



mBank S.A. Group

IFRS Condensed Consolidated Financial Statements
for the third quarter of 2019

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

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Selected financial data

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

SELECTED FINANCIAL DATA FOR THE GROUP	in PLN'000		in EUR'000	
	Period from 01.01.2019 to 30.09.2019	Period from 01.01.2018 to 30.09.2018 - restated	Period from 01.01.2019 to 30.09.2019	Period from 01.01.2018 to 30.09.2018 - restated
I. Interest income	3 795 517	3 325 027	880 917	781 716
II. Fee and commission income	1 246 343	1 230 572	289 269	289 308
III. Net trading income	328 162	241 462	76 164	56 768
IV. Operating profit	1 606 435	1 649 935	372 844	387 901
V. Profit before income tax	1 224 626	1 350 702	284 228	317 551
VI. Net profit attributable to Owners of mBank S.A.	849 567	996 947	197 179	234 383
VII. Net profit attributable to non-controlling interests	(64)	(36)	(15)	(8)
VIII. Net cash flows from operating activities	5 068 179	3 335 098	1 176 294	784 083
IX. Net cash flows from investing activities	(338 425)	62 557	(78 546)	14 707
X. Net cash flows from financing activities	(2 697 974)	2 699 354	(626 183)	634 619
XI. Net increase / decrease in cash and cash equivalents	2 031 780	6 097 009	471 564	1 433 410
XII. Basic earnings per share (in PLN/EUR)	20.07	23.56	4.66	5.54
XIII. Diluted earnings per share (in PLN/EUR)	20.06	23.55	4.66	5.54
XIV. Declared or paid dividend per share (in PLN/EUR)	-	5.15	-	1.21

SELECTED FINANCIAL DATA FOR THE GROUP	in PLN'000		in EUR'000	
	As at		As at	
	30.09.2019	31.12.2018	30.09.2019	31.12.2018
I. Total assets	158 774 045	145 750 119	36 302 827	33 895 377
II. Amounts due to banks	2 458 291	3 078 387	562 075	715 904
III. Amounts due to customers	115 965 629	102 009 062	26 514 914	23 723 038
IV. Equity attributable to Owners of mBank S.A.	16 088 688	15 213 980	3 678 592	3 538 135
V. Non-controlling interests	2 020	2 100	462	488
VI. Share capital	169 394	169 348	38 731	39 383
VII. Number of shares	42 348 437	42 336 982	42 348 437	42 336 982
VIII. Book value per share (in PLN/EUR)	379.91	359.35	86.86	83.57
IX. Total capital ratio	19.79	20.69	19.79	20.69

SELECTED FINANCIAL DATA FOR THE BANK	in PLN'000		in EUR'000	
	Period from 01.01.2019 to 30.09.2019	Period from 01.01.2018 to 30.09.2018 - restated	Period from 01.01.2019 to 30.09.2019	Period from 01.01.2018 to 30.09.2018 - restated
I. Interest income	3 334 310	2 914 703	773 873	685 248
II. Fee and commission income	1 130 413	1 104 220	262 362	259 603
III. Net trading income	330 125	248 384	76 620	58 395
IV. Operating profit	1 733 743	1 404 183	402 391	330 124
V. Profit before income tax	1 170 655	1 269 881	271 702	298 550
VI. Net profit	830 009	996 665	192 640	234 316
VII. Net cash flows from operating activities	2 740 218	5 090 806	635 988	1 196 851
VIII. Net cash flows from investing activities	94 082	(104 851)	21 836	(24 651)
IX. Net cash flows from financing activities	(896 761)	1 135 346	(208 133)	266 920
X. Net increase / decrease in cash and cash equivalents	1 937 539	6 121 301	449 691	1 439 121
XI. Basic earnings per share (in PLN/EUR)	19.60	23.55	4.55	5.54
XII. Diluted earnings per share (in PLN/EUR)	19.60	23.54	4.55	5.53
XIII. Declared or paid dividend per share (in PLN/EUR)	-	5.15	-	1.21

SELECTED FINANCIAL DATA FOR THE BANK	in PLN'000		in EUR'000	
	As at		As at	
	30.09.2019	31.12.2018	30.09.2019	31.12.2018
I. Total assets	150 570 225	137 649 170	34 427 068	32 011 435
II. Amounts due to banks	2 604 691	3 136 771	595 549	729 482
III. Amounts due to customers	121 437 362	109 873 386	27 765 996	25 551 950
IV. Equity	16 070 222	15 175 043	3 674 369	3 529 080
V. Share capital	169 394	169 348	38 731	39 383
VI. Number of shares	42 348 437	42 336 982	42 348 437	42 336 982
VII. Book value per share (in PLN/EUR)	379.48	358.43	86.77	83.36
VIII. Total capital ratio	23.26	24.20	23.26	24.20

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

- for items of the statement of financial position – exchange rate announced by the National Bank of Poland as at 30 September 2019: EUR 1 = 4.3736, 31 December 2018: EUR 1 = 4.3000.
- for items of the income statement – exchange rate calculated as the arithmetic mean of exchange rates announced by the National Bank of Poland as at the end of each month of the three quarters of 2019 and 2018: EUR 1 = PLN 4.3086 and EUR 1 = PLN 4.2535 respectively.

Introduction

mBank Group generated a profit before tax of PLN 515.4 million in Q3 2019, which represents an increase by 23.2% quarter on quarter. Net profit attributable to the owners of mBank reached PLN 353.9 million. In Q3 2019, total income grew quarter on quarter, driven by higher core income and net trading income.

The main factors determining the Group's financial results in Q3 2019 were as follows:

- **Increase in total income** which rose to PLN 1,430.3 million (+7.6% quarter on quarter), spurred by rising net interest income (+6.7% quarter on quarter), net fee and commission income (+10.0% quarter on quarter) and net trading income (+17.6% quarter on quarter).
- **Slight increase in operating expenses** (including depreciation) compared with Q2 2019 to PLN 542.5 million.
- **Increase in cost of risk** (sum of impairment on financial assets not measured at fair value through profit or loss and gains or losses from non-trading financial assets mandatorily measured at fair value through profit or loss) which amounted to PLN 249.4 million, i.e. 97 basis points compared to 90 basis points in Q2 2019.
- **Lower tax on the Group's balance sheet items** (PLN 123.0 million) compared to Q2 2019.
- **Continued organic growth and business expansion** as demonstrated by:
 - **increase in the number of corporate clients** to 25,890 (+888 customers compared with the end of June 2019).
 - **accelerating origination of housing loans** at PLN 2,291.7 million in Q3 2019 (up 3.2% compared to Q2 2019 and +92.7% compared to Q3 2018) and still **high level of new non-mortgage loans** (PLN 2,402.0 million, down 8.3% compared to the previous quarter and +3.1% compared to Q3 2018).

At the same time, number of individual clients decreased slightly (to 5,538.9 thousand) due to closing of accounts of Kompakt Finanse customers.

At the end of September 2019, net loans and advances stood at PLN 104,725.6 million, which represents an increase by PLN 4,304.1 million, i.e. 4.3% quarter on quarter. Net of reverse repo/buy sell back transactions and the FX effect, loans and advances grew by 2.9%.

In Q3 2018, the volume of amounts due to customers climbed by PLN 5,624.6 million or 5.1% quarter on quarter - amounts due to corporate clients increased by PLN 4,185.6 million or 11.0% and amounts due to individual clients grew by PLN 1,886.3 million or 2.7%.

Consequently, the loan to deposit ratio of mBank Group stood at 90.3% (*loan to deposit ratio – loans and advances to customers/amounts due to customers*).

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

- Gross ROE of 13.4% (compared to 11.1% in Q2 2019);
- Net ROE of 9.2% (compared with 8.8% in Q2 2019).

The capital ratios reported by mBank Group rose slightly in Q3 2019 amid an increase in own funds (resulting from the inclusion of 50% of H1 2019 profit). As at the end of September 2019, the total capital ratio stood at 19.8% and the Common Equity Tier 1 ratio at 16.8%.

Awards and distinctions

During the 20th edition of World's Best Digital Banks competition organised by Global Finance in August 2019, mBank received the award for the sixth time for the best bank in Poland in the Best Corporate Digital Bank category. The jubilee edition of the Global Finance competition was an excellent opportunity to summarise our achievements. Since 2012, we have received a total of 18 awards in 6 categories. The variety of areas in which we have been appreciated during these 8 years is the culmination of our hard work put into the development of all branches of digital corporate banking.

Moreover, in September 2019 we took third place in the "Mobile Banking" category in the Newsweek Polska ranking. The "Friendly Newsweek Bank" ranking, prepared in cooperation with the research company Kantar Millward Brown, was based on the mystery shopping method. The auditors playing this role were testing the services of over twenty banks for three months.

In October, we won an honourable place on the podium in the Best Employer Brand on LinkedIn category in the first, Polish edition of LinkedIn Talent Awards. We have been awarded for the image and recruitment activities that we conduct on this portal. It is worth mentioning that the mBank channel tracks over 27,000 users, and for our employees we have launched a training platform, LinkedIn Learning.

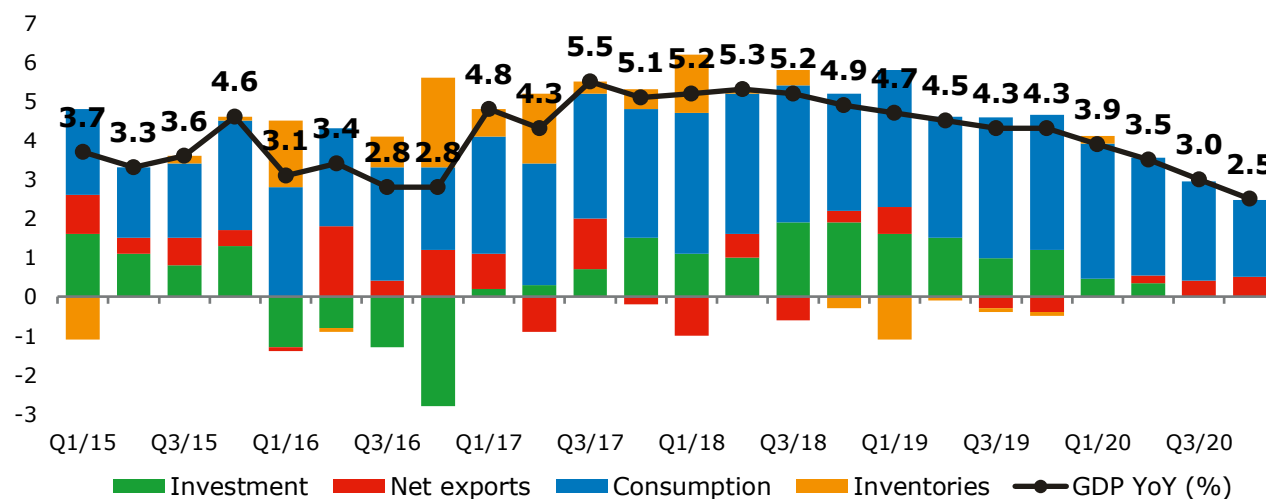
Last but not least, we were awarded with the "Best of the Best" award granted during the festive gala of the 14th edition of the "The Best Annual Report" competition organised by the Accounting and Tax Institute. mBank also received a distinction for the first time for the best Corporate Governance Statement.

More information on awards and distinctions can be found on the bank's website in the "Press Center" section: www.media.mbank.pl

Economy and the banking sector in Q3 2019

Mild slowdown in GDP

Growth in the Polish economy continued to slow modestly in the three months to September 2019. According to the bank's estimates, economic growth contracted from 4.5% in Q2 2019 to about 4.2-4.3% year on year in Q3. Consequently, Polish GDP grew remarkably faster than the GDP of Poland's main trade partners for another quarter in a row. The factors shielding the Polish economy from the impact of weakening external demand were still in effect in Q3. In the bank's opinion, these included private consumption and investments.



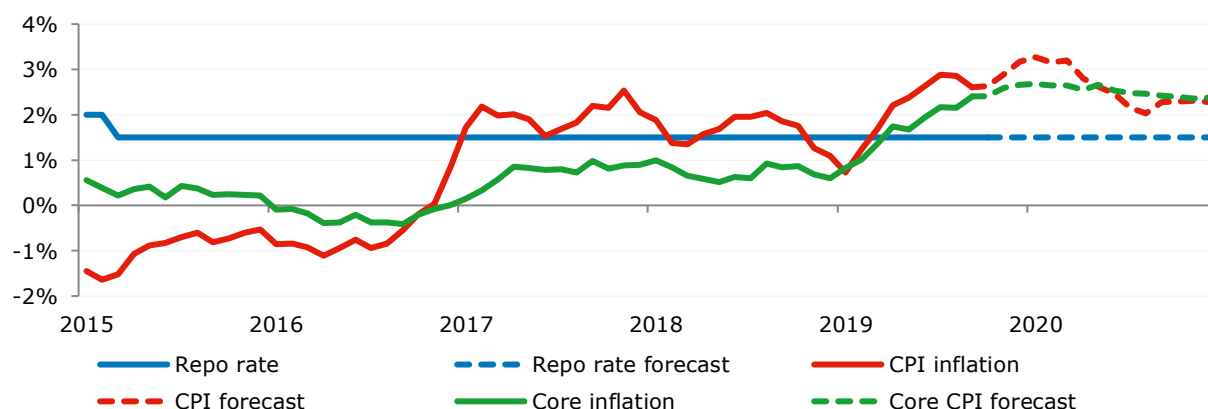
Similarly to H1 2019, private consumption in Q3 grew by more than 4% year on year. The drivers of robust household spending remained unchanged: upbeat consumer sentiment, significant increase in real income (supported by social benefits paid under the stimulus package launched this year), booming labour market (record-low unemployment), and secondary effects of the current boom on the real property market. As highlighted by monthly data on economic activity, the slowdown in retail sales was the lowest in 2019 compared with other categories, which indirectly proves the resilience of consumption in Poland.

Investments were another large contributor to economic growth in Q3 2019. The bank estimates that investments grew by approx. 7%, which was down to several trends. Firstly, there was a continued, gradual slowdown in public investments – the trajectory resulting from the investment cycle fuelled by EU spending was coupled with a struggle to complete some of the pending road projects. This was also the case for investments of companies in which the state holds majority stakes. Secondly, investments of companies owned by foreign private investors are likely to have grown at a robust pace. Analysis of historical investment cycles shows that investments of foreign investors usually last four to six quarters, which implies that the investment wave started at the beginning of the year will continue. Investments of Polish private companies remained relatively modest.

The economic slowdown gripping the European industrial sector affected Poland's export figures, though its impact on GDP was fairly limited. On the one hand, this results from the structure of the Polish industry and exports, which makes Poland less prone to the impact of sluggish trade in intermediate and investment goods compared with neighbouring countries; on the other hand, the effect of lower exports of goods was cushioned by trade in services. Consequently, net exports did not make a negative contribution to GDP growth.

Inflation above the target with further increases on the horizon

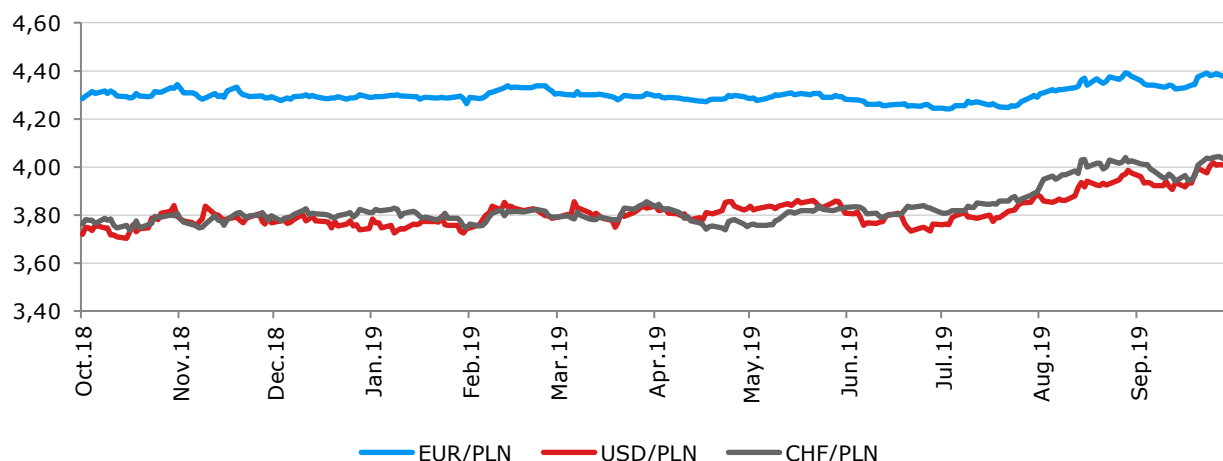
In Q3 2019 inflation exceeded 2.5%, but kept within the target range with a 2.9% year-on-year peak in consumer prices observed in the last few months. This was attributable to two factors. Firstly, food prices, including prices of fruit, vegetables and processed food, were rising sharply until August inclusive and it was not until September when the seasonal products appeared on sale that growth in food prices was partially curbed. Secondly, core inflation has been rising dynamically in the recent months. Analysis of its component parts leads to two conclusions. Whereas prices of durable and semi-durable goods will likely drop in the coming months, as suggested by the current outlook for the global industrial sector and slower growth in industrial labour costs in Poland, in the last few months prices of services were growing at the fastest pace in more than a decade, which was also nearly the highest growth rate since direct inflation targeting began in Poland. The "organic" (resulting from higher labour costs) rise in prices overlaps with hikes in regulated prices (waste disposal fees) and prices set on the oligopolistic market (telecommunications).



