with a nominal value of PLN 2 773 700 thousand.
- On 14 March 2017, the company mFF issued Eurobonds with a nominal value of CHF 200 000 thousand (PLN 807 320 thousand at the average exchange rate of the National Bank of Poland as at 14 March 2017) maturing on 28 March 2023. On the basis of an agreement dated 14 March 2017, the funds

from the issue in the amount of CHF 199 275 thousand (PLN 804 393 thousand at the average exchange rate of the National Bank of Poland as at 14 March 2017) were placed by mFF in mBank as a security deposit used to back the guarantee issued by mBank to secure all amounts that may be payable in respect of debt securities issued under the Issue Eurobonds Programme.

### Redemption in 2017

- In 2017, mBank mBH made the following redemptions of issued debt securities:
  - mortgage bonds in the amount of PLN 300 000 thousand issued respectively: PLN 200 million in the year 2012 and PLN 100 million in the year 2011,
  - mortgage bonds in the amount of EUR 10 000 thousand issued in the year 2012,
  - the short term bonds issued in 2017 with a nominal value of PLN 3 041 000 thousand.

According to the Act on covered bonds and mortgage banks, from the funds raised through the issue of covered bonds Bank may refinance the loans secured by mortgages and other bank debts acquired from granted loans secured by a mortgage: refinancing with reference to individual loan or an individual claim cannot exceed the amount referring to 60% of the mortgage lending value, and in the case of residential property 80% of the mortgage lending value.

The Bank maintain for mortgage covered bonds a surplus created from the funds forming the Substitute collateral, equal to or higher than the aggregate nominal value of interest on the outstanding mortgage covered bonds, due over the next 6 months (hereinafter referred to as the "Surplus"). Such surplus funds may not serve as a basis for issuing covered bonds.

The sum of nominal amounts of the Bank's claims from loans secured with a mortgage and the Substitute collateral, entered in the register of collaterals of covered bonds, constituting the basis for issuing mortgage covered bonds, cannot be lower than 110% of the total amount of nominal values of the outstanding mortgage covered bonds, and the sum of nominal amounts of claims of the Bank secured by mortgages, constituting the basis for issuing mortgage covered bonds, cannot be lower than 85% of the total amount of nominal values of the outstanding mortgage covered bonds.

The tables below show data related to the issuance of mortgage bonds as of 31 December 2018 and as of 31 December 2017.

	31.12.2018	31.12.2017
	Mortgage bond register	Mortgage bond register
1. Nominal value of covered bonds listed on the market	7 170 670	6 438 802
2. The nominal value of receivables entered in the collateral register of covered bonds underlying the issue of covered bonds (value on not matured capital)	9 349 392	8 591 745
3. Cash in Bank, as a treasury bonds, entered in the collateral register of covered bonds additionally underlying the issue of covered bonds (Substitute collateral)	119 500	106 620
4. Level of collateral the covered bonds by receivables (2/1)	130.38%	133.44%
5. Total covered bonds collateral level (2+3) / 1	132.05%	135.09%
6. The value of receivables as collateral issue of mortgage covered bonds to the part which not exceeding 60% of the mortgage lending value of real estate for commercial real estate	3 502 082	3 355 035
7. The value of receivables as collateral issue of mortgage covered bonds to the part which not exceeding 80% of the mortgage lending value of real estate for residential property	4 927 634	4 385 960

	31.12.2018	31.12.2017
	Mortgage bond register	Mortgage bond register
1. Cash invested in treasury bonds	200 000	180 000
2. Interests from covered bonds on the market which will be paid in the next 6 months (Surplus)	80 500	73 380
3. Permissible value of Substitute collateral (1-2)	119 500	106 620

Transactions regarding Bank's bonds included in subordinated liabilities have been described under these Note below.

### Subordinated liabilities

SUBORDINATED LIABILITIES	Nominal value	Currency	Terms of interest rate (%)	Effective interest rate (%)	Redemption date	As at the end of the period (in PLN '000)
<b>As at 31 December 2018</b>						
- Commerzbank AG	250 000	CHF	3M LIBOR + 2,75	2,01	21.03.2028	954 684
- Investors not associated with mBank S.A.	550 000	PLN	6M WIBOR + 1,8%	3,59	10.10.2028 <sup>1)</sup>	554 469
- Investors not associated with mBank S.A.	200 000	PLN	6M WIBOR + 1,95%	3,74	10.10.2030 <sup>1)</sup>	201 693
- Investors not associated with mBank S.A.	750 000	PLN	6M WIBOR + 2,1%	3,91	17.01.2025	763 317
						<b>2 474 163</b>

<sup>1)</sup> The issue conditions assume the possibility of early redemption of bonds with a nominal value of PLN 550,000 thousand on 10 October 2023, and bonds with a nominal value of PLN 200,000 thousand on October 10, 2025.

SUBORDINATED LIABILITIES	Nominal value	Currency	Terms of interest rate (%)	Effective interest rate (%)	Redemption date	As at the end of the period (in PLN '000)
<b>As at 31 December 2017</b>						
- Commerzbank AG	80 000	CHF	3M LIBOR + 3,4%*	2.6412	perpetual	285 627
- Commerzbank AG	170 000	CHF	3M LIBOR + 2,2%**	1.474	perpetual	608 510
- Investors not associated with mBank S.A.	500 000	PLN	6M WIBOR + 2,25%	4.06	20.12.2023	500 581
- Investors not associated with mBank S.A.	750 000	PLN	6M WIBOR + 2,1%	3.91	17.01.2025	763 425
						<b>2 158 143</b>

\* Margin amounting to 1.4% was in force up to 20 December 2016. From 20 December 2016 margin amounting to 3.4% is in force.

\*\* Margin amounting to 2.2% is in force up to January 2018. Within the period of next years it will be equal to 4.2%.

The effective interest rate specified in the tables above means the interest rate at the inception day of the last interest period.

On 21 March 2018, the Bank early redeemed two series of perpetual subordinated bonds in the total nominal amount of CHF 250 000 thousand (equivalent of PLN 905 125 thousand according to the average exchange rate of the National Bank of Poland of 21 March 2018). The bonds were entirely covered by Commerzbank AG. As at the repurchase date the bonds were redeemed. The Bank has made the early redemption as the funds obtained from these bonds were no longer included in Tier 2 capital, according to art. 490 of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

Additionally, on 21 March 2018, the Bank drew a subordinated loan in the amount of CHF 250 000 thousand (equivalent of PLN 905 125 thousand according to the average exchange rate of the National Bank of Poland of 21 March 2018) based on a subordinated loan agreement signed with Commerzbank on 27 November 2017. Under the terms of the Agreement, the disbursement of the loan as well as the repurchase of subordinated bonds occurred by way of netting of the related claims.

On 29 March 2018, the Polish Financial Supervision Authority gave a consent for qualifying funds from subordinated loan in the amount of CHF 250 000 thousand as instrument in the Bank's Tier 2 capital. The amount of CHF 250 000 thousand according to the average exchange rate of the National Bank of Poland of 29 March 2018 is the equivalent of PLN 893 200 thousand.

On October 9, 2018, mBank S.A. issued two series of subordinated bonds with a total nominal value of PLN 750 000 thousand. 1 100 pieces of 10-year subordinated bonds with a nominal value of PLN 500 thousand each were issued, with maturity on October 10, 2028, and 400 pieces of 12-year subordinated bonds with a nominal value of PLN 500 thousand each, with maturity on October 10, 2030.

The Bank applied to the Polish Financial Supervision Authority for permission to be included in the supplementary capital of the Bank, in accordance with art. 127 par. 3 point 2 letter b) of the Banking Law

Act, a monetary liability in the amount of PLN 750 000 thousand PLN obtained by the Bank for the above-mentioned subordinated bond issue. The Bank obtained such consent on November 28, 2018.

On 20 December 2018, after obtaining the relevant consent of the Polish Financial Supervision Authority (KNF), the Bank made an earlier redemption of subordinated bonds issued on December 3, 2013, with a total nominal value of PLN 500,000 thousand.

According to the decision dated 8 January 2015 mBank obtained permission of the KNF to include in Tier 2 capital the amount of PLN 750 000 thousand constituting subordinated liability from the bonds issue dated 17 December 2014 on total nominal value of PLN 750 000 thousand with redemption date on 17 January 2025 on terms that meet the requirements arising from the CRR Regulation.

On 8 March 2017, mBank S.A. redeemed subordinated bonds in the amount of CHF 400 000 thousand (equivalent of PLN 1 611 840 thousand at the average NBP exchange rate as of 8 March 2017), issued on 8 March 2007 and acquired by Commerzbank AG.

In 2018 and 2017, the Group did not note any delays in repayments of interest instalments and was not in default of any other contractual provisions related to its subordinated liabilities.

### Movements in subordinated liabilities

	31.12.2018	31.12.2017
<b>As at the beginning of the period</b>	<b>2 158 143</b>	<b>3 943 349</b>
- additions (issue)	1 655 125	(1 611 840)
- disposals (repayment, early redemption)	(1 405 125)	-
- exchange differences	65 850	(172 605)
- other changes	170	(761)
<b>Subordinated liabilities as at the end of the period</b>	<b>2 474 163</b>	<b>2 158 143</b>
<b>Short-term (up to 1 year)</b>	<b>20 012</b>	<b>2 337</b>
<b>Long-term (over 1 year)</b>	<b>2 454 151</b>	<b>2 155 806</b>

### 30. Other liabilities

	31.12.2018	31.12.2017
<b>Other liabilities, including</b>		
- tax liabilities	153 506	62 439
- interbank settlements	776 259	1 012 280
- creditors	1 478 745	730 120
- accrued expenses	236 863	235 000
- deferred income	426 325	284 506
- provisions for post-employment employee benefits	21 827	18 248
- provisions for holiday equivalents	28 842	25 986
- provisions for other liabilities to employees	178 419	161 301
- other	29 613	41 250
<b>Total other liabilities</b>	<b>3 330 399</b>	<b>2 571 130</b>

As at 31 December 2018, the presented note includes financial liabilities of PLN 2 491 867 thousand (as at 31 December 2017: PLN 1 977 400 thousand). Cash flows resulting from those financial liabilities are presented under the Note 3.9.1. The other components of presented liabilities, except for part of provisions for post-employment benefits that were calculated on actuarial basis, are short-term liabilities.

**Movements in provisions for post-employment employee benefits**

	31.12.2018	31.12.2017
<b>Provisions for post-employment employee benefits</b>		
<b>As at the beginning of the period (by type)</b>	<b>18 248</b>	<b>14 417</b>
- pension and disability provisions	9 362	7 004
- provisions for death severance	4 103	4 424
- provisions for the Social Benefit Fund	4 783	2 989
<b>Change in the period (due to)</b>	<b>3 579</b>	<b>3 831</b>
<b>Provisions created, due to:</b>	<b>1 060</b>	<b>704</b>
- pension and disability provisions	686	455
- provisions for death severance	161	140
- provisions for the Social Benefit Fund	213	109
<b>Interest expense, due to:</b>	<b>567</b>	<b>466</b>
- pension and disability provisions	290	213
- provisions for death severance	127	149
- provisions for the Social Benefit Fund	150	104
<b>Actuarial gains and losses recognised in other comprehensive income (Note 18), due to:</b>	<b>3 135</b>	<b>3 787</b>
- pension and disability provisions	1 420	2 430
- provisions for death severance	332	(610)
- provisions for the Social Benefit Fund	1 383	1 967
<b>Reduction / elimination of the plan, due to:</b>	<b>(230)</b>	<b>(171)</b>
- pension and disability provisions	(230)	(171)
<b>Benefits paid, due to:</b>	<b>(953)</b>	<b>(955)</b>
- pension and disability provisions	(422)	(569)
- provisions for death severance	(9)	-
- provisions for the Social Benefit Fund	(522)	(386)
<b>As at the end of the period (by type)</b>	<b>21 827</b>	<b>18 248</b>
- pension and disability provisions	11 107	9 362
- provisions for death severance	4 713	4 103
- provisions for the Social Benefit Fund	6 007	4 783
	<b>31.12.2018</b>	<b>31.12.2017</b>
<b>Short-term (up to 1 year)</b>	<b>9 444</b>	<b>1 096</b>
- pension and disability provisions	9 063	757
- provisions for death severance	305	272
- provisions for the Social Benefit Fund	76	67
<b>Long-term (over 1 year)</b>	<b>12 383</b>	<b>17 152</b>
- pension and disability provisions	2 044	8 606
- provisions for death severance	4 408	3 830
- provisions for the Social Benefit Fund	5 931	4 716

The discount rate is one of the key assumptions used in the actuarial valuation of provisions for post-employment benefits. If the discount rate used in the calculation of these provisions as at 31 December 2017 was decreased by 0.5 p.p., the value of the provisions would increase by PLN 701 thousand, and in the case of an increase of the discount rate by 0.5 p.p. the value of the provisions would fall by PLN 648 thousand.

	31.12.2018	31.12.2017
<b>Breakdown of actuarial gains and losses</b>		
<b>Change in financing assumptions, due to:</b>	<b>979</b>	<b>633</b>
- pension and disability provisions	350	218
- provisions for death severance	152	120
- provisions for the Social Benefit Fund	477	295
<b>Change in demographic assumptions, due to:</b>	<b>131</b>	<b>1 890</b>
- pension and disability provisions	123	1 886
- provisions for death severance	(17)	(884)
- provisions for the Social Benefit Fund	25	888
<b>Other changes, due to:</b>	<b>2 025</b>	<b>1 264</b>
- pension and disability provisions	947	326
- provisions for death severance	197	154
- provisions for the Social Benefit Fund	881	784

### 31. Provisions

	31.12.2018	31.12.2017
For legal proceedings	106 321	95 282
Commitments and guarantees given	109 409	75 715
Other provisions	42 553	19 978
<b>Provisions, total</b>	<b>258 283</b>	<b>190 975</b>

Provisions for commitments and guarantees given have been recognized according to IFRS 9.