Similarly to previous months, the Monetary Policy Council did not react to rising inflation. According to the Council, the current inflationary impulse is caused by external factors and temporary, and as such it does not require a monetary policy intervention. The Council believes that core inflation will decrease in the quarters to come amid global trends and signs of a further economic slowdown that are also likely to put an end to rising food prices. Therefore, interest rate stabilisation should still be considered the base-case scenario. In the bank's opinion, interest rates will not change at least until the end of 2021.

Global and local risks loom over financial markets

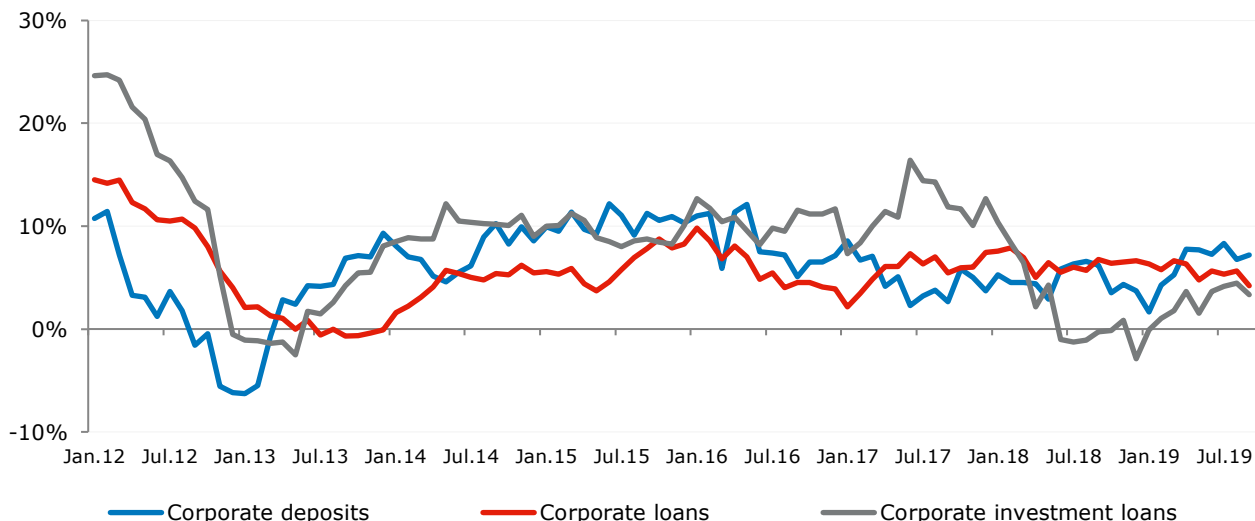
The period of low volatility on the currency market came to an end in Q3 2019. The euro fluctuated within the band of PLN 4.24 and PLN 4.40, the US dollar was worth PLN 3.78-4.04, and the exchange rate of the Swiss franc was within the band of PLN 3.73-4.02. Greater volatility was down to two factors: mounting concerns over global economic growth caused by further escalation of the trade war between the US and China and the resulting self-off of emerging market assets; and concerns regarding potential consequences of the ruling of the Court of Justice of the European Union concerning foreign currency mortgages. The combination of the two factors led to a sell-off of the Polish currency in August and, again, in the second half of September. However, October showed that these movements were only temporary.



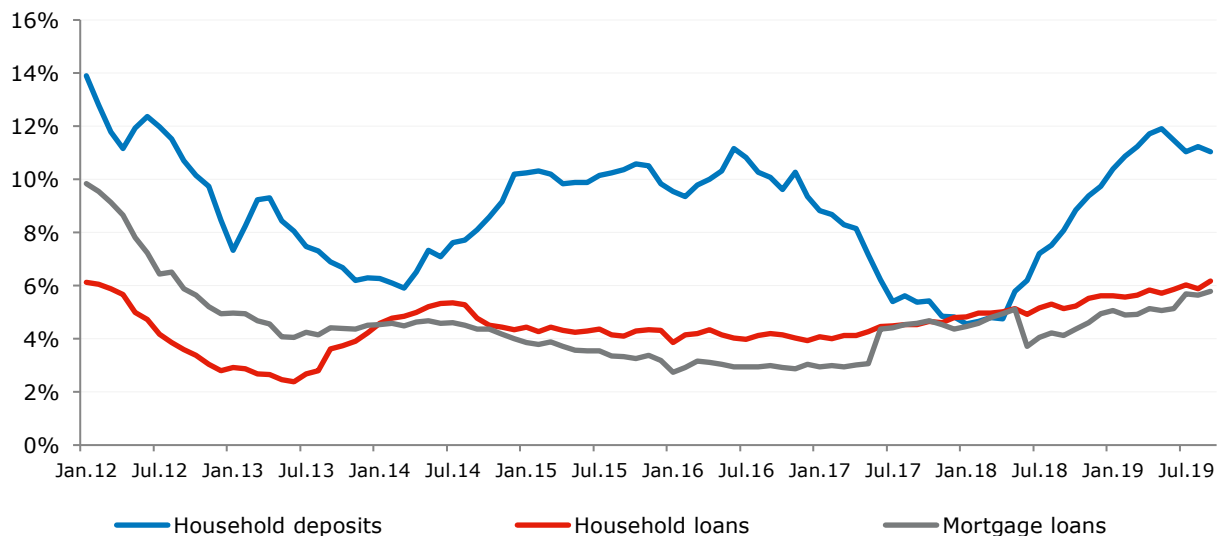
Concerns over global economic growth weakened the zloty, but at the same time helped Polish debt. Yields on Polish Treasury bonds reached an all-time low in Q3, in particular the yield to maturity of 10-year Treasury securities fell to 1.74% in mid-August and was close to 3M WIBOR. Concerns over global economic growth and bets on monetary policy easing by the main central banks were accompanied by positive news regarding Polish fiscal policy, i.e. the draft of a balanced budget for 2020 and good rate of financing sovereign borrowing needs.

Solid growth in lending

Trends observed in the previous quarters continued in Q3. Lending accelerated further driven mainly by a 5.6% year-on-year increase in housing loans (net of FX factors) – the highest level since mid-2012. The labour market situation, consumer sentiment, buy-to-let and buy-to-sell investments in the housing sector, and structural factors are still giving a major boost to mortgage sales. Growth in consumer loans, on the other hand, has been slowing down steadily amid a modest slowdown in consumer spending. Corporate loans were the weakest link (up by 5-5.5% year on year) where demand for credit was dampened by the economic slowdown and funding structure of investment activities (dominated by firms' own money).



Growth in deposits continued to outpace lending growth in Q3. The largest increase was witnessed in household deposits (approx. 11% year on year) driven by robust growth in household incomes, in particular payment of social benefits. Corporate deposits rose less dynamically (approx. 7-8% year on year). Their performance was shaped by deteriorating liquidity and profitability of part of the corporate sector and foreign exchange effects (valuation of FX deposits and exporters' revenues denominated in foreign currencies).



Financial position of mBank Group in Q3 2019

Profit and Loss Account of mBank Group

The profit before tax generated by mBank Group in Q3 2019 stood at PLN 515.4 million and was 23.2% higher compared to Q2 2019, largely due to higher income. Net profit attributable to the owners of mBank increased by 6.7% quarter on quarter to PLN 353.9 million.

PLN M	Q2 2019	Q3 2019	Change in PLN M	Change in %
Interest income	1,263.6	1,331.1	67.5	5.3%
Interest expense	-265.8	-266.8	-1.0	0.4%
Net interest income	997.8	1,064.2	66.5	6.7%
Fee and commission income	412.4	433.3	20.8	5.0%
Fee and commission expense	-186.6	-184.8	1.8	-1.0%
Net fee and commission income	225.8	248.5	22.7	10.0%
Core income	1,223.6	1,312.7	89.1	7.3%
Dividend income	3.4	0.3	-3.1	-91.3%
Net trading income	103.5	121.8	18.3	17.6%
Other income	17.8	100.7	82.9	466.3%
Other operating income	38.2	100.7	62.4	163.2%
Other operating expenses	-57.4	-205.9	-148.5	258.8%
Total income	1,329.2	1,430.3	101.1	7.6%
Net impairment losses and fair value change on loans and advances	-223.9	-249.4	-25.4	11.4%
Overhead costs and depreciation	-537.1	-542.5	-5.4	1.0%
Taxes on bank balance sheet items	-149.7	-123.0	26.7	-17.9%
Profit before income tax	418.4	515.4	97.0	23.2%
Income tax expense	-86.8	-161.5	-74.7	86.1%
Net profit attributable to:	331.6	353.9	22.3	6.7%
- Owners of mBank S.A.	331.6	353.9	22.3	6.7%
ROA net	0.9%	0.9%		
ROE gross	11.1%	13.4%		
ROE net	8.8%	9.2%		
Cost / Income ratio	40.4%	37.9%		
Net interest margin	2.8%	2.8%		
Common Equity Tier 1 ratio	16.7%	16.8%		
Total capital ratio	19.7%	19.8%		

Income from core operations - calculated as the sum of net interest income and net fee and commission income.

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

Other income - calculated as the sum of gains less losses on investment securities and investments in subsidiaries and associates and gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates.

Total overhead costs (including depreciation) - calculated as the sum of total overhead costs and depreciation.

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

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

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

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

Cost/Income ratio - total overhead costs and depreciation/total income (excluding tax on balance sheet items of the Group).

Interest margin - net interest income/average interest-earning assets; Net interest income is annualized based on the number of days in the analysed period (an annualization factor is calculated by dividing a number of days in the year by a number of days in the analysed period). Interest-earning assets are calculated as the sum of the following items: cash, balances with the central bank, loans and advances to banks, trading securities, financial derivatives, loans and advances to clients (net), investment securities. Average interest-earning assets are calculated based on balances at the end of each month.

Income of mBank Group

The total income generated by mBank Group increased compared to Q2 2019 and amounted to PLN 1,430.3 million. Core income, i.e. net interest income and net fee and commission income, grew quarter on quarter (by 7.3%) to PLN 1,312.7 million.

mBank Group's **net interest income**, which increased significantly quarter on quarter (by PLN 66.5 million, i.e. 6.7%), was the main contributor to total income. Interest income surged by PLN 67.5 million or 5.3% compared with Q2 2019 and reached PLN 1,331.1 million, spurred largely by higher income from loans and advances (up by PLN 79.1 million quarter on quarter). The rise was driven mainly by a pick-up in the volume of loans to clients and higher number of days (Q3 was by 1 day longer).

At the same time, interest expenses remained stable quarter on quarter (PLN -1.0 million, i.e. -0.4%) to PLN 266.8 million.

mBank Group's **net interest margin** increased compared to the previous quarter to 2.81% from 2.75% in Q2 2019.

Net fee and commission income, the second largest contributor, grew compared to Q2 2019 (by PLN 22.7 million, i.e. 10.0%) to PLN 248.5 million.

Fee and commission income increased by PLN 20.8 million, i.e. 5.0% quarter on quarter. Payment cards-related fees grew by PLN 15.0 million, i.e. 14.4%, helped by rising number (+25.2% year on year) and volume (+24.6% year on year) of transactions in the holiday season. Credit-related fees and commissions decreased marginally by PLN 1.0 million, i.e. 1.0% compared to Q2 2019, due to lower fees related to corporate loans. Fees from brokerage activity went down as well by PLN 4.3 million, i.e. 18.6%, due to sluggish activity of clients on the Warsaw Stock Exchange.

Fee and commission expenses remained stable compared with the previous quarter at PLN 184.8 million (-1.0%).

Net trading income increased by PLN 18.3 million compared with Q2 2019 to PLN 121.8 million. Foreign exchange result, thanks to higher market volatility, grew by PLN 29.2 million (i.e. 33.5%). while gains or losses on financial assets and liabilities held for trading fell by PLN 10.5 million or 78.3% compared to Q2 2019.

Other income (calculated as the sum of gains less losses on investment securities and investments in subsidiaries and associates and gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates) picked up to PLN 100.7 million from PLN 17.8 million generated in Q2 2019. In Q3 2019 revaluation of Polish Payment Standard Sp. z o.o. (Polski Standard Płatności Sp. z o.o.) in the amount of PLN 45.1 million after the company had initiated co-operation with Mastercard, as well as revaluation of Visa Inc. shares in the amount of PLN 48.4 million in the bank's books was made.

Other operating income stood at PLN 100.7 million, up compared with Q2 2019, mainly as a result of the sale of real estate by BDH Development Sp. z o.o. At the same time, other operating expenses rose quarter on quarter to PLN 205.9 million. The level of other operating expenses was impacted by the real estate sale transaction as well as creation of provisions for future commitments (including PLN 66.1 million for legal risk related to FX mortgage loans, PLN 15.2 million related to potential costs connected to early repayments of consumer loans as well as PLN 27.0 million regarding potential termination of lease agreements for two buildings in Warsaw before the planned relocation of the bank's headquarters).

Costs of mBank Group

In Q3 2019, total overhead costs of mBank Group (including depreciation) stood at PLN 542.5 million, which represents a rise by PLN 5.4 million or 1.0% compared with Q2 2019. The minor increase was driven by higher staff-related expenses and depreciation, while material expenses declined.

PLN M	Q2 2019	Q3 2019	Change in PLN M	Change in %
Staff-related expenses	-254.5	-266.3	-11.8	4.6%
Material costs, including	-171.9	-157.7	14.2	-8.2%
- administration and real estate services costs	-68.6	-63.2	5.4	-7.9%
- IT costs	-44.1	-42.1	2.0	-4.6%
- marketing costs	-39.8	-32.3	7.5	-18.7%
- consulting costs	-17.1	-17.4	-0.3	2.0%
- other material costs	-2.3	-2.7	-0.4	17.5%
Taxes and fees	-7.4	-8.5	-1.2	15.6%
Contributions and transfer to the Bank Guarantee Fund	-14.5	-14.7	-0.2	1.4%
Contributions to the Social Benefits Fund	-0.7	-3.4	-2.7	395.9%
Depreciation	-88.1	-91.8	-3.7	4.2%
Total overhead costs and depreciation	-537.1	-542.5	-5.4	1.0%
Cost / Income ratio	40.4%	37.9%	-	-
Employment (FTE)	6,677	6,704	27	0.4%

In Q3 2019, staff-related expenses went up by PLN 11.8 million, i.e. 4.6% quarter on quarter. The headcount in mBank Group rose by 27 FTEs in the reported period. Higher staff-related expenses were driven by an increase in variable components of remuneration.

Material costs declined by PLN 14.2 million or 8.2% quarter on quarter. The discussed period was marked by a decrease of marketing costs by PLN 7.5 million, administration and real estate costs by PLN 5.4 million and IT costs by PLN 2.0 million.

Depreciation increased by 4.2% compared with Q2 2019 to PLN 91.8 million.

Cost efficiency measured by the **cost to income ratio** improved to 37.9% in Q3 2019 compared to 40.4% in Q2 2019 and 43.7% a year before. Normalized cost to income ratio (including $\frac{3}{4}$ of the contribution to the Resolution Fund) in January – September amounted to 43.4% compared to 45.2% a year before.

Net impairment losses and fair value change on loans and advances

In Q3 2019, impairment on and change in the fair value of loans and advances of mBank Group (calculated as the sum of two items: impairment or reversal of impairment on financial assets not measured at fair value through profit or loss and gains or losses from non-trading loans and advances mandatorily measured at fair value through profit or loss) stood at PLN 249.4 million, including impairment or reversal of impairment on financial assets not measured at fair value through profit or loss of PLN 219.2 million and gains or losses from non-trading financial assets mandatorily measured at fair value through profit or loss amounted to PLN 30.1 million. Compared with Q2 2019, impairment on and change in the fair value of loans and advances rose by PLN 25.4 million, i.e. 11.4%. Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss is related to the part of the portfolio of loans and advances measured at amortised cost. The item "gains or losses from non-trading financial assets mandatorily measured at fair value through profit or loss" is mainly related to the credit risk of the portfolio of loans and advances measured with the use of that method.

PLN M	Q2 2019	Q3 2019	Change in PLN M	Change in %
Retail Banking	-131.3	-173.3	-42.0	32.0%
Corporates and Financial Markets	-92.5	-76.2	16.3	-17.6%
Other	-0.2	0.1	0.3	-/+
Total net impairment losses and fair value change on loans and advances	-223.9	-249.4	-25.4	11.4%

Impairment losses and fair value change on loans and advances in the Retail Banking segment were up by PLN 42.0 million quarter on quarter and stood at PLN 173.3 million. This was attributable mainly to changes in risk parameters used in models resulting in an increase in provisions and the rising share of unsecured non-mortgage loans in the portfolio of loans and advances.

Impairment losses on loans and advances in the Corporate Banking and Financial Markets area amounted to PLN 76.2 million, down by PLN 16.3 million v. the previous quarter, triggered mainly by lower provisions in the K2 segment.

Consolidated statement of financial position

The balance sheet total of mBank Group stood at PLN 158,774.0 million at the end of Q3 2019, up by 4.2% compared with Q2 2019.

Assets of mBank Group

PLN M	30.09.2018	30.06.2019	30.09.2019	QoQ change	YoY change
Cash and balances with Central Bank	9,643.3	6,689.8	8,454.5	26.4%	-12.3%
Loans and advances to banks	4,469.9	3,079.8	4,792.3	55.6%	7.2%
Financial assets held for trading and derivatives held for hedges	3,609.6	3,669.6	1,970.4	-46.3%	-45.4%
Net loans and advances to customers	91,348.6	100,421.5	104,725.6	4.3%	14.6%
Investment securities	34,085.6	34,293.8	34,756.1	1.3%	2.0%
Intangible assets	722.2	822.1	876.6	6.6%	21.4%
Tangible assets	748.2	1,304.2	1,268.7	-2.7%	69.6%
Other assets	2,029.0	2,152.4	1,929.9	-10.3%	-4.9%
Total assets	146,656.3	152,433.2	158,774.0	4.2%	8.3%

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

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

Loans and advances to clients were the largest asset category of mBank Group at the end of Q3 2019. Their share in total assets remained at the similar level to Q2 2019 and reached 66.0% compared to 65.9% at the end of June 2019. At the end of Q3 2019, net loans and advances to customers (being a total of loans and advances at amortised cost, non-trading loans and advances to customers mandatorily at fair value through profit or loss and loans and advances classified as assets held for trading) stood at PLN 104,725.6 million, which represents an increase of PLN 4,304.1 million or 4.3% quarter on quarter. Net of reverse repo/buy-sell-back transactions and the FX effect, loans and advances to customers increased by 2.9% quarter on quarter.

Gross loans to corporate clients rose quarter on quarter by PLN 1,600.2 million, or 3.4%, to PLN 48,647.3 million (excluding reverse repo / buy-sell-back transactions and the FX effect, the volume of loans and advances to corporate clients grew by 2.1%). The sales of loans to corporates decreased on a quarterly basis by 23.5% and amounted to PLN 7,311.5 million (including new sales, limit increases and renewals).

The volume of loans to individuals increased by PLN 2,933.8 million or 5.2% v. the end of June 2019 to PLN 58,982.6 million. Mortgage and housing loans rose by 5.6% quarter on quarter. In Q3 2019 mBank Group sold PLN 2,291.7 million worth of mortgage loans and PLN 2,402.1 million worth of non-mortgage loans. Excluding the FX effect, loans to individuals increased by 3.7%.

At the end of Q3 2019, the value of gross loans and advances to the public sector decreased by PLN 61.3 million or 11.0% quarter on quarter and stood at PLN 493.8 million.

Investment securities were the second largest category of mBank Group's assets at the end of Q3 2019 and amounted to PLN 34,756.1 million, accounting for 21.9% of total assets, up by PLN 462.2 million or 1.3% quarter on quarter.

An increase of fixed assets in Q3 2019 compared to the prior year results from recognition of leased-out assets and those based on tenancy or rental contracts in the books along with MSSF 16 implementation.

mBank Group's total liabilities and equity

PLN M	30.09.2018	30.06.2019	30.09.2019	QoQ change	YoY change
Amounts due to other banks	3,887.3	2,974.9	2,458.3	-17.4%	-36.8%
Amounts due to customers	102,425.0	110,341.1	115,965.6	5.1%	13.2%
Debt securities in issue	19,083.3	16,563.9	16,716.9	0.9%	-12.4%
Subordinated liabilities	2,203.0	2,477.7	2,526.2	2.0%	14.7%
Other liabilities	4,255.1	4,394.4	5,016.4	14.2%	17.9%
Total Liabilities	131,853.8	136,752.0	142,683.3	4.3%	8.2%
Total Equity	14,802.6	15,681.2	16,090.7	2.6%	8.7%
Total Liabilities and Equity	146,656.3	152,433.2	158,774.0	4.2%	8.3%

In Q3 2019, amounts due to customers, which are mBank Group's principal source of funding, rose by PLN 5,624.6 million or 5.1% quarter on quarter. The share of amounts due to customers in total liabilities and equity reached 73.0%, increasing compared to June 2019 when it stood at 72.4%.

Amounts due to corporate clients increased by PLN 4,185.6 million or 11.0% quarter on quarter and hit PLN 42,312.5 million at the end of September 2019. The substantial rise in this category results mainly from inflow of funds into term deposits (+PLN 3,026.9 million or 28.5% quarter on quarter) coupled with accumulation of funds on current accounts (+PLN 1,227.1 million or 5.4% quarterly). Total position was also impacted by obtaining a loan from the European Investment Bank, amounting to CHF 138 million.

In Q3 2019 amounts due to individuals went up by PLN 1,886.3 million or 2.7% quarterly amounting to PLN 72,127.3 million. During the period under review a substantial inflow of funds to the current accounts was observed, which rose by PLN 1,332.3 million (+2.4% quarter on quarter), while term deposits increased by PLN 526.3 million (+3.6% quarterly).

Amounts due to the public sector stood at PLN 1,525.8 million, representing a decrease by PLN 447.3 million (-22.7%) quarter on quarter.

Debt securities in issue were the second largest category among liabilities and equity of mBank Group's (10.5%). They grew by PLN 152.9 million or +0.9% quarter on quarter to PLN 16,716.9 million. Slight increase is attributable to an appreciation of EUR and CHF, the currencies in which the majority of eurobonds under EMTN programme are issued.

Amounts due to other banks totalled PLN 2,458.3 million at the end of September 2019, accounting for 1.5% of total liabilities and equity of mBank Group. Compared to the end of June 2019, the category declined by PLN 516.6 million or 17.4%, mainly due to the lower level of repo/sell-buy-back transactions.

The share of equity in total liabilities and equity of mBank Group decreased slightly quarter on quarter to the level of 10.1% (against 10.3% at the end of June 2019).

Quality of the loan portfolio of mBank Group

As at 30 September 2019, the amount of non-performing loans (NPL) went up compared to the previous quarter by 1.9%. However, the NPL ratio slightly decreased in the observed period to the level of 4.7%, resulting from a strong rise of performing loans (up by 4.5% quarter on quarter).

The coverage ratio including stage 1&2 provisions increased quarter on quarter from 72.3% to 75.0%, whereas coverage ratio of non-performing loans stood at 62.5% compared to 61.3% at the end of June 2019.

PLN M	30.06.2019	30.09.2019	QoQ change
Provisions for non-performing loans	3,044.0	3,160.2	3.8%
Provisions for performing loans	548.1	631.5	15.2%
Total provisions	3,592.1	3,791.7	5.6%
Non-performing receivables	4,965.0	5,057.4	1.9%
Performing receivables	99,040.0	103,450.5	4.5%
NPL ratio	4.8%	4.7%	
Coverage ratio for non-performing loans	61.3%	62.5%	

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

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

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

Performing receivables - loans and advances at amortised cost without impairment (basket 1 and 2) and non-default loans and advances mandatorily at fair value through profit or loss

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

Performance of segments and the business lines

In Q3 2019, the Retail Banking segment was the largest contributor to mBank Group's profit before tax with a share of 62.0%, compared with 63.5% in Q2 2019. The contribution of the Corporate and Investment Banking segment stood at 35.5% (compared to 37.4% in Q2 2019) and the contribution of the Financial Markets segment at 9.1% (versus 5.1% in Q2 2019).

PLN M	Q2 2019	Q3 2019	QoQ change	% share in profit before tax
Retail Banking	265.5	319.5	20.3%	62.0%
Corporate and Investment Banking	156.4	182.9	16.9%	35.5%
Financial Markets	21.5	47.1	118.9%	9.1%
Other	-25.1	-34.2	36.3%	-6.6%
Profit before tax of mBank Group	418.4	515.4	23.2%	100.0%

Retail Banking



mBank's Retail Banking segment serves 5,539 thousand individual clients and microenterprises in Poland, the Czech Republic and Slovakia online, directly through the call centre, via mobile banking and other state-of-the-art technological solutions, as well as in a network of 381 branches. The Bank offers a broad range of products and services including current and savings accounts, accounts for microenterprises, credit products, deposit products, payment cards, investment products, insurance products, brokerage services, and leasing for microenterprises.

Key highlights

- Increase of core income to PLN 857.4 million in Q3 2018 i.e. up by 9.6% quarter on quarter and up by 18.5% year on year.
- Increase in the share of mBank in non-mortgage loans market from 5.7% to 6.3% year on year.
- 6.6% share of mBank in retail deposits market.
- Record high sales of mortgage loans at PLN 2,291.7 million (i.e. +3.2% quarter on quarter and +92.7% year on year), while non-mortgage loans sales stood at PLN 2,402.1 million (i.e. -8.3% quarter on quarter and +3.1% year on year).
- Maintained high share of loggings into client accounts via mobile banking application: 68.6% at the end of September 2019 (62.5% at the end of 2018).
- The Brokerage Bureau's share in the futures market at the WSE at the level of 17.6% vs 11.2% in the previous quarter and in the bond trade market at the level of 4.2% vs 4.4% in Q2 2019.
- Enabling private banking clients to invest responsibly in portfolios containing shares and bonds of issuers with a positive environmental and social impact, in line with ESG standards.
- Introduction of savings targets for clients aged 13-17 in a chosen form, such as posting a fixed amount or saving at the end of the transaction.

Key financial data:

PLN M	Q2 2019	Q3 2019	Change in PLN M	Change in %
Net interest income	679.3	723.7	44.4	6.5%
Net fee and commission income	102.9	133.7	30.8	30.0%
Net trading income	34.3	37.9	3.6	10.6%
Net other operating income	-19.7	-89.2	-69.4	351.8%
Other income ¹	0.0	93.3	93.3	-/+
Total income	796.7	899.5	102.8	12.9%
Net impairment losses and fair value change on loans and advances ²	-131.3	-173.3	-42.0	32.0%
Overhead costs and depreciation	-342.3	-343.8	-1.4	0.4%
Taxes on bank balance sheet items	-57.5	-62.9	-5.4	9.4%
Profit before tax of Retail Banking	265.5	319.5	54.0	20.3%

¹ The sum of two items from Profit and Loss Account: "Gains or losses on non-trading equity instruments and debt securities mandatorily at fair value through profit or loss" and "Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates"

² The sum of two items from Profit and Loss Account: "Impairment on financial assets not measured at fair value through profit or loss" and "Gains or losses on non-trading loans and advances mandatorily at fair value through profit or loss".

Key business data (mBank and mBank Hipoteczny only):

thou.	30.09.2018	30.06.2019	30.09.2019	QoQ change	YoY change
Number of retail clients¹, including:	5,603.2	5,552.4	5,538.9	-0.2%	-1.1%
Poland	4,681.8	4,614.6	4,593.5	-0.5%	-1.9%
Foreign branches	921.4	937.9	945.4	0.8%	2.6%
The Czech Republic	641.0	651.6	657.1	0.8%	2.5%
Slovakia	280.4	286.2	288.3	0.7%	2.8%
PLN M					
Loans to retail clients, including:	51,286.4	55,751.2	58,655.9	5.2%	14.4%
Poland	46,660.8	50,968.9	53,686.1	5.3%	15.1%
<i>mortgage loans</i>	32,726.1	34,882.1	36,918.9	5.8%	12.8%
<i>non-mortgage loans</i>	13,934.6	16,086.7	16,767.2	4.2%	20.3%
Foreign branches	4,625.6	4,782.3	4,969.8	3.9%	7.4%
<i>The Czech Republic</i>	3,714.3	3,749.5	3,847.0	2.6%	3.6%
<i>Slovakia</i>	911.4	1,032.8	1,122.8	8.7%	23.2%
Deposits of retail clients, including:	61,670.3	70,120.9	71,956.7	2.6%	16.7%
Poland	51,824.4	59,639.3	61,388.8	2.9%	18.5%
Foreign branches	9,845.9	10,481.6	10,567.9	0.8%	7.3%
<i>The Czech Republic</i>	7,007.7	7,317.8	7,291.3	-0.4%	4.0%
<i>Slovakia</i>	2,838.2	3,163.8	3,276.6	3.6%	15.4%
Investment funds of mBank's individual clients	14,834.3	14,038.7	14,010.1	-0.2%	-5.6%
thou.					
Credit cards, including:	380.8	391.3	394.9	0.9%	3.7%
Poland	340.4	349.7	353.5	1.1%	3.8%
Foreign branches	40.4	41.6	41.4	-0.3%	2,5%
Debit cards, including:	3,843.7	3,817.5	3,775.5	-1,1%	-1,8%
Poland	3,261.9	3,220.8	3,171.1	-1.5%	-2.8%
Foreign branches	581.9	596.7	604.5	1,3%	3,9%

¹ A drop in the number of customers in 2019 due to the cessation of the activity of Kompakt Finanse and closure of inactive technical accounts to repaid loans.

Corporates and Financial Markets



The Corporates and Financial Markets segment serves 25,890 corporate clients including large enterprises (K1 - annual sales exceeding PLN 1 billion and non-banking financial institutions), mid-sized enterprises (K2 - annual sales of PLN 50 million – 1 billion) and small enterprises (K3 - annual sales below PLN 50 million), through a network of dedicated 46 branches. mBank Group's offer of products and services for corporate clients focuses on traditional banking products and services (including corporate accounts, domestic and international money transfers, payment cards, cash services, and liquidity management products), corporate finance products, hedging instruments, equity capital market (ECM) services, debt capital market (DCM) instruments, mergers and acquisitions (M&A), leasing and factoring. The segment comprises two areas: Corporate and Investment Banking, and Financial Markets.

Key highlights

- Increase in total income by 4.5% quarter on quarter and 15.0% year on year.
- Increase of corporate loans by 3.4% compared to end of June 2019 and by 15.8% year on year.
- Corporate loans sales (including new sale, rising and renewal) at the level of PLN 7,311.5 million, representing a similar level compared to the analogous period of previous year.
- Increase in corporate deposits by 11.0% quarterly and 9.6% annually. mBank's market share in deposits for enterprises amounted to 11.3%.
- Increase in the pool of financing for RES projects, i.e. renewable energy sources, such as wind farms or photovoltaics, to PLN 1 billion.
- Support of projects that have a positive impact on the climate and financing SMEs by obtaining a loan from the European Investment Bank by mBank in Q3 2019.
- Improvement of customers' independence on the mCompanyNet platform, including automation of onboarding and management of powers of the representatives in mPlatforma Walutowa, which translates into shortening customers' wait time, reducing paper and the number of complaints.

Key financial data:

Corporate and Investment Banking:

PLN M	Q2 2019	Q3 2019	Change in PLN M	Change in %
Net interest income	258.9	280.2	21.4	8.3%
Net fee and commission income	129.9	123.8	-6.1	-4.7%
Net trading income	67.7	72.5	4.8	7.1%
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates	0.2	0.9	0.7	341.9%
Net other operating income	4.8	4.9	0.1	2.7%
Total income	461.4	482.3	20.9	4.5%
Net impairment losses and fair value change on loans and advances ¹	-92.3	-76.7	15.6	-16.9%
Overhead costs and depreciation	-169.8	-177.2	-7.3	4.3%
Taxes on bank balance sheet items	-42.8	-45.5	-2.7	6.2%
Profit before tax of Corporate and Investment Banking	156.4	182.9	26.5	16.9%

¹ The sum of two items from Profit and Loss Account: "Impairment on financial assets not measured at fair value through profit or loss" and "Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss".

Financial Markets:

PLN M	Q2 2019	Q3 2019	Change in PLN M	Change in %
Net interest income	58.7	59.7	1.0	1.8%
Net fee and commission income	-3.8	-5.0	-1.2	30.2%
Net trading income	-0.4	12.7	13.1	-/+
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates	0.6	7.8	7.2	x13
Net other operating income	-1.6	1.7	3.3	-/+
Total income	53.5	77.0	23.5	44.0%
Net impairment losses and fair value change on loans and advances ¹	-0.1	0.5	0.6	-/+
Overhead costs and depreciation	-25.4	-22.5	2.9	-11.6%
Taxes on bank balance sheet items	-6.4	-7.9	-1.5	23.7%
Profit before tax of Financial Markets	21.5	47.1	25.6	118.9%

Key business data (Bank only):

	30.09.2018	30.06.2019	30.09.2019	QoQ change	YoY change
Number of corporate clients, including:	23,327	25,002	25,890	3.6%	11.0%
K1	2,138	2,277	2,331	2.4%	
K2	7,389	7,777	8,077	3.9%	
K3	13,800	14,948	15,482	3.6%	
PLN M					
Loans to corporate clients¹, including:	24,996.6	27,586.7	29,099.5	5.5%	16.4%
K1	6,690.5	7,210.2	7,838.1	8.7%	
K2	15,695.2	17,212.9	18,104.4	5.2%	
K3	2,506.2	2,889.9	2,899.7	0.3%	
Reverse repo/buy sell back transactions	10.9	195.9	193.6	-1.2%	
Other	94.0	77.9	63.7	-18.1%	
Deposits of corporate clients¹, including:	36,421.4	36,748.0	39 887,6	8.5%	9.5%
K1	16,397.4	15,311.2	18,361.2	19.9%	
K2	12,267.1	13,866.3	14,049.4	1.3%	
K3	5,635.7	6,010.7	6,631.5	10.3%	
Repo transactions	1,684.6	1,217.8	500.9	-58.9%	
Other	436.5	342.1	344.7	0.7%	

Summary of results of mBank Group's subsidiaries

In Q3 2019, total income generated by mBank Group's subsidiaries amounted to PLN 58.3 million, which represents a 6.1% decrease v. Q2 2019. However, mBank Hipoteczny and other subsidiaries jointly improved their results as compared to Q2 2019, while the results of other companies deteriorated.