Estimated dates of granted contingent liabilities realisation are presented in Note 34.

The estimated cash flow due to created provisions for legal proceedings and other provisions is expected to crystallise over 1 year.

### Movements in the provisions

	31.12.2018	31.12.2017
<b>As at the beginning of the period (by type)</b>	<b>190 975</b>	<b>182 754</b>
For legal proceedings	95 282	113 192
Commitments and guarantees given	75 715	43 435
Other provisions	19 978	26 127
<b>Impact of the implementation of IFRS 9 on 1 January 2018</b>	<b>44 324</b>	<b>n/a</b>
- increase in provisions for commitments and guarantees given	44 324	n/a
<b>As at the beginning of the period (by type)</b>	<b>235 299</b>	<b>182 754</b>
For legal proceedings	95 282	113 192
Commitments and guarantees given	120 039	43 435
Other provisions	19 978	26 127
<b>Change in the period (due to)</b>	<b>22 984</b>	<b>8 221</b>
- increase of provisions, due to:	101 933	183 058
- for legal proceedings	23 587	32 997
- commitments and guarantees given	50 456	135 987
- other provisions	27 890	14 074
- release of provisions, due to:	(66 423)	(162 041)
- for legal proceedings	(2 635)	(45 360)
- commitments and guarantees given	(63 139)	(101 887)
- other provisions	(649)	(14 794)
- write-offs	(14 672)	(2 723)
- utilization	-	(5 533)
- reclassification to other positions of statement of financial position	-	(2 587)
- foreign exchange differences	2 146	(1 953)
<b>As at the end of the period (by type)</b>	<b>258 283</b>	<b>190 975</b>
For legal proceedings	106 321	95 282
Commitments and guarantees given	109 409	75 715
Other provisions	42 553	19 978

### Movements in provisions for loan commitments, guarantees and other financial facilities and other commitments

	As at the beginning of the period	Transfer to stage 1	Transfer to stage 2	Transfer to stage 3	Increases due to granting and takeover	Decreased results of derecognised from balance sheet	Changes in credit risk (net)	As at the end of the period
<b>Loan commitments</b>	<b>47 466</b>	-	-	-	<b>24 477</b>	<b>(16 989)</b>	<b>2 960</b>	<b>57 914</b>
Stage 1	29 409	17 523	(2 846)	(4)	18 637	(9 198)	(20 946)	32 575
Stage 2	17 626	(17 523)	2 846	(11)	3 972	(6 353)	17 690	18 247
Stage 3	431	-	-	15	1 014	(1 438)	6 209	6 231
POCI	-	-	-	-	854	-	7	861
<b>Guarantees and other financial facilities</b>	<b>72 426</b>	-	-	-	<b>11 156</b>	<b>(14 588)</b>	<b>(17 499)</b>	<b>51 495</b>
Stage 1	5 130	322	(324)	(3)	4 994	(6 792)	(543)	2 784
Stage 2	1 806	(322)	419	-	1 860	(1 050)	2 281	4 994
Stage 3	65 490	-	(95)	3	5 313	(6 745)	(16 812)	47 154
POCI	-	-	-	-	(1 011)	(1)	(2 425)	(3 437)
<b>Other commitments</b>	<b>147</b>	-	-	-	-	<b>(152)</b>	<b>5</b>	<b>-</b>
Stage 1	147	-	-	-	-	(152)	5	-
<b>Provisions on off-balance sheet commitments and financial guarantees</b>	<b>120 039</b>	-	-	-	<b>35 633</b>	<b>(31 729)</b>	<b>(14 534)</b>	<b>109 409</b>

**Provisions for off-balance sheet granted contingent liabilities as at 31 December 2017**

	<b>31.12.2017</b>
<b>Incurred but not identified losses</b>	
Off-balance sheet contingent liabilities	33 250 017
Provisions for off-balance sheet contingent liabilities analysed according to portfolio approach (negative amount)	(27 522)
<b>Net off-balance sheet contingent liabilities</b>	<b>33 222 495</b>
<b>Off-balance sheet granted contingent liabilities with impairment</b>	
Off-balance sheet contingent liabilities	165 346
Provisions for off-balance sheet contingent liabilities analysed individually (negative amount)	(48 193)
<b>Net off-balance sheet contingent liabilities</b>	<b>117 153</b>

**32. Assets and liabilities for deferred income tax**

Assets and liabilities for deferred income tax are calculated for all temporary differences in accordance with the balance sheet method, using an income tax rate, which will be in force in the year when the tax obligation arises (2018 and 2017: 19%).

Assets and liabilities for deferred income tax are not recognised as short term assets and liabilities.

Changes in assets and liabilities for deferred income tax are presented below.

Deferred income tax assets	As at 01.01.2018	Impact of the implementation of IFRS 9 on 1 January 2018	Restated opening balance	Recognised in the income statement	Recognised in other comprehensive income	Other changes	As at 31.12.2018
Interest accrued	114 653	-	114 653	22 433	-	-	137 086
Valuation of derivative financial instruments	2 639	-	2 639	(1 365)	-	-	1 274
Valuation of securities	32 282	-	32 282	6 324	239	-	38 845
Provisions for impairment of loans and advances	279 631	109 632	389 263	82 352	-	-	471 615
Provisions for employee benefits	39 221	-	39 221	3 842	599	-	43 662
Other provisions	33 164	-	33 164	26 839	-	-	60 003
Prepayments/accruals	32 790	-	32 790	35 123	-	-	67 913
Tax losses carried forward	78	-	78	(78)	-	-	-
Differences between carrying and tax value of lease	350 124	-	350 124	99 534	-	-	449 658
Other negative temporary differences	76 096	-	76 096	(2 637)	134	388	73 981
<b>Total deferred income tax assets</b>	<b>960 678</b>	<b>109 632</b>	<b>1 070 310</b>	<b>272 367</b>	<b>972</b>	<b>388</b>	<b>1 344 037</b>

Deferred income tax liabilities	As at 01.01.2018	Impact of the implementation of IFRS 9 on 1 January 2018	Restated opening balance	Recognised in the income statement	Recognised in other comprehensive income	Other changes	As at 31.12.2018
Interest accrued	(77 950)	-	(77 950)	1 229	-	-	(76 721)
Valuation of derivative financial instruments	(26 124)	-	(26 124)	(10 542)	(20 840)	-	(57 506)
Valuation of investment securities	(116 192)	9 582	(106 610)	2 218	(6 412)	-	(110 804)
Interest and fees received in advance	(1 538)	-	(1 538)	(5 424)	-	-	(6 962)
Difference between tax and book value of tangible and intangible assets	(45 749)	-	(45 749)	2 954	-	-	(42 795)
Prepayments regarding amortization of applied investment relief	(18 657)	-	(18 657)	-	-	-	(18 657)
Other positive temporary differences	(45 299)	(49 825)	(95 124)	20 470	-	3 055	(71 599)
<b>Total deferred income tax liabilities</b>	<b>(331 509)</b>	<b>(40 243)</b>	<b>(371 752)</b>	<b>10 905</b>	<b>(27 252)</b>	<b>3 055</b>	<b>(385 044)</b>

The item "Other positive temporary differences" includes the impact of the creation of deferred tax provision in the amount of PLN 22 529 thousand resulting from the implementation of IFRS 9 in respect of recognized in previous years tax-deductible costs from the provision for incurred undocumented credit risk. According to art. 12 para. 4 of the Act of 27 October 2017 on amendments to the Personal Income Tax Act, the Corporate Income Tax Act and the Act on Flat Rate Income Tax on Certain Revenue Earned by Natural Persons, in the event that the Bank included IBNR to the tax-deductible costs before January 1, 2018, after the entry into force of the amendment the Bank is obliged to recognize income up to the amount previously recognized as tax cost. The Bank recognizes revenues on this account pro rata for a period of 7 consecutive tax years.

Deferred income tax assets	As at 01.01.2017	Recognised in the income statement	Recognised in other comprehensive income	Other changes	As at 31.12.2017
Interest accrued	109 476	5 177	-	-	114 653
Valuation of derivative financial instruments	2 028	611	-	-	2 639
Valuation of investment securities	44 920	2 341	(14 979)	-	32 282
Provisions for impairment of loans and advances	274 812	4 819	-	-	279 631
Provisions for employee benefits	36 080	2 421	720	-	39 221
Other provisions	33 239	(75)	-	-	33 164
Prepayments/accruals	26 670	6 120	-	-	32 790
Tax losses carried forward	197	(119)	-	-	78
Differences between carrying and tax value of lease	260 437	89 687	-	-	350 124
Other negative temporary differences	71 750	3 040	(5)	1 311	76 096
<b>Total deferred income tax assets</b>	<b>859 609</b>	<b>114 022</b>	<b>(14 264)</b>	<b>1 311</b>	<b>960 678</b>

Deferred income tax liabilities	As at 01.01.2017	Recognised in the income statement	Recognised in other comprehensive income	Other changes	As at 31.12.2017
Interest accrued	(80 692)	2 742	-	-	(77 950)
Valuation of derivative financial instruments	(42 726)	15 745	857	-	(26 124)
Valuation of investment securities	(66 610)	(21 861)	(27 721)	-	(116 192)
Interest and fees received in advance	(20 896)	19 358	-	-	(1 538)
Difference between tax and book value of tangible and intangible assets	(48 360)	2 611	-	-	(45 749)
Prepayments regarding amortization of applied investment relief	(18 657)	-	-	-	(18 657)
Other positive temporary differences	(42 120)	(2 945)	2	(236)	(45 299)
<b>Total deferred income tax liabilities</b>	<b>(320 061)</b>	<b>15 650</b>	<b>(26 862)</b>	<b>(236)</b>	<b>(331 509)</b>

	31.12.2018	31.12.2017
Interest accrued	23 662	7 919
Valuation of derivative financial instruments	(11 907)	16 356
Valuation of securities	8 542	(19 520)
Provisions for impairment of loans and advances	82 352	4 819
Provisions for employee benefits	3 842	2 421
Other provisions	26 839	(75)
Prepayments/accruals	35 123	6 120
Interest and fees received in advance	(5 424)	19 358
Difference between tax and book value of tangible and intangible assets	2 954	2 611
Differences between carrying and tax value of lease	99 534	89 687
Deferred tax losses carried forward	(78)	(119)
Other temporary differences	17 833	95
<b>Total deferred income tax included in the profit and loss account (Note 16)</b>	<b>283 272</b>	<b>129 672</b>

The Group evaluated the recoverability of deferred tax assets. Following the rules of IAS 12 paragraph 29 the Group recognised deferred tax assets to the extent that it is probable that the Group will have sufficient taxable profits in the future periods or tax planning opportunities are available that will create taxable profit in future periods.

A level of deferred tax asset for the year 2018 and 2017 does not include tax losses of the foreign branch in Slovakia on the amount, respectively: EUR 1 693 thousand (equivalent of PLN 7 279 thousand according to the average exchange rate of the National Bank of Poland of 31 December 2018) and EUR 1 567 thousand (equivalent of PLN 6 536 thousand according to the average exchange rate of the National Bank of Poland of 31 December 2018). Potential including of the tax losses into deferred tax asset in years to come will depend upon an assessment of the corporate income tax base level in a future (including the periods scheduled for settlement of tax losses). Right to tax losses' settlement expires between 2019 and 2022 year.

Due to the improbability of occurrence of taxable income enabling to use tax losses incurred in Garbary Sp. z o.o., BDH Development Sp. z o.o. and mCentrum Operacji Sp. z o.o. the Group does not include

those losses in the deferred tax asset calculation. The total amount of unused tax losses not included in the calculation of deferred tax assets amounted to PLN 59 115 thousand at the end of 31 December 2018 and PLN 28 022 thousand at the end of 31 December 2017. Right to tax losses' settlement expires between 2019 and 2023 year.

The Group recognizes deferred tax liabilities or assets related to temporary differences arising from investments in subsidiaries and associates except that the implementation of the temporary differences is controlled by the Group and it is probable that in the foreseeable future, these differences will not be reversed. At the end of 2018 the Group did not include settlements on temporary differences in the total amount of PLN 1 443 977 thousand incurred due to investments in subsidiaries and affiliated companies in deferred tax calculation and PLN 1 198 253 thousand at the end of 2017.

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

As at 31 December 2018, 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 31 December 2018 was also not higher than 10% of the Bank's equity.

The Bank monitors the status of all legal proceedings brought against the Bank and the level of required provisions.

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

##### **1. Claims of Interbrok's clients**

Since 14 August 2008, 170 entities which have been clients of Interbrok Investment E. Drózdź i Spółka Spółka jawna (hereinafter Interbrok) called the Bank for amicable settlement for the total amount of PLN 386,086 thousand via the District Court in Warsaw. Nine compensation lawsuits were filed against the Bank. Eight of the nine lawsuits were filed by former clients of Interbrok for the total amount of PLN 800 thousand with the proviso that the claims may be extended up to the total amount of PLN 5,950 thousand. The plaintiffs alleged that the Bank had aided in Interbrok's illegal activities, which caused damage to them. With regard to seven of the 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. 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, the Bank filed a comprehensive pleading, in which min. he calls for an expert change. We expect the date of the hearing.

### 3. 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 will prepare the replica has been served.

### 4. 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.

### **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.

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

On June 11, 2018, in CSK Sp. z o.o., (on 100% dependent on BDH Development Sp. z o.o.) the employees of the Lodz Treasury Office in Łódź (Urząd Skarbowy Łódź Śródmieście) started the tax inspection in the area of corporate income tax for 2016. The tax audit revealed no irregularities.

From 23 November 2017 to 3 April 2018 at mBank S.A. was conducted the tax inspection regarding the correctness of settlement of the tax on goods and services due to the import of services for 2015, conducted by employees of the Mazowiecki Customs and Tax Office in Warsaw. The tax audit revealed no irregularities.