The table below presents the profit before tax of mBank Group subsidiaries in Q3 2019 compared with the previous quarter.

PLN M	Q2 2019	Q3 2019	Change in %
mFinanse	13,777	8,669	-37.1%
mBank Hipoteczny	16,719	25,524	52.7%
mLeasing	26,998	17,086	-36.7%
mFaktoring	8,170	4,513	-44.8%
Other ¹	-3,604	2,461	-/+
Total	62,060	58,253	-6.1%

¹ Other subsidiaries include mFinance France, mCentrum Operacji, BDH Development, Garbary, Tele-Tech Investment and Future Tech.



An open platform for financial services sale on the intermediaries market

The offer comprises loans, deposits, insurance products, investment and savings products for both individuals and companies

In Q3 2019, mFinanse reported a decrease in mortgage loans sales by 2.5% quarter on quarter (PLN 1,065.3 million in Q3 2019 compared to PLN 1,092.7 million in Q2 2019). In Q3 2019, the sales of cash decreased by 16.5% and reached PLN 193.5 million (PLN 231.6 million a quarter earlier).

In the analysed period, the result generated in the area of sales of unsecured loans for companies increased by 2.3% quarter on quarter (PLN 121.7 million in Q3 2019 compared to PLN 119.0 million in the previous quarter). In Q3 2019, mFinanse recorded also better sales results in the area of car leasing by 79.4% (PLN 42.7 million in Q3 2019 compared to PLN 23.8 million a quarter earlier).

In Q3 2019, the profit before tax of mFinanse stood at PLN 8.7 million compared to PLN 13.8 million in Q2 2019, which represents a decrease on a quarterly basis by PLN 5.1 million. A drop of the result on core operations in Q3 resulted from a decrease in the sale of cash loans to individuals.



The mortgage bank with the longest track record of issuing covered bonds in the Polish capital market

Ensuring stable, long-term and safe financing of the Group using the pooling model in cooperation with mBank

Since 2000, mBank Hipoteczny has been regularly issuing Polish covered bonds in line with the domestic issuance programme. As at the end of Q3 2019, the total value of mortgage bonds issued and traded by mBank Hipoteczny amounted to PLN 7,244.2 million (according to the EUR exchange rate published by the National Bank of Poland on 30 September 2019: 4.3736).

In addition, mBank Hipoteczny continues to issue unsecured bonds. At the end of Q3 2019, five series of unsecured bonds worth a total of PLN 515 million had been issued. mBH offers zero-coupon and coupon bonds denominated in PLN with maturities ranging from one to three years.

Since January 2019, mBank Hipoteczny has been implementing a new pooling business model based on close cooperation with mBank, which assumes that sales will be concluded by mBank's salesforce in both retail and commercial area.

In Q3 2019, mBank Hipoteczny's gross loan portfolio reached PLN 12.2 billion against PLN 12.3 billion at the end of Q2 2019, which translates into a quarterly decline of 1.03%. The reduction of the portfolio is related to significant repayments of corporate loans (PLN 528 million of early repayments in Q3 2019). In Q3 2019, two pooling transactions of retail mortgage loans totalling PLN 269 million were carried out.

In Q3 2019 the subsidiary's standalone profit before tax amounted to PLN 25.5 million, up by 52.7% against Q2 2019. The better result in Q3 2019 results primarily from an improvement in the interest income and lower operating expenses of the bank. The increase in the interest income results from the growth of the retail portfolio and early repayments in the commercial portfolio.

Leasing

Financing offer in the form of leasing or rent and car fleet management

Leasing in e-commerce in cooperation with LeaseLink

The total value of contracts signed in Q3 2019 totalled PLN 1,212 million against PLN 1,466.1 million in Q2 2019, thus falling by 17.3% quarter on quarter. This decrease is caused by the seasonally reduced demand for leasing resulting from the summer holiday period.

The value of new movable assets purchased by mLeasing in Q3 2019 amounted to PLN 1,195.0 million, while new real property contracts were worth PLN 17.0 million. By comparison, in Q2 2019, these figures stood at PLN 1,378.7 million for movable assets and PLN 87.4 million for real property.

The subsidiary's profit before tax in Q3 2019 reached PLN 17.1 million, a drop by 36.7% quarter on quarter (PLN 27.0 million in Q2 2019). The decrease stems primarily from higher credit risk costs (PLN 24.3 million in Q3 2019 against PLN 15.4 million in Q2 2019).

Faktoring

mFaktoring offers financing of an ongoing business operations, receivables management, transfer of insolvency risk, management of debtors' settlement accounts and enforcement of receivables

Fifth largest player on the Polish factoring market among the members of the Polish Factors Association

In Q3 2019, the company's turnover, i.e. the value of purchased invoices, reached PLN 5.4 billion. This is a decrease by 4.6% compared to Q2 2019. However, the high dynamics of turnover allowed the company to maintain its fifth position on the factoring market in Poland, which corresponds to 7.8% market share (data based on the Polish Factor Association).

In the period from January to September 2019, mFaktoring acquired 170 new customers and currently serves 761 customers. All corporate branches actively participated in building the factoring portfolio, reaching the sum of new factoring limits in the amount of PLN 925 million.

The customer structure by segments was as follows: K1 - PLN 384 million (9 customers), K2 - PLN 413 million (58 customers) and K3 - PLN 128.5 million (103 customers).

As a consequence of the turnover dynamics and cost discipline, the company recorded a positive financial result. Gross profit in Q3 2019 amounted to PLN 4.5 million, which means a decrease by 44.8% as compared to Q2 2019. The deterioration of the result on a quarterly basis was caused by the creation of provisions for unpaid receivables.

Consolidated income statement

	Note	3rd Quarter (current year) period from 01.07.2019 to 30.09.2019	3 Quarters (current year) period from 01.01.2019 to 30.09.2019	3rd Quarter (previous year) period from 01.07.2018 to 30.09.2018 - restated	3 Quarters (previous year) period from 01.01.2018 to 30.09.2018 - restated
Interest income, including:	5	1 331 082	3 795 517	1 168 823	3 325 027
<i>Interest income accounted for using the effective interest method</i>		1 202 125	3 365 776	996 686	2 826 097
<i>Income similar to interest on financial assets at fair value through profit or loss</i>		128 957	429 741	172 137	498 930
Interest expenses	5	(266 844)	(803 246)	(266 453)	(751 882)
Net interest income		1 064 238	2 992 271	902 370	2 573 145
Fee and commission income	6	433 250	1 246 343	401 357	1 230 572
Fee and commission expenses	6	(184 788)	(543 223)	(162 606)	(473 968)
Net fee and commission income		248 462	703 120	238 751	756 604
Dividend income	7	298	3 949	233	3 336
Net trading income, including:	8	121 765	328 162	72 271	241 462
<i>Foreign exchange result</i>		116 371	292 802	69 667	220 714
<i>Gains or losses on financial assets and liabilities held for trading</i>		2 905	27 616	7 838	31 691
<i>Gains or losses from hedge accounting</i>		2 489	7 744	(5 234)	(10 943)
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	9	62 455	50 837	(23 843)	(79 903)
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates, including:	10	8 123	22 841	2 036	8 056
<i>Gains less losses from debt securities measured at fair value through other comprehensive income</i>		8 769	27 328	1 305	7 347
<i>Gains less losses from investments in subsidiaries and associates</i>		(449)	(4 921)	-	(22)
<i>Gains less losses from derecognition</i>		(197)	434	731	731
Other operating income	11	100 666	175 990	30 375	352 194
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	12	(219 217)	(546 380)	(154 121)	(427 722)
Overhead costs	13	(450 694)	(1 525 418)	(468 808)	(1 453 960)
Depreciation		(91 833)	(270 011)	(62 720)	(187 215)
Other operating expenses	14	(205 889)	(328 926)	(36 055)	(136 062)
Operating profit		638 374	1 606 435	500 489	1 649 935
Taxes on the Group balance sheet items		(122 982)	(381 809)	(103 379)	(300 129)
Share in profits (losses) of entities under the equity method		-	-	308	896
Profit before income tax		515 392	1 224 626	397 418	1 350 702
Income tax expense		(161 489)	(375 123)	(106 362)	(353 791)
Net profit		353 903	849 503	291 056	996 911
Net profit attributable to:					
- Owners of mBank S.A.		353 922	849 567	291 069	996 947
- Non-controlling interests		(19)	(64)	(13)	(36)
Net profit attributable to Owners of mBank S.A.		353 922	849 567	291 069	996 947
Weighted average number of ordinary shares	15	42 336 982	42 337 276	42 314 554	42 312 942
Earnings per share (in PLN)	15	8.36	20.07	6.88	23.56
Weighted average number of ordinary shares for diluted earnings	15	42 357 106	42 356 528	42 341 212	42 339 600
Diluted earnings per share (in PLN)	15	8.36	20.06	6.87	23.55

Consolidated statement of comprehensive income

	3rd Quarter (current year) period from 01.07.2019 to 30.09.2019	3 Quarters (current year) period from 01.01.2019 to 30.09.2019	3rd Quarter (previous year) period from 01.07.2018 to 30.09.2018 - restated	3 Quarters (previous year) period from 01.01.2018 to 30.09.2018 - restated
Net profit	353 903	849 503	291 056	996 911
Other comprehensive income net of tax, including:	52 849	17 499	(10 363)	16 978
Items that may be reclassified subsequently to the income statement				
Exchange differences on translation of foreign operations (net)	335	388	(85)	17
Cash flows hedges (net)	38 991	76 654	(6 158)	14 078
Debt instruments at fair value through other comprehensive income (net)	13 523	(59 541)	(4 120)	2 883
Items that will not be reclassified to the income statement				
Actuarial gains and losses relating to post-employment benefits (net)	-	(2)	-	-
Total comprehensive income (net)	406 752	867 002	280 693	1 013 889
Total comprehensive income (net), attributable to:				
- Owners of mBank S.A.	406 771	867 066	280 706	1 013 925
- Non-controlling interests	(19)	(64)	(13)	(36)

Consolidated statement of financial position

ASSETS	Note	30.09.2019	31.12.2018
Cash and balances with the Central Bank		8 454 457	9 199 264
Financial assets held for trading and derivatives held for hedges	16	2 141 635	2 104 302
Non-trading financial assets mandatorily at fair value through profit or loss, including:	17	2 388 906	2 836 060
<i>Equity instruments</i>	17	129 876	72 775
<i>Debt securities</i>	17	128 985	58 130
<i>Loans and advances to customers</i>	17	2 130 045	2 705 155
Financial assets at fair value through other comprehensive income	18	24 199 667	24 338 284
Financial assets at amortised cost, including:	19	117 514 160	103 564 317
<i>Debt securities</i>	19	10 297 536	9 000 539
<i>Loans and advances to banks</i>	19	4 792 282	2 546 346
<i>Loans and advances to customers</i>	19	102 424 342	92 017 432
Fair value changes of the hedged items in portfolio hedge of interest rate risk		63	-
Intangible assets	20	876 595	776 175
Tangible assets	21	1 268 686	785 026
Current income tax assets		8 207	9 336
Deferred income tax assets	25	867 751	959 076
Other assets		1 053 918	1 178 279
Total assets		158 774 045	145 750 119
LIABILITIES AND EQUITY			
Liabilities			
Financial liabilities held for trading and derivatives held for hedges	22	1 051 119	981 117
Financial liabilities measured at amortised cost, including:		137 666 987	125 611 195
<i>Amounts due to banks</i>	23	2 458 291	3 078 387
<i>Amounts due to customers</i>	23	115 965 629	102 009 062
<i>Debt securities issued</i>		16 716 850	18 049 583
<i>Subordinated liabilities</i>		2 526 217	2 474 163
Provisions	24	443 723	258 283
Current income tax liabilities		41 510	352 962
Deferred income tax liabilities	25	85	83
Other liabilities		3 479 913	3 330 399
Total liabilities		142 683 337	130 534 039
Equity			
Equity attributable to Owners of mBank S.A.		16 088 688	15 213 980
Share capital:		3 579 068	3 574 686
Registered share capital		169 394	169 348
Share premium		3 409 674	3 405 338
Retained earnings:		12 277 283	11 424 456
Profit from the previous years		11 427 716	10 108 005
Profit for the current year		849 567	1 316 451
Other components of equity		232 337	214 838
Non-controlling interests		2 020	2 100
Total equity		16 090 708	15 216 080
Total liabilities and equity		158 774 045	145 750 119
Total capital ratio		19.79	20.69
Common Equity Tier 1 capital ratio		16.82	17.47
Book value		16 088 688	15 213 980
Number of shares		42 348 437	42 336 982
Book value per share (in PLN)		379.91	359.35

Consolidated statement of changes in equity

Changes in equity from 1 January to 30 September 2019

	Share capital		Retained earnings					Other components of equity				Equity attributable to Owners of mBank S.A., total	Non-controlling interests	Total equity
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year attributable to Owners of mBank S.A.	Exchange differences on translation of foreign operations	Valuation of financial assets at fair value through other comprehensive income	Cash flows hedges	Actuarial gains and losses relating to post-employment benefits			
Equity as at 1 January 2019	169 348	3 405 338	9 826 282	93 448	1 153 753	350 973	-	(5 467)	145 978	83 643	(9 316)	15 213 980	2 100	15 216 080
Total comprehensive income	-	-	-	-	-	-	849 567	388	(59 541)	76 654	(2)	867 066	(64)	867 002
Issuance of ordinary shares	46	-	-	-	-	-	-	-	-	-	-	46	-	46
Other increase or decrease in equity	-	-	-	-	-	34	-	-	-	-	-	34	(16)	18
Stock option program for employees	-	4 336	-	3 226	-	-	-	-	-	-	-	7 562	-	7 562
- value of services provided by the employees	-	-	-	7 562	-	-	-	-	-	-	-	7 562	-	7 562
- settlement of exercised options	-	4 336	-	(4 336)	-	-	-	-	-	-	-	-	-	-
Equity as at 30 September 2019	169 394	3 409 674	9 826 282	96 674	1 153 753	351 007	849 567	(5 079)	86 437	160 297	(9 318)	16 088 688	2 020	16 090 708

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			
Equity as at 1 January 2018	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)
Restated equity as at 1 January 2018	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
Total comprehensive income	-	-	-	-	-	-	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)
Stock option program for employees	-	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)	-	-	-	-	-	-	-	-	-	-
Equity as at 31 December 2018	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 30 September 2018 - restated

	Share capital		Retained earnings					Other components of equity				Equity attributable to Owners of mBank S.A., total	Non-controlling interests	Total equity
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year attributable to Owners of mBank S.A.	Exchange differences on translation of foreign operations	Valuation of financial assets at fair value through other comprehensive income	Cash flows hedges	Actuarial gains and losses relating to post-employment benefits			
Equity as at 1 January 2018	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)
Restated equity as at 1 January 2018	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
Total comprehensive income	-	-	-	-	-	-	996 947	17	2 883	14 078	-	1 013 925	(36)	1 013 889
Issuance of ordinary shares	82	-	-	-	-	-	-	-	-	-	-	82	-	82
Dividends	-	-	-	-	-	(217 907)	-	-	-	-	-	(217 907)	-	(217 907)
Transfer to supplementary capital	-	-	2 098 965	-	-	(2 098 965)	-	-	-	-	-	-	-	-
Other increase or decrease in equity	-	-	-	-	-	(51)	-	-	-	-	-	(51)	4	(47)
Stock option program for employees	-	8 383	-	184	-	-	-	-	-	-	-	8 567	-	8 567
- value of services provided by the employees	-	-	-	8 567	-	-	-	-	-	-	-	8 567	-	8 567
- settlement of exercised options	-	8 383	-	(8 383)	-	-	-	-	-	-	-	-	-	-
Equity as at 30 September 2018	169 330	3 403 311	9 826 282	93 818	1 153 753	(965 491)	996 947	(5 510)	125 848	8 880	(6 768)	14 800 400	2 154	14 802 554

Consolidated statement of cash flows

	Period from 01.01.2019 to 30.09.2019	Period from 01.01.2018 to 30.09.2018 - restated
Profit before income tax	1 224 626	1 350 702
Adjustments:	3 843 553	1 984 396
Income taxes paid	(601 547)	(482 918)
Amortisation, including amortisation of fixed assets provided under operating lease	306 474	220 439
Foreign exchange (gains) losses related to financing activities	249 352	344 803
(Gains) losses on investing activities	(31 373)	(271 281)
Dividends received	(3 949)	(3 336)
Interest income (income statement)	(3 795 517)	(3 325 027)
Interest expense (income statement)	803 246	751 882
Interest received	3 892 098	3 493 180
Interest paid	(806 624)	(551 250)
Changes in loans and advances to banks	826 332	418
Changes in financial assets and liabilities held for trading and derivatives held for hedges	(46 514)	81 136
Changes in loans and advances to customers	(9 832 415)	(7 123 947)
Changes in financial assets at fair value through other comprehensive income	(125 857)	(1 889 300)
Changes in securities at amortised cost	(1 296 997)	(336 253)
Changes of non-trading equity securities mandatorily at fair value through profit or loss	(127 956)	(32 722)
Changes in other assets	134 306	(287 341)
Changes in amounts due to other banks	(89 595)	(23 871)
Changes in amounts due to customers	14 030 656	10 912 666
Changes in debt securities in issue	12 209	273 990
Changes in provisions	185 440	31 341
Changes in other liabilities	161 784	201 787
A. Cash flows from operating activities	5 068 179	3 335 098
Disposal of shares in subsidiaries, net of cash disposed	-	100
Disposal of intangible assets and tangible fixed assets	51 858	30 432
Dividends received	3 949	3 336
Other investing inflows	-	436 579
Acquisition of shares in subsidiaries	(46 192)	(36 907)
Purchase of intangible assets and tangible fixed assets	(348 040)	(370 983)
B. Cash flows from investing activities	(338 425)	62 557
Proceeds from loans and advances from other banks	-	187 200
Proceeds from other loans and advances	544 735	648 378
Issue of debt securities	1 041 036	4 634 681
Issue of ordinary shares	46	82
Repayments of loans and advances from other banks	(560 027)	(1 996 975)
Repayments of other loans and advances	(1 058 369)	(213 725)
Redemption of debt securities	(2 510 650)	(231 148)
Payments of financial lease liabilities	n/a	(388)
Payments of lease liabilities	(87 985)	n/a
Dividends and other payments to shareholders	-	(217 907)
Interest paid from loans and advances received from other banks and from subordinated liabilities	(66 760)	(110 844)
C. Cash flows from financing activities	(2 697 974)	2 699 354
Net increase / decrease in cash and cash equivalents (A+B+C)	2 031 780	6 097 009
Effects of exchange rate changes on cash and cash equivalents	40 594	(46 404)
Cash and cash equivalents at the beginning of the reporting period	10 630 969	9 824 260
Cash and cash equivalents at the end of the reporting period	12 703 343	15 874 865

mBank S.A. stand-alone financial information

Income statement

	Note	3rd Quarter (current year) period from 01.07.2019 to 30.09.2019	3 Quarters (current year) period from 01.01.2019 to 30.09.2019	3rd Quarter (previous year) period from 01.07.2018 to 30.09.2018 - restated	3 Quarters (previous year) period from 01.01.2018 to 30.09.2018 - restated
Interest income, including:		1 168 926	3 334 310	1 022 848	2 914 703
<i>Interest income accounted for using the effective interest method</i>		1 050 456	2 938 116	864 675	2 459 091
<i>Income similar to interest on financial assets at fair value through profit or loss</i>		118 470	396 194	158 173	455 612
Interest expenses		(227 096)	(684 047)	(227 588)	(643 488)
Net interest income		941 830	2 650 263	795 260	2 271 215
Fee and commission income		394 362	1 130 413	369 209	1 104 220
Fee and commission expenses		(159 556)	(471 900)	(144 609)	(418 630)
Net fee and commission income		234 806	658 513	224 600	685 590
Dividend income		18 751	320 024	233	195 169
Net trading income, including:		124 108	330 125	74 467	248 384
<i>Foreign exchange result</i>		113 202	289 303	68 613	218 486
<i>Gains or losses on financial assets and liabilities held for trading</i>		8 990	37 395	9 342	36 781
<i>Gains or losses from hedge accounting</i>		1 916	3 427	(3 488)	(6 883)
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss		66 388	54 206	(23 144)	(77 243)
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates, including:		9 648	11 748	2 276	3 729
<i>Gains less losses from debt securities measured at fair value through other comprehensive income</i>		8 769	27 328	1 545	7 576
<i>Gains less losses from investments in subsidiaries and associates</i>		883	(112)	-	(22)
<i>Gains less losses from derecognition</i>		(4)	(15 468)	731	(3 825)
Other operating income		8 896	34 876	8 920	33 020
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss		(191 431)	(485 130)	(139 610)	(376 968)
Overhead costs		(402 964)	(1 369 428)	(417 842)	(1 295 999)
Depreciation		(80 875)	(239 520)	(56 654)	(169 018)
Other operating expenses		(134 360)	(231 934)	(25 820)	(113 696)
Operating profit		594 797	1 733 743	442 686	1 404 183
Taxes on the Bank's balance sheet items		(114 680)	(357 373)	(96 227)	(279 402)
Share in profits (losses) of entities under the equity method		25 257	(205 715)	40 369	145 100
Profit before income tax		505 374	1 170 655	386 828	1 269 881
Income tax expense		(148 939)	(340 646)	(95 813)	(273 216)
Net profit		356 435	830 009	291 015	996 665
Net profit		356 435	830 009	291 015	996 665
Weighted average number of ordinary shares	15	42 337 854	42 337 276	42 314 554	42 312 942
Earnings per share (in PLN)	15	8.42	19.60	6.88	23.55
Weighted average number of ordinary shares for diluted earnings	15	42 357 106	42 356 528	42 341 212	42 339 600
Diluted earnings per share (in PLN)	15	8.41	19.60	6.87	23.54

mBank S.A. stand-alone financial information

Statement of comprehensive income

	3rd Quarter (current year) period from 01.07.2019 to 30.09.2019	3 Quarters (current year) period from 01.01.2019 to 30.09.2019	3rd Quarter (previous year) period from 01.07.2018 to 30.09.2018 - restated	3 Quarters (previous year) period from 01.01.2018 to 30.09.2018 - restated
Net profit	356 435	830 009	291 015	996 665
Other comprehensive income net of tax, including:	29 446	57 562	(10 611)	15 902
Items that may be reclassified subsequently to the income statement				
Exchange differences on translation of foreign operations (net)	313	367	(75)	(8)
Cash flows hedges (net)	38 991	76 654	(6 158)	14 078
Share of other comprehensive income of entities under the equity method (net)	(673)	(4 716)	336	517
Debt instruments at fair value through other comprehensive income (net)	(9 185)	(14 743)	(4 714)	1 315
Items that will not be reclassified to the income statement				
Actuarial gains and losses relating to post-employment benefits (net)	-	-	-	-
Total comprehensive income (net)	385 881	887 571	280 404	1 012 567

mBank S.A. stand-alone financial information

Statement of financial position

ASSETS	30.09.2019	31.12.2018
Cash and balances with the Central Bank	8 335 497	9 182 971
Financial assets held for trading and derivatives held for hedges	2 216 621	2 126 112
Non-trading financial assets mandatorily at fair value through profit or loss, including:	2 167 261	2 567 330
<i>Equity instruments</i>	69 804	12 226
<i>Debt securities</i>	128 985	58 130
<i>Loans and advances to customers</i>	1 968 472	2 496 974
Financial assets at fair value through other comprehensive income	30 396 992	28 173 110
Financial assets at amortised cost, including:	102 708 997	91 111 844
<i>Debt securities</i>	10 297 536	9 000 540
<i>Loans and advances to credit institutions</i>	9 315 019	5 909 341
<i>Loans and advances to customers</i>	83 096 442	76 201 963
Fair value changes of the hedged items in portfolio hedge of interest rate risk	63	-
Investments in subsidiaries	2 237 963	2 300 324
Intangible assets	753 700	693 210
Tangible assets	963 894	537 001
Current income tax assets	7 946	9 336
Deferred income tax assets	208 378	295 347
Other assets	572 913	652 585
Total Assets	150 570 225	137 649 170
LIABILITIES AND EQUITY		
Liabilities		
Financial liabilities held for trading and derivatives held for hedges	1 101 119	1 016 214
Financial liabilities measured at amortised cost, including:	130 040 398	118 342 044
<i>Amounts due to banks</i>	2 604 691	3 136 771
<i>Amounts due to customers</i>	121 437 362	109 873 386
<i>Debt securities issued</i>	3 472 128	2 857 724
<i>Subordinated liabilities</i>	2 526 217	2 474 163
Provisions	442 715	255 882
Current income tax liabilities	31 029	244 389
Deferred income tax liabilities	85	83
Other liabilities	2 884 657	2 615 515
Total liabilities	134 500 003	122 474 127
Equity		
Share capital:	3 579 068	3 574 686
Registered share capital	169 394	169 348
Share premium	3 409 674	3 405 338
Retained earnings:	12 256 810	11 423 575
- Profit from the previous years	11 426 801	10 106 090
- Profit for the current year	830 009	1 317 485
Other components of equity	234 344	176 782
Total equity	16 070 222	15 175 043
Total liabilities and equity	150 570 225	137 649 170
Total capital ratio	23.26	24.20
Common Equity Tier 1 capital ratio	19.80	20.46
Book value	16 070 222	15 175 043
Number of shares	42 348 437	42 336 982
Book value per share (in PLN)	379.48	358.43

Changes from 1 January to 30 September 2019

	Share capital		Retained earnings					Other components of equity					Total equity
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	Exchange differences on translation of foreign operations	Valuation of financial assets at fair value through other comprehensive income	Cash flows hedges	Share in profits (losses) of entities under the equity method	Actuarial gains and losses relating to post-employment benefits	
Equity as at 1 January 2019	169 348	3 405 338	9 216 652	22 452	1 115 143	1 069 328	-	(5 160)	104 292	83 643	3 120	(9 113)	15 175 043
Total comprehensive income	-	-	-	-	-	-	830 009	367	(14 743)	76 654	(4 716)	-	887 571
Issuance of ordinary shares	46	-	-	-	-	-	-	-	-	-	-	-	46
Stock option program for employees	-	4 336	-	3 226	-	-	-	-	-	-	-	-	7 562
- value of services provided by the employees	-	-	-	7 562	-	-	-	-	-	-	-	-	7 562
- settlement of exercised options	-	4 336	-	(4 336)	-	-	-	-	-	-	-	-	-
Equity as at 30 September 2019	169 394	3 409 674	9 216 652	25 678	1 115 143	1 069 328	830 009	(4 793)	89 549	160 297	(1 596)	(9 113)	16 070 222

Changes from 1 January to 31 December 2018

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

Changes from 1 January to 30 September 2018 - restated

	Share capital		Retained earnings					Other components of equity					Total equity
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	Exchange differences on translation of foreign operations	Valuation of financial assets at fair value through other comprehensive income	Cash flows hedges	Share in profits (losses) of entities under the equity method	Actuarial gains and losses relating to post-employment benefits	
Equity as at 1 January 2018	169 248	3 394 928	7 145 517	22 638	1 115 143	2 289 043	-	(5 336)	164 413	(5 198)	3 770	(6 605)	14 287 561
Effects of IFRS 9 implementation	-	-	-	-	-	(248 158)	-	-	(44 857)	-	-	-	(293 015)
Restated equity as at 1 January 2018	169 248	3 394 928	7 145 517	22 638	1 115 143	2 040 885	-	(5 336)	119 556	(5 198)	3 770	(6 605)	13 994 546
Total comprehensive income	-	-	-	-	-	-	996 665	(8)	1 315	14 078	517	-	1 012 567
Issuance of ordinary shares	82	-	-	-	-	-	-	-	-	-	-	-	82
Dividends	-	-	-	-	-	(217 907)	-	-	-	-	-	-	(217 907)
Transfer to supplementary capital	-	-	2 071 135	-	-	(2 071 135)	-	-	-	-	-	-	-
Stock option program for employees	-	8 383	-	184	-	-	-	-	-	-	-	-	8 567
- value of services provided by the employees	-	-	-	8 567	-	-	-	-	-	-	-	-	8 567
- settlement of exercised options	-	8 383	-	(8 383)	-	-	-	-	-	-	-	-	-
Equity as at 30 September 2018	169 330	3 403 311	9 216 652	22 822	1 115 143	(248 157)	996 665	(5 344)	120 871	8 880	4 287	(6 605)	14 797 855

mBank S.A. stand-alone financial information

Statement of cash flows

	Period from 01.01.2019 to 30.09.2019	Period from 01.01.2018 to 30.09.2018 - restated
Profit before income tax	1 170 655	1 269 881
Adjustments:	1 569 563	3 820 925
Income taxes paid	(471 363)	(358 859)
Amortisation	239 520	169 018
Foreign exchange (gains) losses related to financing activities	196 117	285 339
(Gains) losses on investing activities	174 649	(168 922)
Dividends received	(320 024)	(195 169)
Interest income (income statement)	(3 334 310)	(2 914 703)
Interest expense (income statement)	684 047	643 488
Interest received	3 483 815	3 128 648
Interest paid	(733 678)	(592 575)
Changes in loans and advances to banks	(316 372)	774 312
Changes in financial assets and liabilities held for trading and derivatives held for hedges	(110 039)	(1 404 364)
Changes in loans and advances to customers	(8 977 621)	(5 390 684)
Changes in financial assets at fair value through other comprehensive income	132 063	(1 537 563)
Changes in securities at amortised cost	(1 269 668)	(336 253)
Changes of non-trading equity securities mandatorily at fair value through profit or loss	(128 433)	(17 617)
Changes in other assets	82 410	(212 468)
Changes in amounts due to banks	28 205	18 877
Changes in amounts due to customers	11 699 986	11 911 626
Changes in debt securities in issue	40 120	3 026
Changes in provisions	186 833	31 548
Changes in other liabilities	283 306	(15 780)
A. Cash flows from operating activities	2 740 218	5 090 806
Disposal of shares in subsidiaries	-	100
Disposal of intangible assets and tangible fixed assets	5 551	238
Dividends received	320 024	195 169
Acquisition of shares in subsidiaries	-	(17 512)
Purchase of intangible assets and tangible fixed assets	(231 493)	(282 846)
B. Cash flows from investing activities	94 082	(104 851)
Proceeds from loans and advances from banks	-	187 200
Proceeds from other loans and advances	544 735	648 378
Issue of debt securities	476 036	2 812 921
Issue of ordinary shares	46	82
Repayments of loans and advances from banks	(560 027)	(1 996 975)
Repayments of other loans and advances	(1 058 369)	(213 725)
Acquisition of shares in subsidiaries - increase of involvement	(150 000)	(1 300)
Payments of financial lease liabilities	n/a	(4 484)
Payments of lease liabilities	(82 422)	n/a
Dividends and other payments to shareholders	-	(217 907)
Interest paid from loans and advances received from banks and subordinated liabilities	(66 760)	(78 844)
C. Cash flows from financing activities	(896 761)	1 135 346
Net increase / decrease in cash and cash equivalents (A+B+C)	1 937 539	6 121 301
Effects of exchange rate changes on cash and cash equivalents	40 594	(46 405)
Cash and cash equivalents at the beginning of the reporting period	10 597 670	9 750 574
Cash and cash equivalents at the end of the reporting period	12 575 803	15 825 470

Explanatory notes to the consolidated financial statements

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

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

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

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

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

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

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

mBank S.A., the parent entity

mBank S.A. was established under the name of Bank Rozwoju Eksportu SA by Resolution of the Council of Ministers N° 99 of 20 June 1986. The Bank was registered pursuant to the legally valid decision of the District Court for the Capital City of Warsaw, 16th Economic Registration Division, on 23 December 1986 in the Business Register under the number RHB 14036. The 9th 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, 12th 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 26th Annual General Meeting of mBank S.A., which was held on 11 April 2013. With the registration of changes in By-laws, the name of the Bank has changed from the current BRE Bank Spółka Akcyjna on mBank Spółka Akcyjna (abbreviated mBank S.A.).

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

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

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

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

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

As at 30 September 2019 the headcount of mBank S.A. amounted to 6 020 FTEs (Full Time Equivalents) and of the Group to 6 704 FTEs (30 September 2018: Bank 5 772 FTEs, Group 6 447 FTEs).

As at 30 September 2019 the employment in mBank S.A. was 7 057 persons and in the Group 9 253 persons (30 September 2018: Bank 6 706 persons, Group 8 658 persons).

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

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

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

Financial Markets

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

Retail Banking Segment (including Private Banking)

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

Other

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

Other information concerning companies of the Group

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

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

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

Company	30.09.2019		31.12.2018		30.09.2018	
	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method
mBank Hipoteczny S.A.	100%	full	100%	full	100%	full
mLeasing Sp. z o.o.	100%	full	100%	full	100%	full
mFinanse S.A.	100%	full	100%	full	100%	full
mFactoring S.A.	100%	full	100%	full	100%	full
mFinance France S.A.	99.998%	full	99.998%	full	99.998%	full
Future Tech Fundusz Inwestycyjny Zamknięty	98.04%	full	98.04%	full	98.04%	full
Tele-Tech Investment Sp. z o.o.	100%	full	100%	full	100%	full
mCentrum Operacji Sp. z o.o. w likwidacji	100%	full	100%	full	100%	full
BDH Development Sp. z o.o.	100%	full	100%	full	100%	full
Garbary Sp. z o.o.	100%	full	100%	full	100%	full
Asekum Sp. z o.o.	100%	full	100%	full	-	-
LeaseLink Sp. z o.o.	100%	full	-	-	-	-

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

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

The Management Board of mBank S.A. approved these condensed consolidated financial statements for issue on 29 October 2019.