From 29 January 2016 to 30 May 2017, officers of the Treasury Control Office in Warsaw (Urząd Kontroli Skarbowej) carried out an inspection in mLeasing relating to the reliability of the declared tax bases and the correctness of the calculation and payment of tax on goods and services for Q2 2014. Additionally, the inspection aimed at determining whether mLeasing is a relevant person within the meaning of the Act of 16 November 2000 on Counteracting Money Laundering and Terrorism Financing and, in the case of confirming the status, at verifying its compliance with the obligations arising from the aforesaid act. The inspection revealed no major irregularities.

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

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

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

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

As of the day of the preparation of these financial statements the final stance of the UKNF related to the issues being the subject of the above inspection is not known.

### 34. Off-balance sheet liabilities

Off-balance sheet liabilities of the Group comprise:

- Loan commitments

The amounts and deadlines by which the Group will be obliged to realise its off-balance sheet liabilities by granting loans or other monetary services are presented in the table below.

- Guarantees and other financial facilities

Guarantees are presented in the table below based on the earliest contractual maturity date.

- Other commitments

#### Loan commitments, guarantees and other financial facilities and other commitments

31.12.2018	Nominal amount of off-balance sheet commitments and financial guarantees under IFRS 9 impairment				Provisions on off-balance sheet commitments and financial guarantees under IFRS 9 impairment			
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Loan commitments	26 868 906	935 840	21 609	961	32 575	18 247	6 231	861
Guarantees and other financial facilities	7 543 787	872 767	119 779	5 100	2 784	4 994	47 154	(3 437)
Other commitments	37 076	-	-	-	-	-	-	-

The following table presents the Bank's off-balance sheet commitments granted and received as well as nominal value of open positions of derivative transactions of the Bank as at 31 December 2018 and as at 31 December 2017.

31.12.2018	Up to 1 year	1-5 years	More than 5 years	Total
<b>1. Contingent liabilities granted and received</b>	<b>32 900 774</b>	<b>4 049 191</b>	<b>3 091 452</b>	<b>40 041 417</b>
<b>Commitments granted</b>	<b>31 399 043</b>	<b>2 307 751</b>	<b>2 754 629</b>	<b>36 461 423</b>
1. Financing	24 303 130	1 972 322	1 607 462	<b>27 882 914</b>
a) Loan commitments	24 253 840	1 967 925	1 605 551	<b>27 827 316</b>
b) Other financial commitments	49 290	4 397	1 911	<b>55 598</b>
2. Guarantees and other financial facilities	7 058 837	335 429	1 147 167	<b>8 541 433</b>
a) Guarantees and standby letters of credit	7 058 837	335 429	1 147 167	<b>8 541 433</b>
3. Other commitments	37 076	-	-	<b>37 076</b>
<b>Commitments received</b>	<b>1 501 731</b>	<b>1 741 440</b>	<b>336 823</b>	<b>3 579 994</b>
a) Financial commitments received	-	381 660	-	<b>381 660</b>
b) Guarantees received	1 501 731	1 359 780	336 823	<b>3 198 334</b>
<b>2. Derivative financial instruments (nominal value of contracts)</b>	<b>162 822 205</b>	<b>312 067 363</b>	<b>42 533 604</b>	<b>517 423 172</b>
Interest rate derivatives	90 331 695	291 197 062	38 527 954	<b>420 056 711</b>
Currency derivatives	70 254 654	20 338 566	2 487 650	<b>93 080 870</b>
Market risk derivatives	2 235 856	531 735	1 518 000	<b>4 285 591</b>
<b>Total off-balance sheet items</b>	<b>195 722 979</b>	<b>316 116 554</b>	<b>45 625 056</b>	<b>557 464 589</b>

31.12.2017	Up to 1 year	1-5 years	More than 5 years	Total
<b>1. Contingent liabilities granted and received</b>	<b>27 901 781</b>	<b>8 173 972</b>	<b>1 418 944</b>	<b>37 494 697</b>
<b>Commitments granted</b>	<b>26 053 236</b>	<b>6 458 344</b>	<b>980 062</b>	<b>33 491 642</b>
1. Financing	22 050 593	3 395 751	501 647	<b>25 947 991</b>
a) Loan commitments	22 023 820	3 346 245	501 647	<b>25 871 712</b>
b) Other financial commitments	26 773	49 506	-	<b>76 279</b>
2. Guarantees and other financial facilities	3 602 643	3 062 593	478 415	<b>7 143 651</b>
a) Banker's acceptances	5 116	-	-	<b>5 116</b>
b) Guarantees and standby letters of credit	3 597 527	3 062 593	478 415	<b>7 138 535</b>
3. Other commitments	400 000	-	-	<b>400 000</b>
<b>Commitments received</b>	<b>1 848 545</b>	<b>1 715 628</b>	<b>438 882</b>	<b>4 003 055</b>
a) Financial commitments received	13 222	-	-	<b>13 222</b>
b) Guarantees received	1 835 323	1 715 628	438 882	<b>3 989 833</b>
<b>2. Derivative financial instruments (nominal value of contracts)</b>	<b>157 091 619</b>	<b>238 396 163</b>	<b>33 825 013</b>	<b>429 312 795</b>
Interest rate derivatives	87 435 060	214 783 274	32 090 017	<b>334 308 351</b>
Currency derivatives	68 263 776	22 143 926	1 429 596	<b>91 837 298</b>
Market risk derivatives	1 392 783	1 468 963	305 400	<b>3 167 146</b>
<b>Total off-balance sheet items</b>	<b>184 993 400</b>	<b>246 570 135</b>	<b>35 243 957</b>	<b>466 807 492</b>

The above presented operating lease liabilities relate entirely to the lease of buildings.

The nominal values of derivatives are presented in Note 20.

As at 31 December 2018, apart from financial commitments granted by the Bank, the largest impact on the amount of financial commitments granted had commitments granted by mFactoring and mBank Hipoteczny respectively in amount of PLN 1 644 421 thousand and PLN 1 515 637 thousand (31 December 2017 respectively: PLN 1 466 478 thousand and PLN 1 571 536 thousand).

### 35. Pledged assets

Assets may be pledged as collateral for repo/sell-buy-back transactions, derivatives contract with other banks. Collateral may be also placed due to stock market derivatives such as futures, options and participation in stock market.

Collateral may be placed in different form (e.g. cash, securities and pledged assets).

Similarly, customers establish collateral on their assets to secure the transaction with the Group. If securities are subject to collateral (in buy-sell-back transaction) they can be re-pledged in the opposite transaction (sell-buy-back).

Moreover the Group accepts collaterals in the form of properties (esp. real estates) related to credit type transactions like mortgage loans, credit lines, banking guarantees.

The tables below present the breakdown of the measures possible to pledge by the main items of the statement of financial position of mBank Group, as at 31 December 2018 and 31 December 2017. Treasury securities are the main component of the Group's liquidity collateral for the purpose of pledge.

Position (PLN 000's)	Assets			Collateral received in kind of securities related with buy sell back transactions			Assets available for pledge (3+6)
	Total assets	Pledged assets	Eligible for pledge assets	Collateral received in kind of securities related with buy sell back transactions			
				Received	Reused	Available for pledge	
	1	2	3	4	5	6	7
<b>Debt securities (Note 20 and 22) including:</b>	<b>25 393 341</b>	<b>2 745 396</b>	<b>22 369 638</b>	<b>1 480 632</b>	<b>599</b>	<b>1 480 033</b>	<b>23 849 671</b>
- NBP bills	589 901	-	589 901	-	-	-	589 901
- Government bonds	22 035 917	2 745 396	19 290 521	1 480 632	599	1 480 033	20 770 554
- Mortgage bonds	-	-	-	-	-	-	-
- Other non-treasury securities	2 767 523	-	2 489 216	-	-	-	2 489 216
Cash collaterals (due to derivatives transactions) (Note 23)	388 196	388 196	-	-	-	-	-
Loans and advances to customers	94 765 753	9 399 293	-	-	-	-	-
Property collateral	-	-	-	-	-	-	-
Other assets	25 202 829	-	-	-	-	-	-
<b>Total</b>	<b>145 750 119</b>	<b>12 532 885</b>	<b>22 369 638</b>	<b>1 480 632</b>	<b>599</b>	<b>1 480 033</b>	<b>23 849 671</b>

31.12.2017

Position (PLN 000's)	Assets			Collateral received in kind of securities related with buy sell back transactions			Assets available for pledge (3+6)
	Total assets	Pledged assets	Eligible for pledge assets	Received	Reused	Available for pledge	
	1	2	3	4	5	6	
<b>Debt securities (Note 20 and 22) including:</b>	<b>33 580 982</b>	<b>6 325 729</b>	<b>25 787 590</b>	-	-	-	<b>25 787 590</b>
- NBP bills	2 322 914	-	2 322 914	-	-	-	2 322 914
- Government bonds	28 816 209	6 325 729	22 490 480	-	-	-	22 490 480
- Mortgage bonds	-	-	-	-	-	-	-
- Other non-treasury securities	2 441 859	-	974 196	-	-	-	974 196
Cash collaterals (due to derivatives transactions) (Note 23)	365 385	365 385	-	-	-	-	-
Loans and advances to customers	84 475 844	8 645 660	-	-	-	-	-
Property collateral	-	-	-	-	-	-	-
Other assets	13 001 808	-	-	-	-	-	-
<b>Total</b>	<b>131 424 019</b>	<b>15 336 774</b>	<b>25 787 590</b>	-	-	-	<b>25 787 590</b>

mBank Hipoteczny S.A. secures issued mortgage and public bonds with receivables obtained from loans and advances. As at 31 December 2018, the net carrying value of loans registered in the mortgage and public bonds register, presented above as pledged assets amounted to PLN 9 399 293 thousand (31 December 2017: PLN 8 645 660 thousand).

The value of treasury securities presented as pledged assets, except for collaterals due to sell-buy-back transactions, includes collateral of liabilities due to the loan received from the EIB, collateral for the guaranteed deposits fund under the Bank Guarantee Fund (BFG) and collateral for the payment commitment to the BFG guarantee fund and forced restructuring fund.

### 36. Registered share capital

The total number of ordinary shares as at 31 December 2018 was 42 336 982 shares (31 December 2017: 42 312 122) at PLN 4 nominal value each. All issued shares were fully paid up.

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

\* As at the end of the reporting period

In 2018, the National Depository of Securities (KDPW) has registered 24 860 shares of mBank, which were issued as part of the conditional increase in the share capital of the Bank by issuance of shares with no subscription rights for the existing shareholders in order to enable beneficiaries of the incentive programmes to take up shares in mBank. As a result of the above registration, in 2018 the mBank's share capital increased by PLN 99 440.

Commerzbank AG is a shareholder holding over 5% of the share capital and votes at the General Meeting and as at 31 December 2018 it held 69.33% of the share capital and votes at the General Meeting of mBank S.A.

In 2018 there were no changes in the ownership structure of significant blocks of shares in the Bank, whereas 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.

### 37. Share premium

Share premium is formed from the share premium obtained from the issue of shares reduced by the direct costs incurred with that issue. This capital is intended to cover all losses that may result from the business activity of the Bank.

The increase of share premium in 2018 and 2017 results from the issue of shares under incentive programmes described under Note 42.

### 38. Retained earnings

Retained earnings include: other supplementary capital, other reserve capital, general banking risk reserve, profit (loss) from the previous years and profit for the current year.

Other supplementary capital, other reserve capital and general banking risk reserve are created from profit for the current year and their aim is described in the By-laws or in other regulations of the law.

	31.12.2018	31.12.2017
Other supplementary capital	9 826 282	7 727 317
Other reserve capital	93 448	93 634
General banking risk reserve	1 153 753	1 153 753
Profit from the previous year	(965 478)	508 060
Profit for the current year	1 316 451	1 091 530
<b>Total retained earnings</b>	<b>11 424 456</b>	<b>10 574 294</b>

According to the Polish legislation, each bank is required to allocate 8% of its net profit to a statutory undistributable other supplementary capital until this supplementary capital reaches 1/3 of the share capital.

In addition, the Group transfers some of its net profit to the general banking risk reserve to cover unexpected risks and future losses. The general banking risk reserve can be distributed only on consent of shareholders at a general meeting.

### 39. Other components of equity

	31.12.2018	31.12.2017
<b>Exchange differences on translating foreign operations</b>	<b>(5 467)</b>	<b>(5 527)</b>
Unrealized gains (foreign exchange gains)	2 971	3 671
Unrealized losses (foreign exchange losses)	(8 438)	(9 198)
<b>Available-for-sale financial assets</b>	<b>n/a</b>	<b>168 393</b>
Unrealized gains on debt instruments	n/a	196 759
Unrealized losses on debt instruments	n/a	(7 744)
Unrealized gains on equity instruments	n/a	15 903
Deferred income tax	n/a	(36 525)
<b>Valuation of financial assets at fair value through other comprehensive income</b>	<b>145 978</b>	<b>n/a</b>
Unrealized gains on debt instruments	189 614	n/a
Unrealized losses on debt instruments	(10 328)	n/a
Deferred income tax	(33 308)	n/a
<b>Cash flow hedges</b>	<b>83 643</b>	<b>(5 198)</b>
Unrealized gains	103 263	2 877
Unrealized losses	-	(9 295)
Deferred income tax	(19 620)	1 220
<b>Actuarial gains and losses relating to post-employment benefits</b>	<b>(9 316)</b>	<b>(6 768)</b>
Actuarial gains	-	2
Actuarial (losses)	(11 491)	(8 358)
Deferred income tax	2 175	1 588
<b>Total other components of equity</b>	<b>214 838</b>	<b>150 900</b>

In 2018, unrealized gains on equity instruments relate mainly to positive valuation of debt securities of the banking book, caused by a decrease in interest rates in the last quarter of 2018, resulting from interest rate drops in global markets.

In 2017, unrealized gains on equity instruments relate mainly to positive valuation of debt securities of the banking book, caused by a decrease in interest rates in the first half of 2017, resulting from interest rate drops in global markets.

#### **40. Dividend per share**

On 12 April 2018, the 31st Annual General Meeting of mBank S.A. adopted a resolution regarding the distribution of the net profit for 2017. The dividend for the Bank's shareholders was contributed the amount of PLN 217 907 428.30, with the amount of the dividend per share amounting to PLN 5.15. This amount represents 20% of the Bank's net profit generated in the period from 1 January to 31 December 2017.

The dividend day was set for 24 May 2018 (the dividend day), while the payment of the dividend took place on June 7, 2018.

#### **41. Cash and cash equivalents**

##### **Cash and cash equivalents**

For the purpose of the statement of cash flows, the balance of cash and cash equivalents comprises the following balances with maturities shorter than three months.

	<b>31.12.2018</b>	<b>31.12.2017</b>
Cash and balances with the Central Bank (Note 19)	9 199 264	7 384 869
Loans and advances to banks (Note 23)	683 411	1 206 876
Trading securities issued by General governments (Note 20)	748 294	1 232 515
<b>Total cash and cash equivalents</b>	<b>10 630 969</b>	<b>9 824 260</b>

##### **Supplementary information to the cash flow statement**

*Explanation of differences between the change in the balances resulting from the balance sheet and the change disclosed in the cash flows from operating activities*

	Year ended 31 December 2018
<b>Loans and advances to banks - change in the balance of the statement of financial position</b>	<b>(839 123)</b>
The difference between the interest accrued and paid in cash in the period	(14 527)
Exclusion of a change in the balance of cash and cash equivalents	(523 465)
<b>Total change in loans and advances to banks</b>	<b>(1 377 115)</b>
<b>Financial assets held for trading and derivatives held for hedges - change in the balance of the statement of financial position</b>	<b>543 135</b>
The difference between the interest accrued and paid in cash in the period	116 868
Valuation included in other comprehensive income	109 681
Exclusion of a change in the balance of cash and cash equivalents	(484 221)
<b>Total change in financial assets held for trading and derivatives held for hedges</b>	<b>285 463</b>
<b>Loans and advances to customers - change in the balance of the statement of financial position</b>	<b>(10 517 389)</b>
The difference between the interest accrued and paid in cash in the period	(149 270)
<b>Total change in loans and advances to customers</b>	<b>(10 666 659)</b>
<b>Financial assets at fair value through other comprehensive income - change in the balance of the statement of financial position</b>	<b>(800 714)</b>
Valuation included in other comprehensive income	(15 068)
The difference between the interest accrued and paid in cash in the period	(496 127)
<b>Total change in financial assets at fair value through other comprehensive income</b>	<b>(1 311 909)</b>
<b>Debt securities measured at amortised cost - change in the balance of the statement of financial position</b>	<b>(480 367)</b>
The difference between the interest accrued and paid in cash in the period	203 518
<b>Total change in debt securities measured at amortised cost</b>	<b>(276 849)</b>
<b>Non-trading financial assets mandatorily at fair value through profit or loss - change in the balance of the statement of financial position</b>	<b>(43 280)</b>
Acquisition of shares in subsidiaries not included in the consolidation	39 907
Disposals of shares in subsidiaries not included in the consolidation	(100)
Change the valuation	3 065
<b>Change non-trading financial assets mandatorily at fair value through profit or loss</b>	<b>(408)</b>
<b>Other assets - change in the balance of the statement of financial position</b>	<b>(407 266)</b>
Balances unrealised in cash recognised in income statement	17 135
<b>Total change in other assets</b>	<b>(390 131)</b>
<b>Amounts due to other banks - change in the balance of the statement of financial position</b>	<b>(1 994 964)</b>
The difference between the interest accrued and paid in cash in the reporting period	(44 183)
Exclusion of change in cash flows from financing activity	2 644 697
<b>Total change in amounts due to other banks</b>	<b>605 550</b>
<b>Amounts due to customers - change in the balance of the statement of financial position</b>	<b>10 468 181</b>
The difference between the interest accrued and paid in cash in the reporting period	386 025
Exclusion of change in cash flows from financing activity	734 364
<b>Total change in amounts due to customers</b>	<b>11 588 570</b>
<b>Debt securities in issue - change in the balance of the statement of financial position</b>	<b>3 726 731</b>
The difference between the interest accrued and paid in cash in the reporting period	(75 357)
Exclusion of change in cash flows from financing activity	(3 370 561)
<b>Total change in debt securities in issue</b>	<b>280 813</b>
<b>Changes in other liabilities - change in the balance of the statement of financial position</b>	<b>779 672</b>
Valuation of incentive programmes recognised in income statement (Note 12)	10 703
Exclusion of settlements arising from valuation of assets held to sale	2 863
Exclusion of tax liabilities of certain financial institutions	(3 259)
Actuarial gains and losses relating to post-employment benefits recognised in other comprehensive income (Note 17)	(3 135)
<b>Total change in other liabilities</b>	<b>786 844</b>

	Year ended 31 December 2017
<b>Loans and advances to banks - change resulting from the balance sheet balances</b>	<b>1 375 133</b>
The difference between the interest accrued and paid in cash during the reporting period	(1 032)
Exclusion of a change in the balance of cash and cash equivalents	(1 125 863)
<b>Total change in loans and advances to banks</b>	<b>248 238</b>
<b>Trading securities - change resulting from the balance sheet balances</b>	<b>2 275 252</b>
The difference between the interest accrued and paid in cash during the reporting period	(1 814)
Exclusion of a change in the balance of cash and cash equivalents	(2 270 514)
<b>Total change in trading securities</b>	<b>2 924</b>
<b>Derivative financial instruments - change resulting from the balance sheet balances</b>	<b>68 643</b>
The difference between the interest accrued and paid in cash during the reporting period	104 426
Valuation included in other comprehensive income	(4 511)
<b>Total change in derivative financial instruments</b>	<b>168 558</b>
<b>Loans and advances to customers - change resulting from the balance sheet balances</b>	<b>(2 712 567)</b>
The difference between the interest accrued and paid in cash during the reporting period	(181 522)
<b>Total change in loans and advances to customers</b>	<b>(2 894 089)</b>
<b>Investment securities and investments in subsidiaries - change resulting from the balance sheet balances</b>	<b>(780 027)</b>
Valuation included in other comprehensive income	224 697
The difference between the interest accrued and paid in cash during the reporting period	(299 422)
Sale of equity securities and investments in subsidiaries	(32 863)
Increase of involvement in non consolidated subsidiaries and minority interests	6 159
Exclusion of a change resulting from valuation at equity method of investments in associates	11 338
<b>Total change in investment securities</b>	<b>(870 118)</b>
<b>Changes in other assets - change resulting from the balance sheet balances</b>	<b>78 088</b>
Balances unrealised in cash recognised in income statement	13 347
<b>Total change in other assets</b>	<b>91 435</b>
<b>Amounts due to other banks - change resulting from the balance sheet balances</b>	<b>(3 413 402)</b>
The difference between the interest accrued and paid in cash during the reporting period	(43 581)
Exclusion of change in cash flows from financing activity	3 568 353
<b>Total change in amounts due to other banks</b>	<b>111 370</b>
<b>Amounts due to customers - change resulting from the balance sheet balances</b>	<b>78 065</b>
The difference between the interest accrued and paid in cash during the reporting period	(111 315)
Exclusion of change in cash flows from financing activity	20 764
<b>Total change in amounts due to customers</b>	<b>(12 486)</b>
<b>Debt securities in issue - change resulting from the balance sheet balances</b>	<b>1 662 463</b>
The difference between the interest accrued and paid in cash during the reporting period	(95 330)
Exclusion of change in cash flows from financing activity	(2 381 840)
<b>Total change in debt securities in issue</b>	<b>(814 707)</b>
<b>Changes in other liabilities and provisions - change resulting from the balance sheet balances</b>	<b>400 561</b>
Valuation of incentive programmes recognised in income statement (Note 11)	8 700
Exclusion of tax liabilities of certain financial institutions	833
Actuarial gains and losses relating to post-employment benefits recognised in other comprehensive income (Note 16)	(3 786)
<b>Total change in other liabilities and provisions</b>	<b>406 308</b>

***Interest received and paid introduced in operating activities***

	Year ended 31 December	
	2018	2017
<b>Interest income, including:</b>		
Loans and advances to banks	70 214	60 904
Loans and advances to customers	3 536 391	3 182 846
Trading debt securities	79 817	64 620
Debt securities at fair value through other comprehensive income	882 577	965 620
Interest income on derivatives classified into banking book	82 630	39 005
Interest income on derivatives concluded under hedge accounting	98 261	72 758
Other interest income	5 686	18 707
<b>Total interest income</b>	<b>4 755 576</b>	<b>4 404 460</b>

	Year ended 31 December	
	2018	2017
<b>Interest expense, including:</b>		
Settlements with banks due to deposits received	(11 114)	(15 508)
Settlements with customers due to deposits received	(951 393)	(389 250)
Security deposit received in relation with the guarantee granted to secure underwriting of securities	(243 513)	(256 898)
Other interest expense	(6 882)	(7 532)
<b>Total interest expense</b>	<b>(1 212 902)</b>	<b>(669 188)</b>

***Cash flows from investing activities***

In 2018 and in 2017, cash flows from investing activities mainly relate to the settlements regarding the purchase of intangible and tangible assets. In addition, cash flows from investing activities in 2018 concern the settlement of transactions and the sale of an organized part of the mFinanse S.A. (Note 44).

***Cash flows from financing activities***

Cash flows from financing activities mainly relate to the settlements regarding the issue of debt securities and to the settlements of long-term loans received from other banks (Note 29) and the European Investment Bank (Note 29). Moreover, in 2018 cash flows from financing activities includes the settlements relates to subordinated liabilities.

In the change not related to cash flows were included exchange differences and accrued interest.

	As at 31.12.2017	Cash flows	Change not connected with cash flows	As at 31.12.2018
Loans and advances to banks (Note 29)	3 394 340	(2 780 373)	133 414	747 381
Loans and advances to other customers (Note 29)	4 142 944	(858 678)	172 998	3 457 264
Liabilities due to security deposits received in relation with the granted guarantees (Note 29)	14 322 852	3 058 743	667 988	18 049 583
Subordinated liabilities (Note 29)	2 158 143	245 562	70 458	2 474 163
<b>Total liabilities from financing activities</b>	<b>24 018 279</b>	<b>(334 746)</b>	<b>1 044 858</b>	<b>24 728 391</b>

	As at 31.12.2016	Cash flows	Change not connected with cash flows	As at 31.12.2017
Loans and advances to banks (Note 29)	6 964 907	(2 758 658)	(811 909)	3 394 340
Loans and advances to other customers (Note 29)	4 201 768	192 646	(251 470)	4 142 944
Liabilities due to security deposits received in relation with the granted guarantees (Note 29)	12 660 389	2 381 838	(719 375)	14 322 852
Subordinated liabilities (Note 29)	3 943 349	(1 681 347)	(103 859)	2 158 143
<b>Total liabilities from financing activities</b>	<b>27 770 413</b>	<b>(1 865 521)</b>	<b>(1 886 613)</b>	<b>24 018 279</b>

## 42. Share-based incentive programmes

### **2014 Incentive Programme for the Management Board Members of the Bank**

On 31 March 2014 the Supervisory Board in accordance with the recommendation of Remuneration Committee of the Supervisory Board adopted a Regulation of the Incentive Programme in mBank S.A., which replaced the Regulation of the Incentive Programme in mBank S.A. dated at 7 December 2012.

Under the program the Management Board Members have the right to bonus, including non-cash bonus paid in Bank's shares, including phantom shares.

The net ROE of mBank Group and the monthly remuneration of the member of the Board as at 31 December form the basis for acquisition by Members of the Management Board of the right to bonus and for calculation of the amount of bonus for a given financial year. Equivalent of 50% of the base amount calculated based on ROE constitutes the so-called first part of the bonus. In regard to the remaining 50% of the base amount, the Remuneration Committee of the Supervisory Board can grant the second part of the bonus if it decides that a given Member of the Management Board achieved the annual/multi-year business and development objective. The decision of granting the second part of the bonus is the sole responsibility of Remuneration Committee of the Supervisory Board, which according to its own judgement and decision confirm MBO achievement taking into account the situation on financial markets in the last/previous financial period.

The sum of the first and the second part of bonus is the base bonus of the member of the Board for a given financial period. 40% of the base bonus constitutes non-deferred bonus and is paid in the year of determination of base bonus as follows: 50% in form of cash payment and 50% in Bank's shares or bonds with pre-emptive rights to acquire shares or phantom shares.

60% of the base bonus is deferred bonus and is paid in three equal tranches in the next three following years after the year of determining the base bonus as follows: 50% of each of the deferred tranches in form of cash payment and 50% of each of the deferred tranches in form of non-cash payment in Bank's shares or bonds with pre-emptive rights to acquire shares or phantom shares.

The Supervisory Board on the basis of recommendation of Remuneration Committee can make a decision to suspend in whole or reduce the amount of deferred tranche due to the later assessment of the performance of the Member of the Management Board over a period of time longer than one financial year (i.e. for the period of at least 3 years), which takes into account the business cycle of the Bank as well as the risk related to the bank's operations, but only when the acts or omissions of the Member of the Management Board had a direct and adverse impact on the Bank's financial result and market position within the assessment period and when at least one of the elements included in the assessment card is not fulfilled.

Remuneration Committee of the Supervisory Board can make a decision on suspending in whole or decreasing the non-deferred and deferred bonus amount for a given financial year, including deferred tranches not paid out yet, in the situation referred to in Article 142 (1) of the Banking Law Act. Suspending in whole or decreasing the non-deferred and deferred bonus, as well as any deferred tranche by the Remuneration Committee of the Supervisory Board can also apply to the non-deferred and deferred bonus, including deferred tranche not paid out yet after expiry or termination of the management contract.