2. Description of relevant accounting policies

Accounting basis

The Condensed Consolidated Financial Statements of mBank S.A. Group have been prepared for the 9-month period ended 30 September 2019. Comparative data include the period from 1 January 2018 to 30 September 2018 for the condensed consolidated income statement, condensed consolidated statement of comprehensive income, the condensed consolidated statement of cash flows and condensed consolidated statement of changes in equity, additionally for the period from 1 January to 31 December 2018 for the condensed consolidated statement of changes in equity, and in the case of the condensed consolidated statement of financial position, data as at 31 December 2018.

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

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

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

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

material class of similar positions. The Group presents separately positions of dissimilar nature or function unless they are immaterial.

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

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

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

New standards, interpretations and amendments to published standards

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

IFRS 16 Leases

The Standard was issued by International Accounting Standards Board (IASB) on 13 January 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 31 December 2018: IAS 17 Leasing, IFRIC Interpretation 4 and SIC Interpretations 15 and 27.

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

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

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

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

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

Impact of IFRS 16 on financial statements

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

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

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

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

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

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

Description of adjustments

(a) Recognition of leasing liabilities

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

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

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

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

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

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

(b) Recognition of right-of-use assets

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

The cost of right-of-use assets includes:

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

(c) Application of estimates

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

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

(d) The use of practical simplifications

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

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

Impact on the consolidated statement of financial position of mBank Group

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

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

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

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

Impact on the stand-alone statement of financial position of mBank S.A.

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

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

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

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

Impact on the income statement

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

Impact on equity

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

Impact on capital ratios

Due to the inclusion of lease agreements in the Group's balance sheet as at 1 January 2019, the total amount of risk exposures increased, and thus the total capital ratio of the Group decreased by ca. 15 basis points (total capital ratio of the Bank decreased by ca. 19 basis points).

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

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

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

Standards and interpretations not yet approved by the European Union:

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

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

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

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

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

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

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

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

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

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

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

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

- Amendments to IFRS 9, IAS 39 and IFRS 7, Interest Rate Benchmark Reform, published by International Accounting Standards Board on 26 September 2019, binding for annuals periods starting on or after 1 January 2020.

The Group is currently analyzing the impact of these changes on the financial statements.

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

Comparative data

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

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

The portfolio of loans and advances granted to customers in the carrying amount of PLN 447 793 thousand as at 30 September 2018, composed mainly of credit cards whose interest structure was based on the quadrupled lombard rate, was recorded in "Non-trading financial assets measured at fair value through profit or loss." Before, the portfolio was recorded in "Financial assets measured at amortised cost". In view of the emerging market practice, the bank ultimately decided to classify the portfolio as measured at fair value through profit or loss. The difference between the fair value of this portfolio and the value at amortized cost was immaterial, therefore the Group did not adjust the value of this portfolio as at 30 September 2018.

Due to the change in the classification of this portfolio, interest income on these loans for the three quarters of 2018 in the amount of PLN 27 475 thousand was transferred from the item "Interest income accounted for using the effective interest method - Interest income on financial assets at amortized cost - Loans and advances" to item "Income similar to interest on financial assets at fair value through profit or loss - Non-trading financial assets mandatorily measured at fair value through profit or loss - Loans and advances".

Impairment of these loans in the amount of PLN 4 367 thousand, included in the income statement for the three quarters of 2018 in the item "Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss - Financial assets at amortized cost - Loans and advances" have been transferred to "Gains and losses on financial assets not held for trading that are compulsorily measured at fair value through profit or loss - Loans and advances".

- b) classification of the retail mortgage loan portfolio to be measured at fair value through other comprehensive income - the correction applies only to the Bank's stand-alone data

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

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

- financial assets valued at amortized cost - PLN 2 466 715 thousand,
- financial assets held for trading at fair value through profit or loss - PLN 1 455 655 thousand.

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

Due to reclassification of loans and advances portfolio, interest income related to the loans previously classified as assets held for trading valued at fair value through profit or loss for the three quarters of 2018 in the amount of PLN 19 148 thousand, was transferred from item "Income similar to interest on financial assets at fair value through profit or loss - Financial assets held for trading - Loans and advances" to item "Interest income accounted for using the effective interest method - Interest income on financial assets at fair value through other comprehensive income - Loans and advances".

The valuation of the loans previously classified as assets held for trading measured at fair value through profit or loss for the three quarters of 2018 in the amount of minus PLN 1 178 thousand, recognized in the Income statement as "Net trading income - Gains or losses on financial assets and liabilities held for trading - Loans and advances" was transferred to the item "Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss - Financial assets at fair value through other comprehensive income - Loans and advances".

c) reclassification of VISA's preference shares

The preferred shares in VISA with a fair value of PLN 64 653 thousand as at 30 September 2018 were moved from "Financial assets measured at fair value through other comprehensive income" to "Non-trading financial assets measured at fair value through profit or loss" as, according to IAS 32, they do not match the definition of an equity instrument. Due to its characteristics, the instrument fails the SPPI test. The adjustment of the comparative data as at 30 September of 2018 resulted in the transfer of the valuation of these instruments in the net amount of PLN 25 254 thousand being moved from "Other components of equity" to the "Profit from the previous years" in the amount of PLN 12 021 thousand and the current result to the item "Gains or losses on non-trading financial assets mandatorily measured at fair value through profit or loss - Debt securities" in the amount of PLN 16 339 thousand and "Income tax" in the amount minus PLN 3 106 thousand.

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

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

In accordance with the requirements of IFRS 15, the Group has netted fees and commissions income from card organizations for the period from 1 January to 30 September 2018 in the amount of PLN 27 228 thousand, which constituted the reimbursement of costs incurred by the Bank, with fees and commissions expenses. The change did not affect the result on fees and commissions.

b) netting revenues and costs due to fees and commissions related to car fleet management - the correction applies only to consolidated data of the Group

In accordance with the requirements of IFRS 15, the Group decreased by PLN 8 106 thousand fees and commissions expenses for the period from 1 January to 30 September 2018, i.e. by the amount of fees and commissions income related to the leasing car fleet management, which were reimbursed to the Group. The change did not affect the result on fees and commissions.

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

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

	Period from 01.01.2018 to 30.09.2018 before restatement	Adjustments	Period from 01.01.2018 to 30.09.2018 after restatement
Interest income, including:	3 325 027	-	3 325 027
<i>Interest income accounted for using the effective interest method</i>	2 853 572	(27 475)	2 826 097
<i>Income similar to interest on financial assets at fair value through profit or loss</i>	471 455	27 475	498 930
Interest expenses	(751 882)	-	(751 882)
Net interest income	2 573 145	-	2 573 145
Fee and commission income	1 265 906	(35 334)	1 230 572
Fee and commission expenses	(509 302)	35 334	(473 968)
Net fee and commission income	756 604	-	756 604
Dividend income	3 336	-	3 336
Net trading income, including:	241 462	-	241 462
<i>Foreign exchange result</i>	220 714	-	220 714
<i>Gains or losses on financial assets and liabilities held for trading</i>	31 691	-	31 691
<i>Gains or losses from hedge accounting</i>	(10 943)	-	(10 943)
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	(91 875)	11 972	(79 903)
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates, including:	8 056	-	8 056
<i>Gains less losses from debt securities measured at fair value through other comprehensive income</i>	7 347	-	7 347
<i>Gains less losses from investments in subsidiaries and associates</i>	(22)	-	(22)
<i>Gains less losses from derecognition</i>	731	-	731
Other operating income	352 194	-	352 194
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(432 089)	4 367	(427 722)
Overhead costs	(1 453 960)	-	(1 453 960)
Depreciation	(187 215)	-	(187 215)
Other operating expenses	(136 062)	-	(136 062)
Operating profit	1 633 596	16 339	1 649 935
Tax on the Bank's balance sheet items	(300 129)	-	(300 129)
Share in profits (losses) of entities under the equity method	896	-	896
Profit before income tax	1 334 363	16 339	1 350 702
Income tax expense	(350 685)	(3 106)	(353 791)
Net profit	983 678	13 233	996 911
Net profit attributable to:			
- Owners of mBank S.A.	983 714	13 233	996 947
- Non-controlling interests	(36)	-	(36)
Earnings per share (in PLN)	23.25	0.31	23.56
Diluted earnings per share (in PLN)	23.23	0.32	23.55

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

	Period from 01.01.2018 to 30.09.2018 before restatement	Adjustments	Period from 01.01.2018 to 30.09.2018 after restatement
Net profit	983 678	13 233	996 911
Other comprehensive income net of tax, including:	30 211	(13 233)	16 978
Items that may be reclassified subsequently to the income statement			
Exchange differences on translation of foreign operations (net)	17	-	17
Cash flows hedges (net)	14 078	-	14 078
Change in valuation of debt instruments at fair value through other comprehensive income (net)	2 883	-	2 883
Items that will not be reclassified to the income statement			
Fair value changes of equity instruments measured at fair value through other comprehensive income (net)	13 233	(13 233)	-
Total comprehensive income (net)	1 013 889	-	1 013 889
Total comprehensive income (net), attributable to:			
- Owners of mBank S.A.	1 013 925	-	1 013 925
- Non-controlling interests	(36)	-	(36)

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

ASSETS	30.09.2018 before restatement	Adjustments	30.09.2018 after restatement
Non-trading financial assets mandatorily at fair value through profit or loss, including:	2 554 340	512 446	3 066 786
<i>Debt securities</i>	-	64 653	64 653
<i>Loans and advances to customers</i>	2 478 570	447 793	2 926 363
Financial assets at fair value through other comprehensive income	25 153 377	(64 653)	25 088 724
Financial assets at amortised cost, including:	102 153 244	(447 793)	101 705 451
<i>Loans and advances to customers</i>	88 826 966	(447 793)	88 379 173
Other items of assets	16 795 356	-	16 795 356
Total assets	146 656 317	-	146 656 317
Equity			
Equity attributable to Owners of mBank S.A.	14 800 400	-	14 800 400
Share capital	3 572 641	-	3 572 641
Retained earnings	11 080 055	25 254	11 105 309
Profit from the previous years	10 096 341	12 021	10 108 362
Profit for the current year	983 714	13 233	996 947
Other components of equity	147 704	(25 254)	122 450
Non-controlling interests	2 154	-	2 154
Total equity	14 802 554	-	14 802 554
Total liabilities	131 853 763	-	131 853 763
Total liabilities and equity	146 656 317	-	146 656 317

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

Period	from 01.01.2018 to 30.09.2018 before restatement	Adjustments	from 01.01.2018 to 30.09.2018 after restatement
Profit before income tax	1 334 363	16 339	1 350 702
Adjustments:	2 000 735	(16 339)	1 984 396
Income taxes paid	(482 918)	-	(482 918)
Amortisation, including amortisation of fixed assets provided under operating lease	220 439	-	220 439
Foreign exchange (gains) losses related to financing activities	344 803	-	344 803
(Gains) losses on investing activities	(254 942)	(16 339)	(271 281)
Dividends received	(3 336)	-	(3 336)
Interest income (income statement)	(3 325 027)	-	(3 325 027)
Interest expense (income statement)	751 882	-	751 882
Interest received	3 493 180	-	3 493 180
Interest paid	(551 250)	-	(551 250)
Changes in loans and advances to banks	418	-	418
Changes in financial assets and liabilities held for trading and derivatives held for hedges	81 136	-	81 136
Changes in loans and advances to customers	(7 123 947)	-	(7 123 947)
Changes in financial assets at fair value through other comprehensive income	(1 905 639)	16 339	(1 889 300)
Changes in securities at amortised cost	(336 253)	-	(336 253)
Changes of non-trading equity securities mandatorily at fair value through profit or loss	(16 383)	(16 339)	(32 722)
Changes in other assets	(287 341)	-	(287 341)
Changes in amounts due to other banks	(23 871)	-	(23 871)
Changes in amounts due to customers	10 912 666	-	10 912 666
Changes in debt securities in issue	273 990	-	273 990
Changes in provisions	31 341	-	31 341
Changes in other liabilities	201 787	-	201 787
A. Cash flows from operating activities	3 335 098	-	3 335 098
B. Cash flows from investing activities	62 557	-	62 557
C. Cash flows from financing activities	2 699 354	-	2 699 354
Net increase / decrease in cash and cash equivalents (A+B+C)	6 097 009	-	6 097 009
Effects of exchange rate changes on cash and cash equivalents	(46 404)	-	(46 404)
Cash and cash equivalents at the beginning of the reporting period	9 824 260	-	9 824 260
Cash and cash equivalents at the end of the reporting period	15 874 865	-	15 874 865

Stand-alone data of the Bank

Restatements in the income statement of mBank S.A.

	Period from 01.01.2018 to 30.09.2018 before restatement	Adjustments	Period from 01.01.2018 to 30.09.2018 after restatement
Interest income, including:	2 914 703	-	2 914 703
<i>Interest income accounted for using the effective interest method</i>	2 467 418	(8 327)	2 459 091
<i>Income similar to interest on financial assets at fair value through profit or loss</i>	447 285	8 327	455 612
Interest expenses	(643 488)	-	(643 488)
Net interest income	2 271 215	-	2 271 215
Fee and commission income	1 131 448	(27 228)	1 104 220
Fee and commission expenses	(445 858)	27 228	(418 630)
Net fee and commission income	685 590	-	685 590
Dividend income	195 169	-	195 169
Net trading income, including:	249 562	(1 178)	248 384
<i>Foreign exchange result</i>	218 486	-	218 486
<i>Gains or losses on financial assets and liabilities held for trading</i>	37 959	(1 178)	36 781
<i>Gains or losses from hedge accounting</i>	(6 883)	-	(6 883)
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	(89 215)	11 972	(77 243)
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates, including:	3 729	-	3 729
<i>Gains less losses from debt securities measured at fair value through other comprehensive income</i>	7 576	-	7 576
<i>Gains less losses from investments in subsidiaries and associates</i>	(22)	-	(22)
<i>Gains less losses from derecognition</i>	(3 825)	-	(3 825)
Other operating income	33 020	-	33 020
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(382 513)	5 545	(376 968)
Overhead costs	(1 295 999)	-	(1 295 999)
Depreciation	(169 018)	-	(169 018)
Other operating expenses	(113 696)	-	(113 696)
Operating profit	1 387 844	16 339	1 404 183
Tax on the Bank's balance sheet items	(279 402)	-	(279 402)
Share in profits (losses) of entities under the equity method	145 100	-	145 100
Profit before income tax	1 253 542	16 339	1 269 881
Income tax expense	(270 110)	(3 106)	(273 216)
Net profit	983 432	13 233	996 665
Earnings per share (in PLN)	23.24	0.31	23.55
Diluted earnings per share (in PLN)	23.23	0.31	23.54

Restatements in the stand-alone statement of comprehensive income of mBank S.A.

	Period from 01.01.2018 to 30.09.2018 before restatement	Adjustments	Period from 01.01.2018 to 30.09.2018 after restatement
Net profit	983 432	13 233	996 665
Other comprehensive income net of tax, including:	29 135	(13 233)	15 902
Items that may be reclassified subsequently to the income statement			
Exchange differences on translation of foreign operations (net)	(8)	-	(8)
Cash flows hedges (net)	14 078	-	14 078
Share of other comprehensive income of entities under the equity method (net)	517	-	517
Debt instruments at fair value through other comprehensive income (net)	1 315	-	1 315
Items that will not be reclassified to the income statement			
Fair value changes of equity instruments measured at fair value through other comprehensive income (net)	13 233	(13 233)	-
Total comprehensive income (net)	1 012 567	-	1 012 567

Restatements in the stand-alone statement of financial position of mBank S.A.

ASSETS	30.09.2018 before restatement	Adjustments	30.09.2018 after restatement
Financial assets held for trading and derivatives held for hedges	5 129 042	(1 455 655)	3 673 387
Non-trading financial assets mandatorily at fair value through profit or loss, including:	2 278 105	512 446	2 790 551
<i>Debt securities</i>	-	64 653	64 653
<i>Loans and advances to customers</i>	2 266 893	447 793	2 714 686
Financial assets at fair value through other comprehensive income	24 193 506	3 857 717	28 051 223
Financial assets at amortised cost, including:	92 894 371	(2 914 508)	89 979 863
<i>Loans and advances to customers</i>	76 325 459	(2 914 508)	73 410 951
Other items of assets	13 941 023	-	13 941 023
Total assets	138 436 047	-	138 436 047
Equity			
Share capital	3 572 641	-	3 572 641
Retained earnings:	11 077 871	25 254	11 103 125
- Profit from the previous years	10 094 439	12 021	10 106 460
- Profit for the current year	983 432	13 233	996 665
Other components of equity	147 343	(25 254)	122 089
Total equity	14 797 855	-	14 797 855
Total liabilities	123 638 192	-	123 638 192
Total liabilities and equity	138 436 047	-	138 436 047

Restatements in the stand-alone cash flow statement of mBank S.A.