The table below presents the number of share options related to the 2014 incentive programme for Management Board Members of the Bank.

	31.12.2018		31.12.2017	
	Number of options	Weighted average exercise price (in PLN)	Number of options	Weighted average exercise price (in PLN)
<b>Outstanding at the beginning of the period</b>	<b>15 542</b>	-	<b>17 210</b>	-
Granted during the period	8 021	-	11 993	-
Forfeited during the period	-	-	3 385	-
Exercised during the period*	11 334	4	10 276	4
Expired during the period	-	-	-	-
<b>Outstanding at the end of the period</b>	<b>12 229</b>	-	<b>15 542</b>	-
<b>Exercisable at the end of the period</b>	-	-	-	-

\* In 2018, the weighted average price of the shares was PLN 430.59 (in 2017 PLN 421.21).

### **Cash Part of the Bonus**

50% of the base amount constitutes bonus cash payment. It is recognised as a liability to employees and charged to the income statement in the correspondence to liability to employees.

### **Share-Based Payments Settled in mBank S.A. Shares**

50% of the base amount constitutes bonus payment settled in mBank S.A. shares. The cost of payments settled in shares is recognised in the income statement in the correspondence with other reserve capital.

This is equity-settled share-based program.

On 2 March 2015 the Supervisory Board extended the duration of the program from 31 December 2018 until 31 December 2021 in accordance with the recommendation of the Supervisory Board Remuneration Committee.

### **Employee programme for key management staff of mBank Group of 2014**

On 31 March 2014, the Supervisory Board of the mBank adopted on the basis of recommendation of Remuneration Committee a resolution amending the rules of the employee programme, which replaced the incentive programme for key management staff of mBank Group from 2013, whereas in regard to the persons who acquired bonds with pre-emptive rights to acquire shares of the Bank or were granted right to acquire bonds in Tranches III, IV, V and VI the programme was to be carried out under the previous principles.

On March 2, 2015, the Supervisory Board of the mBank extended the duration of the program from December 31, 2019 to December 31, 2022 in accordance with the recommendation of the Remuneration Committee.

The aim of the programme is to ensure growth in the value of the Company's shares by linking the interest of the key management staff of mBank Group with the interest of the Company and its shareholders and implementing in mBank Group variable components of remuneration of the persons holding managerial positions at mBank Group.

The bonds granted under the III, IV, V and VI Tranches were purchased by entitled persons, and the rights to subscribe for shares under the conditional capital increase resulting from the bonds were exercised.

The last settlements of the above-mentioned Tranches were realized in 2017.

Beginning with Tranche VII the right to purchase bonds granted to the entitled person will be divided into four parts, which may be realized respectively: I part – non-deferred bonds representing 50% of the 60% of the amount of discretionary bonus granted for a given financial year in the year of granting the right, and then another three equal parts – deferred bonds constituting 50% of the 40% of the amount of discretionary bonus granted for a given financial year on the lapse of 12, 24 and 36 months from the date of granting the rights, in accordance with the internal regulations adopted in mBank Group specifying rules of variable remuneration of the employees having a material impact on the risk profile at mBank Group.

The Bank's Management Board/Supervisory Board of the Company, where the Programme is carried out may take a decision on suspending the Programme in whole or decreasing the number of bonds or the number of bonds deferred in a given tranche for the entitled person in case of occurrence of the situations, referred to in Article 142 (1) of the Banking Law Act, occurrence of balance sheet loss or loss of liquidity, meeting the conditions set forth in the agreements with the program participants, forming the basis for provision of work or other services for the Bank and subsidiaries.

### **Cash Part of the Bonus**

The bonus in the amount of 50% of the base amount for the year is cash payment. It is recognised as a liability to employees and charged to the income statement in the correspondence to the liability to employees.

### **Share-Based Payments settled in mBank S.A. shares**

The bonus in the amount of 50% of the base amount constitutes a payment settled in mBank S.A. shares.

The cost of payments settled in shares is recognised in the income statement in the correspondence with other reserve capital.

This is equity-settled share-based program.

Under this program, starting from Tranche VII, a bonus was granted for the years 2014-2017. The last settlements fall on 2021.

The table below presents change in the number and weighted average exercise prices of share options related to the 2014 incentive programme for key managers of mBank Group.

	31.12.2018		31.12.2017	
	Number of options	Weighted average exercise price (in PLN)	Number of options	Weighted average exercise price (in PLN)
<b>Outstanding at the beginning of the period</b>	<b>15 396</b>	-	<b>11 309</b>	-
Granted during the period	11 423	-	20 339	-
Forfeited during the period	-	-	82	-
Exercised during the period*	13 526	4	16 170	4
Expired during the period	-	-	-	-
<b>Outstanding at the end of the period</b>	<b>13 293</b>	-	<b>15 396</b>	-
<b>Exercisable at the end of the period</b>	-	-	-	-

\* In 2018, the weighted average price of the shares was PLN 430.59 (in 2017 PLN 421.21).

### **2018 incentive programme for the Management Board Members and key staff of mBank Group – mBank Risk Takers**

On April 18, 2018, the Supervisory Board, acting in line with the recommendation of the Remuneration Committee of the Supervisory Board and the decision of the Annual General Meeting of mBank S.A. of May 18, 2018, adopted the mBank S.A. Incentive Programme Rules.

The Programme replaced the existing programmes, that is the employee programme introduced by the resolution of the Extraordinary General Meeting of mBank S.A. of October 27, 2008, as amended, and the programme for the Management Board Members, introduced by the resolution of the Annual General Meeting of mBank S.A. of March 14, 2008, as amended. At the same time, the rights arising from bonds acquired under the replaced programmes will be exercised under the rules of those programmes.

The new programme will be implemented from January 1, 2018 to December 31, 2028. Eligible persons under the programme include persons holding positions identified as having a material impact on the bank's risk profile pursuant to the Risk Takers Identification Policy, referred to as Risk Takers I or Risk Takers II, excluding Risk Takers II – Members of the Management Board of mBank Hipoteczny S.A., which applies a different incentive programme.

"Risk Taker I" means a Member of the Management Board of the bank. "Risk Taker II" means a person holding a position identified as having a material impact on the bank's risk profile pursuant to the Risk Takers Identification Policy, including a person holding a position of a Management Board Member in an mBank Group subsidiary.

On the terms and conditions stipulated in the Rules and the Risk Takers Remuneration Policy, Risk Takers will be able to acquire warrants free of charge, and, by way of exercising the rights arising from the warrants, to acquire shares.

#### **Bonus for Risk Takers I**

The Supervisory Board determines the bonus amount for a given calendar year for each Management Board Member individually, based on the assessment of MBO achievement with respect to the period of at least 3 years, with the proviso that the bonus amount depends on the bonus pool. The bonus pool is a total of base amounts calculated for each Management Board Member. The base amount is calculated as a multiple of the base salary, which depends on the Economic Profit (EP); EP is calculated for the period of 3 years pursuant to the rules specified in the Risk Takers Remuneration Policy.

The bonus consists of the non-deferred part (40% of the bonus) and the deferred part (60% of the bonus).

Both, the deferred part and the non-deferred part, are divided into equal portions: 50% paid in cash and 50% paid in subscription warrants. The non-deferred part in cash is paid in the year when the bonus is granted. The other half of the non-deferred part (50%) is paid in the form of subscription warrants, not earlier than after the lapse of 12 months from the date of the Annual General Meeting of mBank S.A.

The deferred part, both the cash portion and the subscription warrant portion, is paid in 5 equal annual tranches. In each tranche, the cash portion is paid once the consolidated financial statements of mBank Group for the previous calendar year have been approved, and the subscription warrant portion is paid not earlier than after the lapse of 12 months from the date on which the consolidated financial statements are approved.

## **Bonus for Risk Takers II**

The bonus amount for a given calendar year is determined by the bank's Management Board for Risk Takers II (the bank's employees) or by a subsidiary's Supervisory Board for Risk Takers II (Members of the Management Board of an mBank Group subsidiary) on the basis of: assessment of MbO achievement for the period of the last three calendar years, the Economic Profit of mBank Group and the result of a business line/subsidiary/organisational unit.

The bonus consists of the non-deferred part (60% of the bonus) and the deferred part (40% of the bonus).

Both, the deferred part and the non-deferred part are divided into equal portions: 50% paid in cash and 50% paid in subscription warrants.

The non-deferred part in cash is paid in the year when the bonus is granted. The other half of the non-deferred part (50%) is paid in the form of subscription warrants, not earlier than after the lapse of 12 months from the date of the Annual General Meeting of mBank S.A.

The deferred part, both the cash portion and the subscription warrant portion, is paid in 3 equal annual tranches. In each tranche, the cash portion is paid once the consolidated financial statements of mBank Group for the previous calendar year have been approved, and the subscription warrant portion is paid not earlier than after the lapse of 12 months from the date on which the consolidated financial statements are approved.

In the case when the bonus amount determined for a Risk Taker II (the bank's employee) for a given calendar year does not exceed PLN 200,000, the total amount of the bonus may be, based on a relevant decision of the bank's Management Board, paid in cash in a non-deferred form.

The deferred bonus part for Risk Takers I and Risk Takers II is assessed in terms of its determination and payment. The Supervisory Board of mBank (with respect to Risk Takers I), the Management Board of mBank (with respect to Risk Takers II – the bank's employees) or the Supervisory Board of an mBank Group subsidiary (with respect to Risk Takers II – Members of the subsidiary's Management Board) may decide to withhold the full amount or to reduce the amount of a deferred tranche if it concludes that in a time horizon longer than one financial year, i.e. a period of at least 3 years, the Risk Taker had a direct and negative impact on the financial result or the market position of the bank/subsidiary/group, violated the rules and standards adopted in mBank Group or directly contributed to significant financial losses, where at least one of the scorecard components has not been met or any of the premises stipulated in Article 142 (2) of the Banking Law Act has occurred.

If the circumstances referred to above occur at the stage of determining the Risk Taker bonus amount, the Supervisory Board of mBank/the Supervisory Board of the subsidiary/the Management Board of mBank may decide not to grant a bonus for a given calendar year or to reduce it.

Moreover, a Risk Taker I or Risk Taker II may be obliged, under the rules and within the time limit determined by the decision of the Supervisory Board of mBank/the Supervisory Board of the subsidiary/the Management Board of mBank, to return the bonus granted and paid for a given calendar year (i.e. the non-deferred part and all deferred parts) if he/she has violated rules and standards adopted in mBank Group, has materially violated the generally applicable law or has directly contributed to significant financial losses being the consequence of his/her deliberate adverse actions to the detriment of mBank Group/the subsidiary or has contributed to financial sanctions being imposed on the bank/subsidiary by supervisory bodies under a final and non-appealable decision.

The decision determining the occurrence of the said events may be taken by the end of the calendar year when the last tranche of the deferred part of the bonus granted for the year in which the event occurred is paid.

In the case of a resolution of the General Meeting of mBank S.A. on payment of dividend for a given year, a Risk Taker I and a Risk Taker II to whom the bonus has been granted within the deferred or non-deferred part is entitled to a cash equivalent, regardless of the bonus, pursuant to the rules specified in the Risk Takers Remuneration Policy, in connection with the deferral of the portion paid in subscription warrants.

The bonus paid under the said programme will first be granted to Risk Takers I and Risk Takers II in 2019 for 2018.

## **Summary of the Impact of the Programmes on the Group's statement of financial position and income statement**

### **Share-Based Payments Settled in Shares**

The table below presents changes in other reserve capital generated by the above mentioned incentive programmes for share-based payments settled in mBank S.A. shares.

	31.12.2018	31.12.2017
<b>Incentive programs</b>		
<b>As at the beginning of the period</b>	<b>22 638</b>	<b>26 891</b>
- value of services provided by the employees	10 224	8 700
- settlement of exercised options	(10 410)	(12 953)
<b>As at the end of the period</b>	<b>22 452</b>	<b>22 638</b>

### Cash Payments

The cost of the cash part of the programmes is presented in Note 13 "Overhead costs".

### 43. Transactions with related entities

mBank S.A. is the parent entity of 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 Group provides standard financial services to the Bank's key management personnel, Members of the Supervisory Board of the Bank and close members of their families, which comprise i.e.: maintaining bank accounts, taking deposits, granting loans or other financial services. In the Bank's opinion, these transactions are concluded on market terms and conditions.

Pursuant the Banking Law, the extension of a loan, cash advance, bank guarantee or other guarantee to the Members of the Management Board and Supervisory Board of the Bank, persons holding managerial positions at the Bank as well as at entities related financially or organisationally therewith, is governed by the By-Laws adopted by the Supervisory Board of mBank S.A.

The By-Laws set out detailed rules and debt limits for loans, cash advances, bank guarantees, and other guarantees in relation to aforementioned persons and entities, which are consistent with the Bank's internal regulations defining the competences of granting credit decisions concerning retail and corporate clients of the Bank. A decision to grant a loan, cash advances, bank guarantee or other guarantee to a Member of the Management Board and Supervisory Board of the Bank, person holding managerial position at the Bank or an entity related financially or organisationally therewith in excess of the limits set by the Banking Law is taken by the resolution of the Management Board and by the resolution of the Supervisory Board.

The terms and conditions of such loans, cash advances, bank guarantees or other guarantees, including in particular those related to interest rates as well as fees and commissions, cannot be more advantageous than the terms and conditions offered by the Bank to its retail or corporate clients, respectively.

The table below presents the values of transactions between the Bank and companies of mBank Group and: Members of the Supervisory Board and the Management Board of mBank, key executive management of mBank, Members of the Supervisory Board and the Management Board of Commerzbank and other related persons and entities, as well as Commerzbank AG Group entities. The amounts of transactions include assets, liabilities and related costs and income as at 31 December 2018 and 31 December 2017 and for the respective periods then ended are as follows:

PLN (000's)	Members of Supervisory Board, Management Board and key management personnel of mBank as well as Supervisory Board and Management Board of Commerzbank AG		Other related persons *		Subsidiaries and associates		Commerzbank AG		Other companies of the Commerzbank AG Group	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
<b>As at the end of the period</b>										
<b>Statement of Financial Position</b>										
Assets	3 247	2 940	1 583	190	-	10 481	555 810	610 783	7 587	9 084
Liabilities	14 909	11 895	1 955	1 140	24 895	41 915	2 188 337	4 442 482	968 311	1 079 046
<b>Income Statement</b>										
Interest income	90	47	49	6	12 147	938	100 581	110 603	535	431
Interest expense	(77)	(118)	(2)	(7)	(817)	(395)	(70 586)	(121 661)	(6 216)	(5 331)
Fee and commission income	93	76	7	13	968	138	3 771	1 158	84	39
Fee and commission expense	-	-	-	-	-	-	(4 828)	(5)	-	-
Other operating income	-	-	-	-	9 231	67	1 458	24	-	-
Overhead costs, amortisation and other operating expenses	-	-	-	-	(98)	(11)	(8 647)	(8 865)	-	-
<b>Contingent liabilities granted and received</b>										
Liabilities granted	583	635	462	121	352 182	361 286	1 842 625	2 099 374	-	7 057
Liabilities received	-	-	-	-	-	-	2 074 354	1 632 240	-	8 385

\* Other related persons and entities include: close family members of Members of the Supervisory and the Management Board of mBank, key executive management of mBank, Members of the Supervisory

Board and the Management Board of Commerzbank, entities controlled or jointly controlled by above mentioned persons.

In 2018 and 2017, no provisions were created in connection with credits granted to related entities.

#### Management Board Remuneration

On 12 April 2018, the 30<sup>th</sup> the Supervisory Board of mBank S.A. selected members of the Management Board of mBank S.A. for a joint term of five years, with the following composition:

1. Cezary Stypułkowski – President of the Management Board,
2. Lidia Jabłonowska-Luba – Vice-President of the Management Board, Chief Risk Officer,
3. Frank Bock – Vice-President of the Management Board, Head of Financial Markets,
4. Andreas Böger – Vice-President of the Management Board, Chief Financial Officer,
5. Krzysztof Dąbrowski – Vice-President of the Management Board, Head of Operations and IT,
6. Cezary Kocik – Vice-President of the Management Board, Head of Retail Banking,
7. Adam Pers – Vice-President of the Management Board, Head of Corporate and Investment Banking.

At the end of 2018, the composition of the Management Board of mBank S.A. remained unchanged.

Information on the salaries, bonuses and benefits paid and due to the Members of the Management Board of the Bank who were performing their functions at the end of 2018, as at 31 December 2018 is presented below:

		Remuneration paid in 2018 (in PLN)			
		Basic salary	Other benefits	Bonus for 2017	Deferred bonus*
1.	Cezary Stypułkowski	3 580 421	241 475	434 466	805 415
2.	Lidia Jabłonowska-Luba	1 629 000	183 087	150 000	445 000
3.	Frank Bock	1 694 638	252 467	108 334	-
4.	Andreas Böger	1 729 940	132 699	87 500	-
5.	Krzysztof Dąbrowski	1 733 565	146 847	150 000	76 667
6.	Cezary Kocik	1 879 956	199 194	250 000	475 000
7.	Adam Pers	1 676 801	126 426	126 334	90 000
	<b>Razem</b>	<b>13 924 321</b>	<b>1 282 195</b>	<b>1 306 634</b>	<b>1 892 082</b>

\*In 2018, there was paid the third deferred tranche as a settlement of the cash equivalent of bonus for the year 2014, the second deferred tranche as a settlement of the cash equivalent of bonus for the year 2015, as well as the first tranche as a settlement of the cash equivalent of bonus for the year 2016. Mr. Krzysztof Dąbrowski and Mr. Adam Pers were paid out the deferred tranches as the settlement of cash equivalents of the bonus, granted in the period of performing function of the Managing Directors, which would be paid out in 2018.

Remuneration of the former Management Board Members paid in the year 2018:

		Remuneration paid in 2018 (in PLN)			
		Basic salary	Other benefits	Bonus for 2017	Deferred bonus*
<b>Remuneration of the former Management Board Members who ceased performing their functions in the year 2017</b>					
1.	Christoph Heins	-	-	75 000	62 500
2.	Jarosław Mastalerz	-	-	50 000	475 000
3.	Przemysław Gdański	-	-	166 668	445 000
<b>Remuneration of the former Management Board Members who ceased performing their functions in the year 2016</b>					
1.	Joerg Hessenmueller	-	-	-	402 500

\* In 2018, Members of the Management Board who ceased to perform their functions in 2017 and Mr. Joerg Hessenmueller received the third deferred tranche as part of the settlement of the cash equivalent of bonus for the year 2014, the second deferred tranche as part of cash bonus settlement for the year 2015 and the first tranche as part of cash bonus settlement for the year 2016.

Information on the salaries, bonuses and benefits paid and due to the Members of the Management Board of the Bank who were performing their functions at the end of 2017, as at 31 December 2017 is presented below:

		Remuneration paid in 2017 (in PLN)			
		Basic salary	Other benefits	Bonus for 2016	Deferred bonus*
1.	Cezary Stypułkowski	2 661 046	237 960	460 831	575 000
2.	Lidia Jabłonowska-Luba	1 500 000	173 320	250 000	320 000
3.	Frank Bock	1 061 379	229 370	-	-
4.	Andreas Böger	797 633	68 338	-	-
5.	Krzysztof Dąbrowski	1 125 000	87 939	-	-
6.	Cezary Kocik	1 500 000	189 036	250 000	350 000
7.	Adam Pers	272 727	19 266	-	-
	<b>Total</b>	<b>8 917 785</b>	<b>1 005 229</b>	<b>960 831</b>	<b>1 245 000</b>

\* In 2017, there was paid the second deferred tranche as a settlement of the cash equivalent of bonus for the year 2014 and the first deferred tranche as a settlement of the cash equivalent of bonus for the year 2015.

Remuneration of the former Management Board Members paid in the year 2017:

		Remuneration paid in 2017 (in PLN)				
		Basic salary	Other benefits	Bonus for 2016	Deferred bonus*	Allowance
<b>Remuneration of the former Management Board Members who ceased performing their functions in the year 2017</b>						
1.	Christoph Heins	776 684	269 061	125 000	-	-
2.	Hans-Dieter Kemler	500 000	127 984	200 000	320 000	-
3.	Jarosław Mastalerz	665 926	101 811	250 000	350 000	-
4.	Przemysław Gdański	1 442 587	168 052	250 000	320 000	1 500 000
<b>Remuneration of the former Management Board Members who ceased performing their functions in the year 2016</b>						
1.	Joerg Hessenmueller	-	-	125 000	340 000	-

\* In 2017, Members of the Management Board who ceased to perform their functions in 2017 and Mr. Joerg Hessenmueller received the second deferred tranche as part of the settlement of the cash equivalent of bonus for the year 2014 and the first deferred tranche as part of cash bonus settlement for the year 2015.

The total compensation of members of the Management Board consists of: basic salary, bonuses, termination payments of management agreement, prohibition of competitiveness payment, insurance costs and accommodation costs.

The above mentioned benefits are short-term employee benefits.

In accordance with the Bank's remuneration system, the members of the Management Board of the Bank may be eligible to receive bonuses for the year 2018, which would be paid out in 2019. Therefore, a provision was created for the payment of a cash bonus for 2018 for the members of the Management Board, which amounted to PLN 4 752 541 thousand as of 31 December 2018. The final decision concerning the level of the bonus will be taken by the Remuneration Committee of the Supervisory Board by 26 February 2019.

In 2018 and 2017, the members of the Management Board of mBank S.A. did not receive compensation for their role as members of the management boards and supervisory boards of the Bank's related companies.

The total amount of remuneration received in 2018 by Bank's Management Board members was PLN 18 405 232 (2017: PLN 19 495 950).

Information on the rules of payment other component of remuneration (severance payment) for the members of the Management Board of the Bank

From the date of appointment of the members of the Management Board for the new term of office, i.e. from the date of the General Meeting approving the financial statements for 2017, members of the Management Board are obliged to refrain from any competitive activity within six months from the date of termination or expiration of the management contract. In addition, the Remuneration Committee may decide to extend the obligation to refrain from competitive activities for a further period of maximum of six months, or at the request of the Manager, decide to release the Manager from the obligation referred

to above. During the period of restraining from any competitive activity, a Manager is entitled to a severance payment in the amount proportional to that period, equal to the product of the monthly remuneration and the number of months of period of restraining from any competitive activity.

#### Supervisory Board Compensation

At the end of 2018, the composition of the Supervisory Board of mBank S.A. it was as follows:

1. Maciej Leśny – Chairman of the Supervisory Board, Chairman of the Executive and Nominations Committee, Member of the Remuneration Committee,
2. Stephan Engels – Deputy Chairman of the Supervisory Board, Member of the Remuneration Committee,
3. Tomasz Bieske – Member of the Supervisory Board, Chairman of the Audit Committee, Member of the Remuneration Committee,
4. Andre Carls – Member of the Supervisory Board, Chairman of the Remuneration Committee, Member of the Executive and Nominations Committee, Member of the Audit Committee,
5. Marcus Chromik – Member of the Supervisory Board, Chairman of the Risk Committee,
6. Janusz Fiszer – Member of the Supervisory Board, Member of the Audit Committee,
7. Mirosław Godlewski – Member of the Supervisory Board, Member of the Risk Committee,
8. Jörg Hessenmüller – Member of the Supervisory Board, Member of the Audit Committee,
9. Gurjinder Singh Johal – Member of the Supervisory Board, Member of the Risk Committee,
10. Michael Mandel – Member of the Supervisory Board,
11. Teresa Mokrysz – Member of the Supervisory Board, Member of the Executive and Nominations Committee,
12. Agnieszka Słomka-Gołębiowska – Member of the Supervisory Board, Member of the Risk Committee, Member of the Audit Committee.

#### ■ Changes in the composition of the Supervisory Board of mBank S.A.

On September 11, 2018, Mr. Maciej Leśny, Chairman of the Bank's Supervisory Board, received a letter of resignation from Mr. Thorsten Kanzler, who decided to resign as member of the Bank's Supervisory Board and member of the Risk Committee of the Bank's Supervisory Board as of September 23, 2018

On September 24, 2018, by the resolution of the Supervisory Board of mBank S.A., Mr. Gurjinder Singh Johal was appointed as a member of the Supervisory Board of mBank S.A. on September 24, 2018 until the end of the current term of office of the Supervisory Board.

Information about the Supervisory Board members' salaries, bonuses and benefits paid as at 31 December 2018 and 31 December 2017 is presented below:

		Remuneration paid in 2018 (in PLN)	Remuneration paid in 2017 (in PLN)
1.	Maciej Leśny	367 235	367 235
2.	Stephan Engels	-	-
3.	Tomasz Bieske	429 025	319 656
4.	Andre Carls	288 000	279 000
5.	Marcus Chromik	-	-
6.	Janusz Fiszer	216 000	162 000
7.	Mirosław Godlewski	216 000	162 000
8.	Joerg Hessenmueller	216 000	210 000
9.	Gurjinder Singh Johal	54 000	-
10.	Michael Mandel	-	-
11.	Teresa Mokrysz	220 225	220 225
12.	Agnieszka Słomka-Gołębiowska	257 435	248 435
	Thorsten Kanzler*	162 000	216 000
	Wiesław Thor**	-	37 812
	Waldemar Stawski**	-	55 812
	Marek Wierzbowski**	-	54 000
	<b>Razem</b>	<b>2 425 920</b>	<b>2 332 175</b>

\* On 23 September 2018, Mr. Thorsten Kanzler resigned from the office.

\*\* The term of office expired on 30 March 2017.

In accordance with the wording of paragraph 11(j) of the By-laws of mBank S.A., the General Meeting determines remuneration for members of the Supervisory Board in a resolution. Remuneration of the Management Board members is determined by the Supervisory Board (paragraph 22.1(e) of the By-laws of mBank S.A.).

The total compensation of Members of the Supervisory Board, the Management Board and other key executive management of the Bank that perform their duties in 2017 amounted to PLN 28 757 076 (2017: PLN 28 135 617).

#### Information regarding proprietary position in Bank shares by Members of the Management Board and by Members of the Supervisory Board

As at 31 December 2018, the Bank shares were held by four Members of the Management Board: Mr. Cezary Stypułkowski – 19 384 shares, Mr. Frank Bock – 223 shares, Mr. Andreas Böger – 180 shares and Mr. Krzysztof Dąbrowski – 1 630 shares.

As at 31 December 2017, the Bank shares were held by two Members of the Management Board: Mr. Cezary Stypułkowski – 16 275 shares and Mr. Krzysztof Dąbrowski – 1 117 shares.

As at 31 December 2018, the Bank shares were held by one Member of the Supervisory Board of mBank S.A., Mr. Jörg Hessenmüller – 7 175 shares. As at 31 December 2018, the Members of the Supervisory Board of the Bank had no Bank's shares.

As at 31 December 2017, the Bank shares were held by one Member of the Supervisory Board of mBank S.A., Mr. Jörg Hessenmüller – 6 118 shares. As at 31 December 2017, the Members of the Supervisory Board of the Bank had no Bank's shares.

#### **44. Acquisitions and disposals**

- The sale of an organised part of mFinanse

On 27 November 2017, mBank S.A. and mBank's subsidiary mFinanse S.A. ("mFinanse"), concluded a conditional agreement under which mBank was obliged to sell 100% in Latona S.A. to Phoebe IVS with its registered office in Denmark ("Investor"), then mFinanse was obliged to sell the organized part of the enterprise of mFinanse to Latona S.A.