Period	from 01.01.2018 to 30.09.2018 before restatement	Adjustments	from 01.01.2018 to 30.09.2018 after restatement
Profit before income tax	1 253 542	16 339	1 269 881
Adjustments:	3 837 264	(16 339)	3 820 925
Income taxes paid	(358 859)	-	(358 859)
Amortisation	169 018	-	169 018
Foreign exchange (gains) losses related to financing activities	285 339	-	285 339
(Gains) losses on investing activities	(152 583)	(16 339)	(168 922)
Dividends received	(195 169)	-	(195 169)
Interest income (income statement)	(2 914 703)	-	(2 914 703)
Interest expense (income statement)	643 488	-	643 488
Interest received	3 128 648	-	3 128 648
Interest paid	(592 575)	-	(592 575)
Changes in loans and advances to banks	774 312	-	774 312
Changes in financial assets and liabilities held for trading and derivatives held for hedges	(1 404 364)	-	(1 404 364)
Changes in loans and advances to customers	(5 390 684)	-	(5 390 684)
Changes in financial assets at fair value through other comprehensive income	(1 553 902)	16 339	(1 537 563)
Changes in securities at amortised cost	(336 253)	-	(336 253)
Changes of non-trading equity securities mandatorily at fair value through profit or loss	(1 278)	(16 339)	(17 617)
Changes in other assets	(212 468)	-	(212 468)
Changes in amounts due to other banks	18 877	-	18 877
Changes in amounts due to customers	11 911 626	-	11 911 626
Changes in debt securities in issue	3 026	-	3 026
Changes in provisions	31 548	-	31 548
Changes in other liabilities	(15 780)	-	(15 780)
A. Cash flows from operating activities	5 090 806	-	5 090 806
B. Cash flows from investing activities	(104 851)	-	(104 851)
C. Cash flows from financing activities	1 135 346	-	1 135 346
Net increase / decrease in cash and cash equivalents (A+B+C)	6 121 301	-	6 121 301
Effects of exchange rate changes on cash and cash equivalents	(46 405)	-	(46 405)
Cash and cash equivalents at the beginning of the reporting period	9 750 574	-	9 750 574
Cash and cash equivalents at the end of the reporting period	15 825 470	-	15 825 470

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

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

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

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

Impairment of loans and advances

The Group reviews its loan portfolio in terms of possible impairments at least once per quarter. In order to determine whether any impairment loss should be recognised in the income statement, the Group assesses whether any evidence exists that would indicate some measurable reduction of estimated future cash flows attached to the loan portfolio. The methodology and the assumptions (on the basis of which the estimated cash flow amounts and their anticipated timing are determined) are regularly verified. If the current value of estimated cash flows for portfolio of loans and advances which are impaired, change by +/-10%, the estimated loans and advances impairment would either decrease by PLN 55.5 million or increase by PLN 65.9 million as at 30 September 2019, respectively (as at 31 December 2018: PLN 51.3 million and PLN 64.2 million, respectively). This estimation was performed for portfolio of loans and advances individually assessed for impairment on the basis of future cash flows due to repayments and recovery from collateral. The rules of determining write-downs and provisions for impairment of credit exposures have been described under Note 3.4.6

to the Consolidated Financial Statements of mBank S.A. Group for 2018, published on 27 February 2019.

Provisions for legal risks

Provisions for legal proceedings are recognized for the value in dispute and other costs on each reporting date based on an estimate of the probability of loss. However, the Group's final liability may differ from the provisions that have been recognized, as a high degree of judgement is involved in assessing the probability of uncertain liabilities in such legal proceedings and quantifying them. These estimates may turn out to be inaccurate at a later stage of the proceedings.

The Group closely observes the developments in courts verdicts in legal proceedings regarding mortgage and housing loans in CHF, including impact of the CJEU judgment described in Point 26 of Selected explanatory information "Proceedings before a court, arbitration body or public administration authority". As too few binding verdicts have been issued by Polish courts since the date of the CJEU ruling the Group was not in a possession of sufficient information to assess a change in outcome of those legal proceedings. However, given the recent development concerning the above issues the Management Board of the Bank decided to increase the level of provisions related to indexation clauses in CHF loan agreements from PLN 66.1 million as of 30 June 2019 to PLN 132.2 million as of 30 September 2019. The Group will monitor these issues in subsequent periods and will appropriately take into account the potential impact of changes in court rulings.

Fair value of derivatives and other financial instruments

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

Deferred tax assets

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

Income tax in interim financial statements

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

The calculation of the average annual effective income tax rate requires the use of a pre-tax income forecast for the entire fiscal year and permanent differences between the carrying amounts of assets and liabilities and their tax base. The projected annual effective tax rate used to calculate the income tax expense during the three quarters of 2019 was 30.6%.

Revenue and expenses from sale of insurance products bundled with loans

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

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

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

Liabilities due to post-employment employee benefits

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

Leasing classification

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

4. Business segments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	Corporates & Financial Markets		Retail Banking	Other	Total figure for the Group
	Corporate and Investment Banking	Financial Markets			
Net interest income	782 671	173 471	2 032 863	3 266	2 992 271
- sales to external clients	793 809	545 425	1 651 612	1 425	2 992 271
- sales to other segments	(11 138)	(371 954)	381 251	1 841	-
Net fee and commission income	379 829	(10 903)	345 826	(11 632)	703 120
Dividend income	-	-	-	3 949	3 949
Trading income	201 203	27 687	103 396	(4 124)	328 162
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	(797)	-	21 701	29 933	50 837
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates	1 301	26 590	(129)	(4 921)	22 841
Other operating income	65 364	51	55 354	55 221	175 990
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(199 454)	992	(347 132)	(786)	(546 380)
Overhead costs	(552 312)	(68 442)	(898 870)	(5 794)	(1 525 418)
Amortisation	(77 369)	(8 878)	(185 799)	2 035	(270 011)
Other operating expenses	(50 053)	(1 062)	(168 705)	(109 106)	(328 926)
Operating profit	550 383	139 506	958 505	(41 959)	1 606 435
Taxes on Group balance sheet items	(129 693)	(24 829)	(176 505)	(50 782)	(381 809)
Gross profit of the segment	420 690	114 677	782 000	(92 741)	1 224 626
Income tax					(375 123)
Net profit attributable to Owners of mBank S.A.					849 567
Net profit attributable to non-controlling interests					(64)

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

30.09.2019	Corporates & Financial Markets		Retail Banking	Other	Total figure for the Group
	Corporate and Investment Banking	Financial Markets			
Assets of the segment	45 507 162	47 990 771	63 293 073	1 983 039	158 774 045
Liabilities of the segment	40 258 452	26 346 766	73 627 037	2 451 082	142 683 337
Expenditures incurred on fixed assets and intangible assets	166 341	10 816	147 975	180	325 312

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

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

	Corporates & Financial Markets		Retail Banking	Other	Total figure for the Group
	Corporate and Investment Banking	Financial Markets			
Net interest income	678 791	192 505	1 695 204	6 645	2 573 145
- sales to external clients	688 528	494 114	1 385 186	5 317	2 573 145
- sales to other segments	(9 737)	(301 609)	310 018	1 328	-
Net fee and commission income	346 166	(6 863)	421 294	(3 993)	756 604
Dividend income	-	4	-	3 332	3 336
Trading income	188 089	(39 031)	93 657	(1 253)	241 462
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	(11 855)	-	(84 334)	16 286	(79 903)
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates	213	8 243	-	(400)	8 056
Other operating income	60 769	1 230	282 848	7 347	352 194
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(172 493)	520	(255 361)	(388)	(427 722)
Overhead costs	(505 303)	(76 952)	(862 407)	(9 298)	(1 453 960)
Amortisation	(60 358)	(8 560)	(117 257)	(1 040)	(187 215)
Other operating expenses	(32 767)	(1 965)	(88 047)	(13 283)	(136 062)
Operating profit	491 252	69 131	1 085 597	3 955	1 649 935
Taxes on Group balance sheet items	(114 768)	(28 154)	(152 968)	(4 239)	(300 129)
Share in profits (losses) of entities under the equity method	-	-	-	896	896
Gross profit of the segment	376 484	40 977	932 629	612	1 350 702
Income tax					(353 791)
Net profit attributable to Owners of mBank S.A.					996 947
Net profit attributable to non-controlling interests					(36)

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

	from 1 January to 30 September 2019			from 1 January to 30 September 2018		
	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total
Net interest income	2 811 266	181 005	2 992 271	2 436 346	136 799	2 573 145
Net fee and commission income	692 515	10 605	703 120	740 745	15 859	756 604
Dividend income	3 949	-	3 949	3 336	-	3 336
Trading income	321 121	7 041	328 162	234 886	6 576	241 462
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	50 837	-	50 837	(79 903)	-	(79 903)
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates	22 841	-	22 841	8 056	-	8 056
Other operating income	170 962	5 028	175 990	351 034	1 160	352 194
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(537 668)	(8 712)	(546 380)	(411 905)	(15 817)	(427 722)
Overhead costs	(1 430 545)	(94 873)	(1 525 418)	(1 360 508)	(93 452)	(1 453 960)
Amortisation	(260 249)	(9 762)	(270 011)	(184 040)	(3 175)	(187 215)
Other operating expenses	(325 808)	(3 118)	(328 926)	(133 963)	(2 099)	(136 062)
Operating profit	1 519 221	87 214	1 606 435	1 604 084	45 851	1 649 935
Taxes on Group balance sheet items	(362 250)	(19 559)	(381 809)	(282 459)	(17 670)	(300 129)
Share in profits (losses) of entities under the equity method	-	-	-	896	-	896
Gross profit of the segment	1 156 971	67 655	1 224 626	1 322 521	28 181	1 350 702
Income tax			(375 123)			(353 791)
Net profit attributable to Owners of mBank S.A.			849 567			996 947
Net profit attributable to non-controlling interests			(64)			(36)

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

	30.09.2019			31.12.2018		
	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total
Assets of the segment, including:	151 179 026	7 595 019	158 774 045	138 339 905	7 410 214	145 750 119
- tangible assets	2 103 435	41 846	2 145 281	1 541 714	19 487	1 561 201
- deferred income tax assets	865 423	2 328	867 751	957 159	1 917	959 076
Liabilities of the segment	131 964 057	10 719 280	142 683 337	120 308 585	10 225 454	130 534 039

5. Net interest income

	the period	from 01.01.2019 to 30.09.2019	from 01.01.2018 to 30.09.2018
Interest income			
Interest income accounted for using the effective interest method		3 365 776	2 826 097
Interest income of financial assets at amortised cost, including:		3 004 292	2 464 546
- <i>Loans and advances</i>		2 793 965	2 268 271
- <i>Debt securities</i>		169 002	150 935
- <i>Cash and short-term placements</i>		42 175	41 925
- <i>Other</i>		(850)	3 415
Interest income on financial assets at fair value through other comprehensive income		361 484	361 551
- <i>Debt securities</i>		361 484	361 551
Income similar to interest on financial assets at fair value through profit or loss, including:		429 741	498 930
Financial assets held for trading		42 896	55 415
- <i>Loans and advances</i>		3 035	-
- <i>Debt securities</i>		39 861	55 415
Non-trading financial assets mandatorily at fair value through profit or loss, including:		148 598	220 383
- <i>Loans and advances</i>		148 598	220 383
Interest income on derivatives classified into banking book		142 042	135 107
Interest income on derivatives concluded under the fair value hedge		55 576	60 682
Interest income on derivatives concluded under the cash flow hedge		40 629	27 343
Total interest income		3 795 517	3 325 027

	the period	from 01.01.2019 to 30.09.2019	from 01.01.2018 to 30.09.2018
Interest expenses			
Financial liabilities measured at amortised cost, including:		(795 560)	(748 679)
- <i>Deposits</i>		(494 441)	(431 714)
- <i>Loans received</i>		(10 497)	(23 388)
- <i>Issue of debt securities</i>		(224 280)	(234 223)
- <i>Subordinated liabilities</i>		(56 985)	(52 291)
- <i>Lease agreements</i>		(2 014)	n/a
- <i>Other financial liabilities</i>		(7 343)	(7 063)
Other		(7 686)	(3 203)
Total interest expense		(803 246)	(751 882)

6. Net fee and commission income

	the period	from 01.01.2019 to 30.09.2019	from 01.01.2018 to 30.09.2018
Fee and commission income			
Payment cards-related fees		314 632	290 615
Credit-related fees and commissions		306 448	274 514
Commissions for agency service regarding sale of insurance products of external financial entities		74 324	81 069
Fees from brokerage activity and debt securities issue		65 245	79 270
Commissions from bank accounts		155 034	153 995
Commissions from money transfers		107 620	97 435
Commissions due to guarantees granted and trade finance commissions		69 309	62 411
Commissions for agency service regarding sale of other products of external financial entities		57 970	86 159
Commissions on trust and fiduciary activities		19 943	20 126
Fees from portfolio management services and other management-related fees		9 952	9 276
Fees from cash services		36 703	42 238
Other		29 163	33 464
Fee and commission income		1 246 343	1 230 572

	the period	from 01.01.2019 to 30.09.2019	from 01.01.2018 to 30.09.2018
Fee and commission expense			
Payment cards-related fees		(181 980)	(155 510)
Commissions paid to external entities for sale of the Group's products		(140 856)	(104 101)
Commissions paid for agency service regarding sale of insurance products of external financial entities		(7 342)	(2 494)
Discharged brokerage fees		(22 122)	(18 627)
Cash services		(30 140)	(36 505)
Fees to NBP and KIR		(10 035)	(8 981)
Other discharged fees		(150 748)	(147 750)
Total fee and commission expense		(543 223)	(473 968)

7. Dividend income

	the period	from 01.01.2019 to 30.09.2019	from 01.01.2018 to 30.09.2018
Trading securities		-	4
Financial assets at fair value through other comprehensive income		3 949	3 332
Total dividend income		3 949	3 336

8. Net trading income

the period	from 01.01.2019 to 30.09.2019	from 01.01.2018 to 30.09.2018
Foreign exchange result	292 802	220 714
Net exchange differences on translation	220 657	280 687
Net transaction gains/(losses)	72 145	(59 973)
Gains or losses on financial assets and liabilities held for trading	27 616	31 691
Derivatives, including:	1 877	31 180
- Interest-bearing instruments	(3 142)	24 239
- Market risk instruments	5 019	6 941
Equity instruments	-	(758)
Debt securities	26 339	1 269
Loans and advances	(600)	-
Gains or losses from hedge accounting	7 744	(10 943)
Net profit on hedged items	(211 525)	17 912
Net profit on fair value hedging instruments	219 054	(28 461)
Ineffective portion of cash flow hedge	215	(394)
Net trading income	328 162	241 462

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

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

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

the period	from 01.01.2019 to 30.09.2019	from 01.01.2018 to 30.09.2018
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss		
Equity instruments	57 559	(53)
Debt securities	65 819	16 339
Loans and advances	(72 541)	(96 189)
Total gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	50 837	(79 903)

In the item of gains on non-trading equity instruments mandatorily measured at fair value through profit or loss, the Group recognized a profit in the amount of PLN 45 058 thousand resulting from the revaluation of shares in Polski Standard Płatności Sp. z o.o., made in connection with the start of strategic cooperation with Mastercard.

The amount of PLN 65 819 thousand related to the gains on debt securities in three quarters of 2019 stems from the revaluation of VISA preference shares (presented as debt securities as they do not match the definition of an equity instrument). In connection with the verification of the value of shares and the change in the approach to the haircuts levels included in the valuation model in the third quarter of 2019, the Group recognized a profit of PLN 48 369 thousand.