In connection with the above, on 26 March 2018 the Bank sold 100% of shares in Latona S.A. to the Investor, and on 27 March 2018, mFinanse sold the organized part of mFinanse to Latona S.A.

The organized part of the enterprise was a separate activity under which, on the basis of agency agreements, mFinanse performed insurance intermediation activities in the field of group insurance contracts as an insurance agent.

The maximum total remuneration for the transaction will amount to approximately PLN 435 million. As a result of the transaction, till 31 December 2018 the Group recognised a net profit in the amount of PLN 255 536 thousand. Cash flows from this transaction in the consolidated statement of cash flows have been presented under "Other investing inflows". Due to the nature of the transaction the recognition of the part of the remuneration in the future will depend on the performance of the business sold. This may result in the recognition of an additional gross profit of up to PLN 146 million in the period of approximately 5 years from the end of 2018.

When settling the transaction, it was taken into account that the remuneration received pertains to remuneration for the sold enterprise and servicing of current payments. The recognized revenue was estimated as the current value of the transaction price paid, taking into account factors that may affect its potential decrease in the future, which required significant estimates to be made by the Management Board of the Bank. The judgments concerned, among others, periods in which a conditional price may be recognized depending on additional factors.

The Group has assessed that it is reasonably certain that the income recognized in 2018 will not be reversed in subsequent periods.

#### **45. Information about the registered audit company**

On 12 April 2018, the 31st Annual General Meeting of mBank S.A., pursuant to the applicable law and Article 11 letter n) of the By-laws of the Bank, appointed Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa as the auditor to examine the financial statements of mBank S.A. and consolidated financial statements of mBank S.A. Group for 2018 and 2019.

The agreement to conduct an audit of mBank S.A. financial statements and consolidated financial statements of mBank S.A. Group was concluded on 19 June 2018.

The total gross amount of Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa remuneration paid or payable related to the audit and review of stand-alone financial statements and consolidated financial statements of mBank S.A. was PLN 2 758 thousand in 2018.

The total amount of remaining gross remuneration paid or payable to Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa in respect of other services for mBank S.A. was PLN 367 thousand in 2018.

The entity entitled to audit financial statements for 2016 and 2017, with which mBank S.A. concluded an agreement was PricewaterhouseCoopers Sp. z o.o. The agreement to conduct an audit of mBank S.A. financial statements and consolidated financial statements of mBank S.A. Group was concluded on 24 March 2016.

The total gross amount of PricewaterhouseCoopers Sp. z o.o. remuneration paid or payable related to the audit and review of stand-alone financial statements and consolidated financial statements of mBank S.A. was PLN 3 721 thousand in 2017.

In 2017, the total amount of remaining gross remuneration paid or payable to PricewaterhouseCoopers Sp. z o.o. in respect of other services for mBank S.A. was PLN 2 154 thousand.

#### **46. Prudential consolidation**

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

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

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

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

mBank S.A. Group consolidated financial data based on the rules of prudential consolidation specified by the CRR Regulation ("Consolidated prudentially financial data") have been prepared for the 12-month period ended 31 December 2018 and for the 12-month period ended 31 December 2017.

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

The accounting policies applied for the preparation of the Group consolidated prudentially financial data are identical to those, which have been applied to the mBank S.A. Group consolidated financial data for the year 2018, prepared in compliance with IFRS, except for the consolidation standards presented below.

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

Company	31.12.2018		31.12.2017	
	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method
mFinanse S.A.	100%	full	100%	full
mBank Hipoteczny S.A.	100%	full	100%	full
mCentrum Operacji Sp. z o.o.	100%	full	100%	full
mFactoring S.A.	100%	full	100%	full
mLeasing Sp. z o.o.	100%	full	100%	full
Tele-Tech Investment Sp. z o.o.	100%	full	100%	full
Future Tech Fundusz Inwestycyjny Zamknięty	98.04%	full	98.04%	full
mFinance France S.A.	99.998%	full	99.998%	full
Asekum Sp. z o.o.	100%	full	-	-

Beginning from October 2018, the Group started to consolidate the company Asekum Sp. z o.o. Information about the company has been included under Note 1.

Beginning from June 2017, the Group started to consolidate the Fund Future Tech Fundusz Inwestycyjny Zamknięty. Information about the Fund has been included under Note 1.

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

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

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

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

### Consolidated prudentially income statement

	Period from 01.01.2018 to 31.12.2018	Period from 01.01.2017 to 31.12.2017
Interest income, including:	4 517 593	4 051 986
<i>Interest income on financial assets at amortised cost</i>	3 867 454	3 772 991
<i>Income similar to interest on financial assets at fair value through profit or loss</i>	650 139	278 995
Interest expenses	(1 021 056)	(915 789)
<b>Net interest income</b>	<b>3 496 537</b>	<b>3 136 197</b>
Fee and commission income	1 641 782	1 659 673
Fee and commission expenses	(665 917)	(667 140)
<b>Net fee and commission income</b>	<b>975 865</b>	<b>992 533</b>
Dividend income	3 558	25 354
Net trading income, including:	347 336	294 063
<i>Foreign exchange result</i>	323 472	289 112
<i>Gains or losses on financial assets and liabilities held for trading</i>	30 571	17 606
<i>Gains or losses from hedge accounting</i>	(6 707)	(12 655)
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	(160 041)	n/a
Gains less losses from investment securities, investments in subsidiaries and associates	n/a	n/a
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates, including:	33 180	n/a
<i>Gains less losses from debt securities measured at fair value through other comprehensive income</i>	16 465	n/a
<i>Gains less losses from investments in subsidiaries and associates</i>	14 651	n/a
<i>Gains less losses from derecognition</i>	2 064	n/a
Other operating income	386 815	177 902
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(527 573)	(507 721)
Overhead costs	(1 909 214)	(1 811 970)
Depreciation	(252 589)	(224 062)
Other operating expenses	(191 800)	(142 257)
<b>Operating profit</b>	<b>2 202 074</b>	<b>1 940 039</b>
Taxes on the Group balance sheet items	(401 760)	(375 256)
<b>Profit before income tax</b>	<b>1 800 314</b>	<b>1 564 783</b>
Income tax expense	(483 945)	(428 097)
<b>Net profit</b>	<b>1 316 369</b>	<b>1 136 686</b>
<b>Net profit attributable to:</b>		
- Owners of mBank S.A.	1 316 451	1 091 530
- Non-controlling interests	(82)	(29)

**Consolidated prudentially statement of financial position**

<b>ASSETS</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
Cash and balances with the Central Bank	9 199 264	7 384 869
Financial assets held for trading and derivatives held for hedges	2 104 302	2 761 685
Loans and advances to banks	n/a	1 707 518
Non-trading financial assets mandatorily at fair value through profit or loss	2 940 396	n/a
<i>Equity securities</i>	177 111	n/a
<i>Debt securities</i>	58 130	n/a
<i>Loans and advances to customers</i>	2 705 155	n/a
Investment securities	n/a	32 235 490
Financial assets at fair value through other comprehensive income	24 338 284	n/a
Loans and advances to customers	n/a	84 507 454
Financial assets at amortised cost, including:	103 564 317	n/a
<i>Debt securities</i>	9 000 539	n/a
<i>Loans and advances to banks</i>	2 546 346	n/a
<i>Loans and advances to customers</i>	92 017 432	n/a
Investments in associates	-	28 680
Intangible assets	776 175	710 642
Tangible assets	785 026	758 738
Current income tax assets	9 336	9 688
Deferred income tax assets	959 076	629 250
Other assets	1 123 938	719 402
<b>Total assets</b>	<b>145 800 114</b>	<b>131 453 416</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities</b>		
Financial liabilities held for trading and derivatives held for hedges	981 117	1 095 365
Financial liabilities measured at amortised cost, including:	125 661 317	113 080 362
<i>Amounts due to banks</i>	3 078 387	5 073 351
<i>Amounts due to customers</i>	102 059 184	91 526 016
<i>Debt securities issued</i>	18 049 583	14 322 852
<i>Subordinated liabilities</i>	2 474 163	2 158 143
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	44 854
Provisions	258 283	190 975
Current income tax liabilities	352 962	179 685
Deferred income tax liabilities	83	81
Other liabilities	3 330 272	2 570 538
<b>Total liabilities</b>	<b>130 584 034</b>	<b>117 161 860</b>
<b>Equity</b>		
<b>Equity attributable to Owners of mBank S.A.</b>	<b>15 213 980</b>	<b>14 289 370</b>
<b>Share capital:</b>	<b>3 574 686</b>	<b>3 564 176</b>
- Registered share capital	169 348	169 248
- Share premium	3 405 338	3 394 928
<b>Retained earnings:</b>	<b>11 424 456</b>	<b>10 574 294</b>
- Profit from the previous years	10 108 005	9 482 764
- Profit for the current year	1 316 451	1 091 530
<b>Other components of equity</b>	<b>214 838</b>	<b>150 900</b>
<b>Non-controlling interests</b>	<b>2 100</b>	<b>2 186</b>
<b>Total equity</b>	<b>15 216 080</b>	<b>14 291 556</b>
<b>Total liabilities and equity</b>	<b>145 800 114</b>	<b>131 453 416</b>

## **47. Capital adequacy**

One of the Bank's main tasks is to ensure an adequate level of capital. As part of the capital management policy of mBank Group, the Bank creates a framework and guidelines for the most effective planning and use of the capital base, which:

- are compliant with external and internal regulations in force,
- guarantee a continuity of financial targets achievement, which render an appropriate rate of return for shareholders,
- ensure the maintenance of a strong capital basis being a fundamental support for business development.

The capital management policy in mBank Group is based on two pillars:

- maintenance of an optimal level and structure of own funds with the application of available methods and means, like among others retention of net profit, subordinated loan or issue of shares,
- effective use of existing capital, among others through application of a set of measures of effective use of the capital, limitation of activities that do not provide an expected rate of return and development of products with lower capital absorption.

Effective use of capital is an integral part of the capital management policy oriented at reaching an optimal rate of return on capital and as a result forming a stable fundament of reinforcement of the capital basis in future periods. This enables to maintain the Common Equity Tier 1 capital ratio (calculated as a quotient of Common Equity Tier 1 capital to the total risk exposure amount), Tier 1 ratio (calculated as a quotient of Tier 1 capital to the total risk exposure amount) and the total capital ratio (calculated as a quotient of own funds and the total risk exposure amount) at the level higher than required by the supervision authority.

The strategic goals of mBank Group are aimed at maintaining the total capital ratio as well as the Common Equity Tier 1 capital ratio above the level required by the supervision authority. This allows to maintain business development while meeting the supervisory requirements in the long perspective.

### **Capital ratios**

The adequacy assessment of the capital base, including among others: the calculation of capital ratios and the leverage ratio, the own funds, the total capital requirement in the mBank Group was made according to the following regulations:

- the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (CRR Regulation);
- the Commission Implementing Regulation (EU) No 680/2014 of 16 April 2014 laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council with further amendments (ITS Regulation);
- the Banking Act of 29 August 1997 (Dz.U. from year 2002 No 72, item 665) with further amendments;
- the Act on Macro-prudential Supervision of the Financial System and Crisis Management of 5 August 2015 (Dz.U. 2015 item 1513);
- Regulation of the Minister of Development and Finance of May 25<sup>th</sup>, 2017 on the application of higher risk weights to credit exposures secured by mortgages on real estate property,
- Regulation of the Minister of Development and Finance of September 1, 2017 regarding the systemic risk buffer.

The entities included in the scope of prudential consolidation according to the rules of the CRR Regulation are taken into account in the process of calculating consolidated own funds and the own funds requirements.

As a result of the Act on Macro-prudential Supervision over the Financial System and Crisis Management in the Financial System ("the Act") that entered into force in 2015 and transposed the CRD IV provisions to the Polish prudential regulations, as of 31 December 2018 the mBank Group was obliged to ensure adequate own funds to meet conservation capital buffer designated under the provisions of the Act of 1.875% of total risk exposure amount.

As of the end of 2018 the countercyclical capital buffer rate set for relevant exposures in Poland according to the article 83 of the Act amounted to 0%. mBank Group specific countercyclical capital buffer calculated in accordance with the provisions of the Act as the weighted average of the countercyclical buffer rates that apply in the countries where the relevant credit exposures of the Group are located, amounted to 4 bps as of 31 December 2018. The value of the indicator was predominantly affected by the exposures of the mBank's foreign branches in the Czech Republic and Slovakia, where the countercyclical buffer rates at the end of 2018 were: 1% and 1.25%.

In 2016 the Bank received an administrative decision of the KNF that identified mBank as other systemically important institutions (O-SII). mBank was a subject to a capital buffer which on the basis of KNF administrative decision of 31 July 2018 amounted to 0.5% of the total risk exposure amount, calculated in accordance with article 92(3) of the CRR Regulation, to be maintained on individual and consolidated levels. The value of the buffer specified in the administrative decision applies as of 31 December 2018.

Starting from January 1, 2018 the Regulation of the Minister of Development and Finance with regard to systemic risk buffer entered into force. The Regulation introduced systemic risk buffer of 3% of the total risk exposure amount applied to all exposures located in Poland. Due to the fact that not all mBank Group's exposures are located in Poland, due to foreign branches in Czech Republic and in Slovakia, the systemic risk buffer rate applicable to the mBank Group amounted to 2.82% in December 2018.

Consequently, the all-in-one combined buffer requirement set for the mBank Group as of the end of 2018 amounted to 5.24% of the total risk exposure amount.

Additionally, as a result of risk assessment carried out in 2018 by the KNF within the supervisory review and evaluation process (BION), in particular with regard to the evaluation of the risk related to the portfolio of foreign exchange retail mortgage loans, the mBank Group received on the consolidated level an individual recommendation to maintain own funds to cover additional capital requirement of 3.64 % for total capital ratio and 2.73 % for Tier 1 capital ratio (on individual basis: 4.18% and 3.14% respectively). Additional capital requirement in Pillar II set by the KNF in 2017 encompasses also additional risk factors related to the FX mortgage loan portfolio such as operational risk, market risk or risk of collective default of borrowers.

Higher, compared to the previous year, level of additional capital requirements resulted from the fact that the KNF applied one methodology to all banks in Poland. This did not take into account the results of the internal models applied by mBank to the calculation of capital requirements for credit risk. According to the KNF's methodology, the calculation of the additional capital requirement for each and every bank uses as a starting point the risk weight under the standardised approach used in Poland for calculation of capital requirements for credit risk relating to foreign exchange mortgage loans (risk weight: 150%). Consequently, more than half of the additional capital requirements calculated by the KNF for mBank Group comes from "aligning" the capital requirement to the requirement calculated under the standardised approach. The second important component affecting an additional capital requirement within Pillar II related to the BION supervisory evaluation quantifying the risk of foreign exchange retail mortgage loans portfolio, where taking into account the specificity of the Bank portfolio, the following factors were taken into account:

- the share of loans with LTV >100% in the portfolio,
- the level of the Bank margin from the foreign exchange retail mortgage loans portfolio,
- sensitivity of the Bank's total capital ratio to exchange rates and interest rates changes,
- the Bank preparation for loan portfolio conversion.

Within 2018 capital ratios both on the individual and consolidated level were above the required values taking into account the components described above.

mBank Group	31.12.2018		31.12.2017	
	Required level	Reported level	Required level	Reported level
Capital ratio				
Total capital ratio	16.88%	20.69%	17.55%	20.99%
Tier 1 ratio	13.97%	17.47%	13.67%	18.31%

The consolidated leverage ratio calculated in accordance with the provisions of CRR Regulation and Commission Delegated Regulation (EU) 2015/62 of October 10, 2014, amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the leverage ratio, including transitional definition of Tier 1 capital, amounted to 8.61%.

The Bank decided that for the purposes of the capital adequacy account, including calculation of own funds, pursuant to Article 1 paragraph 9 of Regulation (EU) 2017/2395 of the European Parliament and the Council

of December 12, 2017 (Ordinance) amending the CRR Regulation, it will not apply transition period, which allows to mitigate the impact on capital related to the introduction of IFRS 9.

Hence, the capital ratios, the amount of Tier 1 capital and the leverage ratio reported in this document fully reflect the impact of IFRS 9.

### **Own Funds**

In accordance with the CRR Regulation, the consolidated own funds consist of consolidated Common Equity Tier 1 capital, consolidated Additional Tier 1 capital and consolidated Tier 2 capital, however items that could be treated as Additional Tier 1 capital are not identified in the Group.

#### Common Equity Tier 1 capital of mBank Group contains:

- paid up capital instruments and the related share premium accounts,
- previous years retained earnings,
- independently reviewed interim profits,
- accumulated other comprehensive income,
- other reserves,
- funds for general banking risk,
- items deducted from a Common Equity Tier 1 capital (fair value gains and losses arising from the institution's own credit risk related to derivative liabilities, value adjustments due to the requirements for prudent valuation, intangible assets, AIRB shortfall of credit risk adjustments to expected losses, own CET1 instruments, regulatory adjustments relating to accumulated other comprehensive income and net impairment losses).

Tier 2 capital of mBank Group contains capital instruments and the related share premium accounts (subordinated liabilities with specified maturity).

The consolidated own funds of mBank Group as of 31 December 2018 amounted to PLN 15 771 383 thousand. Additionally the consolidated Common Equity Tier 1 capital of mBank Group amounted to PLN 13 317 233 thousand.

### **Total risk exposure amount (TREA)**

The total risk exposure amount of mBank Group contains:

- risk weighted exposure amounts for credit risk, counterparty credit risk, dilution risk and free deliveries,
- risk exposure amount for market risk, including position risk, foreign exchange risk and commodities risk,
- risk exposure amount for operational risk,
- risk exposure amount for credit valuation adjustment,
- other risk exposure amounts including supervisory floor.

As at 31 December 2018 the AIRB approach was applied to the calculation of own funds requirements for credit and counterparty credit risk for the following portfolios:

- mBank corporate portfolio,
- mBank retail mortgage loan portfolio,
- mBank real estate-related specialised lending exposures (IRB slotting approach),
- mBank retail non-mortgage exposures,
- mBank retail microenterprises mortgage loan portfolio (conditional consent),
- bank exposures (conditional consent),
- mLeasing S.A. credit exposure (conditional consent),
- mBank Hipoteczny SA specialized lending exposures (IRB slotting approach).

In case of portfolios with conditional consent to the application of AIRB approach, mBank Group applies supervisory floor, which means that where the own funds requirement for credit risk calculated under AIRB approach is lower than the own funds requirement for credit risk calculated under standardised approach,

it is necessary to supplement it up to the level of the own funds requirement for credit risk calculated under standardised approach.

With regard to retail mortgage exposures (microenterprises) and portfolio of commercial bank exposures, high significance conditions specified by the banking supervision have been met, and the Group is waiting for formal confirmation by the banking supervision.

The total risk exposure amount of mBank Group as at 31 December 2018 amounted to PLN 76 239 533 thousand, including PLN 67 983 274 thousands of risk exposure amount for credit risk, counterparty credit risk and supervisory floor.

### **Internal capital**

The ICAAP (Internal Capital Adequacy Assessment Process) implemented in mBank Group aims at adjusting own funds to the level and the profile of risk arising from mBank Group's operations.

Due to the fact that both, the total capital requirement of mBank Group calculated according to the CRR Regulation and the internal capital estimated for mBank Group according to the Regulation of the Minister of Development and Finance of March 6, 2017 on the market management system and internal control system, remuneration policy and a detailed method for internal capital assessment at bank are lower than consolidated own funds, the consolidated own funds as at 31 December 2017 were maintained at the level consistent with the requirements of the CRR Regulation.

The internal capital of mBank Group as at 31 December 2018 amounted to PLN 5 529 271 thousand.

<b>Capital adequacy</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
<b>Common Equity Tier 1 Capital</b>	<b>13 317 233</b>	<b>12 454 486</b>
<b>Total Own Funds</b>	<b>15 771 383</b>	<b>14 280 242</b>
Risk weighted exposure amounts for credit, counterparty credit, dilution risk and free deliveries:	67 812 104	59 950 298
- including under standardised approach	15 812 102	14 283 317
- including under AIRB approach	51 998 405	45 665 766
- including risk exposure amount for contributions to the default fund of a CCP	1 597	1 215
Settlement / delivery risk exposure amount	-	-
Total risk exposure amount for position, foreign exchange and commodities risks	789 039	759 117
Total risk exposure amount for operational risks	7 245 932	6 938 734
Additional risk exposure amount due to fixed overheads	-	-
Total risk exposure amount for credit valuation adjustments	221 288	252 643
Total risk exposure amount for large exposures in the trading book	-	-
Other risk exposure amounts	171 170	131 015
<b>Total risk exposure amount</b>	<b>76 239 533</b>	<b>68 031 807</b>
<b>Comon Equity Tier 1 capital ratio</b>	<b>17,47%</b>	<b>18,31%</b>
<b>Total capital ratio</b>	<b>20,69%</b>	<b>20,99%</b>
<b>Internal capital</b>	<b>5 529 271</b>	<b>4 282 200</b>

<b>OWN FUNDS</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
<b>Own funds</b>	<b>15 771 383</b>	<b>14 280 242</b>
<b>TIER 1 CAPITAL</b>	<b>13 317 233</b>	<b>12 454 486</b>
<b>Common Equity Tier 1 Capital</b>	<b>13 317 233</b>	<b>12 454 486</b>
Capital instruments eligible as CET1 Capital	3 574 636	3 563 819
Paid up capital instruments	169 330	169 143
Share premium	3 405 338	3 394 928
(-) Own CET1 instruments	(32)	(252)
Retained earnings	(473 639)	1 015 536
Previous years retained earnings	(965 478)	625 597
Profit or loss eligible	491 839	389 939
Accumulated other comprehensive income	214 838	150 900
Other reserves	9 919 730	7 703 414
Funds for general banking risk	1 153 753	1 153 753
Adjustments to CET1 due to prudential filters	(32 360)	(32 136)
Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	(2 101)	(1 938)
(-) Value adjustments due to the requirements for prudent valuation	(30 259)	(30 198)
(-) Intangible assets	(746 839)	(674 689)
(-) Other intangible assets gross amount	(776 175)	(710 642)
Deferred tax liabilities associated to other intangible assets	29 336	35 953
(-) IRB shortfall of credit risk adjustments to expected losses	(113 759)	(256 144)
Other transitional adjustments to CET1 Capital	(83 643)	(29 988)
CET1 capital elements or deductions - other	(95 484)	(139 979)
<b>Additional Tier 1 capital</b>	<b>-</b>	<b>-</b>
<b>TIER 1 CAPITAL</b>	<b>2 454 150</b>	<b>1 825 756</b>
Capital instruments and subordinated loans eligible as T2 capital	2 454 150	1 250 000
Tier 2 capital elements or deductions - other	-	-
Transitional adjustments due to grandfathered T2 capital instruments and subordinated loans	-	575 756

Credit risk	31.12.2018	31.12.2017
<b>Risk weighted exposure amounts for credit risk, counterparty credit risk, dilution risk and free deliveries</b>	<b>67 812 104</b>	<b>59 950 298</b>
<b>Standardised approach</b>	<b>15 812 102</b>	<b>14 283 317</b>
SA exposure classes excluding securitisation positions	15 812 102	14 283 317
Central governments or central banks	30 402	30 116
Regional governments or local authorities	130 188	195 085
Public sector entities	24 745	19 850
Multilateral Development Banks	-	-
International Organisations	-	-
Institutions	270 382	194 652
Corporates	8 939 675	7 416 649
Retail	1 924 644	2 175 102
Secured by mortgages on immovable property	3 841 191	3 543 293
Exposures in default	363 960	436 300
Items associated with particular high risk	52 059	50 084
Covered bonds	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-
Collective investments undertakings (CIU)	-	160
Equity	219 827	191 566
Other items	15 029	30 460
<b>AIRB approach</b>	<b>51 998 405</b>	<b>45 665 766</b>
AIRB approaches when neither own estimates of LGD nor Conversion Factors are used	-	-
AIRB approaches when own estimates of LGD and/or Conversion Factors are used	47 469 726	42 274 686
Central governments and central banks	-	-
Institutions	1 229 148	1 234 473
Corporates - SME	5 980 637	5 629 507
Corporates - Specialised Lending	6 029 173	5 771 962
Corporates - Other	16 652 554	13 161 751
Retail - Secured by real estate SME	901 557	1 048 526
Retail - Secured by real estate non-SME	5 436 764	5 532 303
Retail - Qualifying revolving	-	-
Retail - Other SME	3 785 492	3 253 371
Retail - Other non-SME	7 454 401	6 642 793
Equity AIRB	-	-
Securitisation positions IRB	-	-
Other non credit-obligation assets	4 528 679	3 391 080
<b>Risk exposure amount for contributions to the default fund of a CCP</b>	<b>1 597</b>	<b>1 215</b>

#### 48. Other information

- Recommendations of Financial Stability Committee (FSC) on the restructuring of the foreign exchange housing loans portfolio

On 13 January 2017, FSC endorsed the resolution on the recommendation on the restructuring of the foreign exchange housing loans portfolio. The resolution includes a list of recommendations, part of which were introduced in the year 2017. Two of the recommendations that may have significant impact on the Group but have not yet been introduced, are:

- to increase the minimum LGD for exposures secured by mortgages on residential properties, the purchase of which was financed by an FX loan by means of a dedicated resolution of the Ministry of Finance (this regulatory measure is addressed to banks that apply internal ratings based approach to the calculation of the capital charge for credit risk, among others to mBank S.A.);
- introduction of changes in the rules of operation of the Borrower Support Fund, which would lead to a greater use of the funds to support borrowers in difficult financial situation - recommendation not introduced. In October 2017 the Parliament of the Republic of Poland has begun work on the draft

of the amendment to the act on support of borrowers in financial difficulties, who had taken out a housing loan as well as a law on corporate income tax, proposed by the President of the Republic of Poland, which address the FSC recommendation. In January, 2019 the Parliamentary subcommittee on FX mortgage loans legislative proposals returned to work on the project, approved earlier by the government.

Due to ongoing work on the implementation of these recommendations Bank is not able to assess at this moment the potential impact of the aforementioned changes on the capital ratios and financial statements of the Bank and the Group.

- Proposals concerning foreign currency mortgage loans restructuring

On January 24, 2019 at its meeting the Parliamentary subcommittee on FX mortgage loans legislative proposals finally made a choice, from among the four legislative proposals presented so far, and decided to further proceed with the draft amendment of (i) the act on support of borrowers in financial difficulties and (ii) the act on corporate income tax. On February 21, 2019, the Parliamentary Finance Committee adopted the draft amendment. The abovementioned bill was submitted to the Parliament by the Office of the President of the Republic of Poland in August, 2017. At the moment of these financial statements publication the final form of the proposed solution is not known yet. Therefore, at the moment, the Bank is not able to estimate reliably either the implementation probability of the discussed solutions or the potential impact of the final solutions on the financial statements of the Bank and the mBank Group.

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

- Requirements on mBank Group capital ratios in 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 the required level of capital ratios as of January 2019 will amount to:

- Individual total capital ratio – 18.02% and Tier 1 capital ratio – 14.98%
- Consolidated total capital ratio – 17.50% and Tier 1 capital ratio – 14.59%.

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.

- The estimated contribution to the Bank Guarantee Fund in 2019

In connection with the information of the Bank Guarantee Fund (BFG) dated 21 February 2019 concerning the total amount of contributions to the bank guarantee fund and the resolution fund to be paid by banks in 2019, the Group estimated on the basis of mBank Group's payment structure in 2018 that the total mBank Group contribution to the BFG in 2019 would amount to approximately PLN 256 million.