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

the period	from 01.01.2019 to 30.09.2019	from 01.01.2018 to 30.09.2018
Gains less losses related to sale of debt securities measured at fair value through other comprehensive income	27 328	7 347
Gains less losses related to sale and revaluation of investments in subsidiaries and associates	(4 921)	(22)
Gains less losses from derecognition, including:	434	731
- <i>Financial assets at amortised cost</i>	434	731
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates	22 841	8 056

11. Other operating income

the period	from 01.01.2019 to 30.09.2019	from 01.01.2018 to 30.09.2018
Income from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories	110 214	51 638
Income from services provided	8 582	15 951
Net income from operating lease	1 933	5 497
Income due to release of provisions for future commitments	12 051	3 025
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	1 992	220
Income from compensations, penalties and fines received	459	142
Net revenues from the sale of an organised part of the company mFinanse S.A.	20 000	246 778
Other	20 759	28 943
Total other operating income	175 990	352 194

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

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

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

Net income from operating lease for the three quarters of 2019 and for the three quarters of 2018 is presented below.

the period	from 01.01.2019 to 30.09.2019	from 01.01.2018 to 30.09.2018
Net income from operating lease, including:		
- Income from operating lease	38 396	38 721
- Depreciation cost of fixed assets provided under operating lease	(36 463)	(33 224)
Total net income from operating lease	1 933	5 497

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

the period	from 01.01.2019 to 30.09.2019	from 01.01.2018 to 30.09.2018
Financial assets at amortised cost, including:	(528 018)	(425 286)
- Debt securities	9	-
<i>Stage 1</i>	9	-
- Loans and advances	(528 027)	(425 286)
<i>Stage 1</i>	(101 769)	(82 699)
<i>Stage 2</i>	(70 954)	(30 183)
<i>Stage 3</i>	(359 149)	(309 976)
<i>POCI</i>	3 845	(2 428)
Financial assets at fair value through other comprehensive income	(296)	(2 646)
- Debt securities	(296)	(2 646)
<i>Stage 1</i>	472	(2 317)
<i>Stage 2</i>	(768)	(329)
Commitments and guarantees given	(18 066)	210
<i>Stage 1</i>	178	72
<i>Stage 2</i>	(4 370)	(154)
<i>Stage 3</i>	(11 426)	94
<i>POCI</i>	(2 448)	198
Net impairment losses on financial assets not measured at fair value through profit or loss	(546 380)	(427 722)

13. Overhead costs

the period	from 01.01.2019 to 30.09.2019	from 01.01.2018 to 30.09.2018
Staff-related expenses	(769 813)	(709 476)
Material costs, including:	(485 892)	(560 826)
- costs of administration and real estate services	(198 243)	(278 852)
- IT costs	(126 617)	(128 314)
- marketing costs	(102 235)	(92 962)
- consulting costs	(50 280)	(52 267)
- other material costs	(8 517)	(8 431)
Taxes and fees	(22 524)	(18 324)
Contributions and transfers to the Bank Guarantee Fund	(240 862)	(159 038)
Contributions to the Social Benefits Fund	(6 327)	(6 296)
Total overhead costs	(1 525 418)	(1 453 960)

Staff-related expenses for the three quarters of 2019 and for the three quarters of 2018 is presented below.

the period	from 01.01.2019 to 30.09.2019	from 01.01.2018 to 30.09.2018
Wages and salaries	(622 159)	(577 690)
Social security expenses	(107 768)	(98 593)
Employee contributions related to post-employment benefits	-	(30)
Remuneration concerning share-based payments, including:	(8 042)	(8 989)
- share-based payments settled in mBank S.A. shares	(7 562)	(8 567)
- cash-settled share-based payments	(480)	(422)
Other staff expenses	(31 844)	(24 174)
Staff-related expenses, total	(769 813)	(709 476)

14. Other operating expenses

the period	from 01.01.2019 to 30.09.2019	from 01.01.2018 to 30.09.2018
Costs arising from sale or liquidation of fixed assets, intangible assets, assets held for resale and inventories	(93 554)	(27 600)
Provisions for future commitments	(143 367)	(39 616)
Costs arising from provisions created for other receivables (excluding loans and advances)	(233)	(1 247)
Donations made	(2 606)	(10 127)
Costs of sale of services	(275)	(152)
Compensation, penalties and fines paid	(2 214)	(1 554)
Costs arising from receivables and liabilities recognised as prescribed, remitted and uncollectible	(9)	(119)
Debt collection expenses	(20 275)	(25 392)
Other operating costs	(66 393)	(30 255)
Total other operating expenses	(328 926)	(136 062)

Provisions for future liabilities include the cost of increasing provisions for litigation in the amount of PLN 98 567 thousand, which mostly concerned court cases related to loans in CHF (detailed description under point 26 Selected explanatory information).

During the three quarters of 2019 the item "Other operating expenses" includes a cost in the amount of PLN 25 516 thousand, created as a result of the Bank's decision to select an alternative method of taxing with income tax the interest paid by the Bank in relation to bonds issued before 1 January 2019 on foreign public markets under the EMTN program.

Costs of services provided concern non-banking services.

15. Earnings per share

Earnings per share for 9 months– mBank S.A. Group consolidated data

the period	from 01.01.2019 to 30.09.2019	from 01.01.2018 to 30.09.2018
Basic:		
Net profit attributable to Owners of mBank S.A.	849 567	996 947
Weighted average number of ordinary shares	42 337 276	42 312 942
Net basic profit per share (in PLN per share)	20.07	23.56
Diluted:		
Net profit attributable to Owners of mBank S.A., applied for calculation of diluted earnings per share	849 567	996 947
Weighted average number of ordinary shares	42 337 276	42 312 942
Adjustments for:		
- share options	19 252	26 658
Weighted average number of ordinary shares for calculation of diluted earnings per share	42 356 528	42 339 600
Diluted earnings per share (in PLN per share)	20.06	23.55

Earnings per share for 9 months – mBank S.A. stand-alone data

	the period	from 01.01.2019 to 30.09.2019	from 01.01.2018 to 30.09.2018
Basic:			
Net profit		830 009	996 665
Weighted average number of ordinary shares		42 337 276	42 312 942
Net basic profit per share (in PLN per share)		19.60	23.55
Diluted:			
Net profit applied for calculation of diluted earnings per share		830 009	996 665
Weighted average number of ordinary shares		42 337 276	42 312 942
Adjustments for:			
- share options		19 252	26 658
Weighted average number of ordinary shares for calculation of diluted earnings per share		42 356 528	42 339 600
Diluted earnings per share (in PLN per share)		19.60	23.54

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

	30.09.2019	31.12.2018
Derivatives, including:	1 180 589	1 006 079
- Held for trading derivative financial instruments classified into banking book	73 658	81 480
- Held for trading derivative financial instruments classified into trading book	1 139 478	916 006
- Derivative financial instruments held for fair value hedging	365 080	175 649
- Derivative financial instruments held for cash flow hedging	300 119	196 668
- Offsetting effect	(697 746)	(363 724)
Debt securities	789 833	1 055 057
- General governments, including:	484 595	748 294
<i>pledged securities</i>	391 767	538 345
- Credit institutions	128 065	166 305
- Other financial corporations	82 711	72 626
- Non-financial corporations	94 462	67 832
Loans and advances	171 213	43 166
- Corporate customers	171 213	43 166
Total financial assets held for trading	2 141 635	2 104 302

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

Derivative financial instruments

The Group has the following types of derivative instruments:

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

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

Currency and interest rate swap contracts are commitments to exchange one cash flow for another cash flow. Such a transaction results in swap of currencies or interest rates (e.g., fixed

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

The Group applies fair value hedge accounting for fixed interest rate Eurobonds issued by mFinance France S.A, subsidiary of mBank, fixed interest rate mortgage bonds issued by mBank Hipoteczny a subsidiary of mBank, fixed interest rate loans received by mBank from European Investment Bank, fixed interest rate bonds issued by the Bank directly and variable rate loans indexed to market rates, granted by the Bank.

Moreover, 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.

Hedging instrument in both types of hedge accounting are fix to float Interest Rate Swap.

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

Currency and interest rate options are agreements, pursuant to which the selling party grants the buying party the right, but not an obligation, to purchase (call option) or sell (put option) a specific quantity of a foreign currency or a financial instrument at a predefined price on or by a specific date or within an agreed period. In return for accepting currency or interest rate risk, the buyer offers the seller a premium. An option can be either a public instrument traded at a stock exchange or a private instrument negotiated between the Group and a customer (private transaction). The Group is exposed to credit risk related to purchased options only up to the balance sheet value of such options, i.e. the fair value of the options.

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

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

Hedge accounting

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

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

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

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

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

Fair value hedge accounting

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

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

Description of the hedging relation

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

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

Hedged items

The hedged items are:

- two tranches of fixed interest rate Eurobonds issued by mFF with a total nominal value of EUR 1 000 000 thousand,
- one tranche of fixed interest rate Eurobonds issued by mFF with a total nominal value of CHF 200 000 thousand,
- fixed interest rate mortgage bonds issued by mBH with a nominal value of EUR 576 900 thousand,
- fixed interest rate loans received by mBank from European Investment Bank with a nominal value of respectively EUR 100 000 thousand, CHF 113 110 thousand, CHF 175 560 thousand and CHF 138 388 thousand,
- fixed rate bonds issued by mBank S.A. with a nominal value of CHF 305 000 thousand,
- fixed rate bonds issued by mBank S.A. with a nominal value of EUR 500 000 thousand.

Hedging instruments

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

Presentation of the result from hedged and hedging transactions

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

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

	the period	from 01.01.2019 to 30.09.2019	from 01.01.2018 to 30.09.2018
Interest income on derivatives concluded under the fair value hedge accounting (Note 5)		55 576	60 682
Net profit on hedged items (Note 8)		(211 525)	17 912
Net profit on fair value hedging instruments (Note 8)		219 054	(28 461)
The total results of fair value hedge accounting recognised in the income statement		63 105	50 133

Cash flow hedge accounting

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

on hedge accounting". Portion of the gains or losses on the hedging instrument that is an effective hedge, is presented in the statement of comprehensive income as "Cash flow hedges (net)".

The period from October 2019 to August 2029 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 for the period from 1 January to 30 September 2019 and for the period from 1 January to 30 September 2018.

	the period	from 01.01.2019 to 30.09.2019	from 01.01.2018 to 30.09.2018
Other gross comprehensive income from cash flow hedge at the beginning of the period		103 263	(6 418)
- Unrealised gains/losses included in other gross comprehensive income during the reporting period		94 635	17 381
Accumulated other gross comprehensive income at the end of the reporting period		197 898	10 963
Income tax on accumulated other comprehensive income at the end of the reporting period		(37 601)	(2 083)
Accumulated net other comprehensive income at the end of the reporting period		160 297	8 880
Impact on other comprehensive income in the reporting period (gross)		94 635	17 381
Income tax on cash flow hedges		(17 981)	(3 303)
Impact on other comprehensive income in the reporting period (net)		76 654	14 078

	the period	from 01.01.2019 to 30.09.2019	from 01.01.2018 to 30.09.2018
Gains/losses recognised in comprehensive income (gross) during the reporting period, including:			
- Unrealised gains/losses included in other comprehensive income (gross)		94 635	17 381
- Amount included as interest income in income statement recognised during the reporting period		40 629	27 343
- Ineffective portion of hedge recognised in net trading income		215	(394)
Impact on other comprehensive income in the reporting period (gross)		135 479	44 330

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

	the period	from 01.01.2019 to 30.09.2019	from 01.01.2018 to 30.09.2018
Interest income on derivatives concluded under the cash flow hedge (Note 5)		40 629	27 343
Ineffective portion of cash flow hedge accounting (Note 8)		215	(394)
The total results of cash flow hedge accounting recognised in the income statement		40 844	26 949

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

	30.09.2019	31.12.2018
Equity instruments	129 876	72 775
- Other financial corporations	85 348	12 934
- Non-financial corporations	44 528	59 841
Debt securities	128 985	58 130
- Other financial corporations	128 985	58 130
Loans and advances	2 130 045	2 705 155
- Individual customers	1 838 958	2 370 872
- Corporate customers	282 862	321 380
- Public sector customers	8 225	12 903
Total non-trading financial assets mandatorily at fair value through profit or loss	2 388 906	2 836 060
Short-term (up to 1 year)	1 473 778	1 705 855
Long-term (over 1 year)	915 128	1 130 205

18. Financial assets at fair value through other comprehensive income

30.09.2019	Carrying amount	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Debt securities	24 199 667	24 162 753	41 749	-	-	(3 703)	(1 132)	-	-
- Central banks	2 164 631	2 164 631	-	-	-	-	-	-	-
- General governments, including: <i>pledged securities</i>	19 756 594	19 756 693	-	-	-	(99)	-	-	-
- Credit institutions	220 808	221 989	-	-	-	(1 181)	-	-	-
- Other financial corporations	1 402 949	1 403 867	-	-	-	(918)	-	-	-
- Non-financial corporations	654 685	615 573	41 749	-	-	(1 505)	(1 132)	-	-
Total financial assets at fair value through other comprehensive income	24 199 667	24 162 753	41 749	-	-	(3 703)	(1 132)	-	-

Short-term (up to 1 year) gross	5 952 448
Long-term (over 1 year) gross	18 252 054

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

Short-term (up to 1 year) gross	6 694 165
Long-term (over 1 year) gross	17 648 654

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

19. Financial assets at amortised cost

30.09.2019	Carrying amount	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Debt securities	10 297 536	10 297 613	-	-	-	(77)	-	-	-
- General governments, including:	9 046 015	9 046 015	-	-	-	-	-	-	-
<i>pledged securities</i>	1 699 672	1 699 672	-	-	-	-	-	-	-
- Other financial corporations	1 251 521	1 251 598	-	-	-	(77)	-	-	-
Loans and advances to banks	4 792 282	4 793 291	-	-	-	(1 009)	-	-	-
Loans and advances to customers	102 424 342	91 408 061	9 875 322	4 286 444	252 586	(276 545)	(298 564)	(2 787 962)	(35 000)
Individual customers	55 411 019	49 039 869	5 890 388	2 107 163	106 203	(159 875)	(232 828)	(1 334 926)	(4 975)
Corporate customers	46 528 207	41 883 655	3 984 934	2 178 244	146 383	(116 276)	(65 736)	(1 452 972)	(30 025)
Public sector customers	485 116	484 537	-	1 037	-	(394)	-	(64)	-
Total financial assets at amortised cost	117 514 160	106 498 965	9 875 322	4 286 444	252 586	(277 631)	(298 564)	(2 787 962)	(35 000)
Short-term (up to 1 year) gross	44 963 185								
Long-term (over 1 year) gross	75 950 132								

31.12.2018	Carrying amount	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Debt securities	9 000 539	9 000 626	-	-	-	(87)	-	-	-
- 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)	-	-	-
Loans and advances to banks	2 546 346	2 547 864	-	-	-	(1 518)	-	-	-
Loans and advances to customers	92 017 432	82 159 668	8 714 545	3 976 749	209 017	(214 875)	(220 963)	(2 599 882)	(6 827)
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)	-
Total financial assets at amortised cost	103 564 317	93 708 158	8 714 545	3 976 749	209 017	(216 480)	(220 963)	(2 599 882)	(6 827)
Short-term (up to 1 year) gross	37 578 214								
Long-term (over 1 year) gross	69 030 255								

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

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

Loans and advances to customers 30.09.2019	Gross carrying amount	Individual customers	Corporate customers	Public sector customers
Current accounts	13 824 308	7 402 851	6 419 943	1 514
Term loans, including:	76 738 042	49 433 896	26 820 086	484 060
- housing and mortgage loans to individual customers	38 409 508	38 409 508		
Reverse repo / buy-sell-back	789 653	-	789 653	-
Finance leases	11 548 807	-	11 548 807	-
Other loans and advances	2 584 120	-	2 584 120	-
Other receivables	337 483	306 876	30 607	-
Total gross carrying amount	105 822 413	57 143 623	48 193 216	485 574

Loans and advances to customers 30.09.2019	Accumulated impairment	Individual customers	Corporate customers	Public sector customers
Current accounts	(1 021 821)	(694 037)	(327 784)	-
Term loans, including:	(2 057 278)	(1 038 567)	(1 018 253)	(458)
- housing and mortgage loans to individual customers	(446 015)	(446 015)		
Finance leases	(286 334)	-	(286 334)	-
Other loans and advances	(32 638)	-	(32 638)	-
Total accumulated impairment	(3 398 071)	(1 732 604)	(1 665 009)	(458)
Total gross carrying amount	105 822 413	57 143 623	48 193 216	485 574
Total accumulated impairment	(3 398 071)	(1 732 604)	(1 665 009)	(458)
Total carrying amount	102 424 342	55 411 019	46 528 207	485 116

Short-term (up to 1 year) gross	38 419 289
Long-term (over 1 year) gross	67 403 124

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	-
Total gross carrying amount	95 059 979	50 554 503	43 868 553	636 923

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

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

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

	30.09.2019	31.12.2018
Housing and mortgage loans to individuals, including:	37 963 493	34 243 507
- PLN	17 227 873	13 358 719
- CHF	14 232 627	14 409 167
- EUR	3 192 591	3 171 106
- CZK	3 057 883	3 053 157
- USD	223 558	227 414
- Other currency	28 961	23 944
Housing and mortgage loans to individuals in original currencies (main currencies in 000's)		
- PLN	17 227 873	13 358 719
- CHF	3 533 598	3 775 394
- EUR	729 969	737 467
- CZK	18 061 920	18 249 594
- USD	55 890	60 487

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

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

No.	Sectors	Gross value	%	Gross value	%
		30.09.2019		31.12.2018	
1.	Household customers	57 143 623	54.00	50 554 503	53.18
2.	Real estate	6 099 371	5.76	5 781 986	6.08
3.	Construction	5 247 096	4.96	4 367 250	4.59
4.	Food sector	3 003 780	2.84	2 854 184	3.00
5.	Transport and logistics	2 950 012	2.79	2 729 735	2.87
6.	Financial sector	2 548 781	2.41	3 379 316	3.55
7.	Metals	2 517 071	2.38	2 512 155	2.64
8.	Motorisation	2 308 550	2.18	2 019 772	2.12
9.	Construction materials	2 262 711	2.14	1 897 015	2.00
10.	Chemicals and plastic products	2 003 312	1.89	1 913 025	2.01
11.	Wood, furniture and paper products	1 882 073	1.78	1 378 926	1.45
12.	Wholesale trade	1 559 249	1.47	1 362 759	1.43
13.	Retail trade	1 407 276	1.33	835 071	0.88
14.	Scientific and technical activities	1 347 665	1.27	1 216 481	1.28
15.	Rental and leasing activities	1 243 395	1.18	1 131 910	1.19
16.	Fuels	1 139 209	1.08	1 286 179	1.35
17.	IT	1 040 481	0.98	1 024 833	1.08
18.	Power, power and heating distribution	949 756	0.90	1 011 767	1.06
19.	Information and communication	880 925	0.83	887 843	0.93
20.	Pharmacy	815 618	0.77	342 945	0.36
21.	Textiles and wearing apparel	752 766	0.71	518 104	0.55
22.	Services	749 205	0.71	828 299	0.87
23.	Hotels and restaurants	688 533	0.65	614 454	0.65
24.	Agriculture, forestry and fishing	676 574	0.64	571 208	0.60
25.	Other manufacturing activity	640 242	0.61	570 565	0.60
26.	Human health	619 783	0.59	548 103	0.58
27.	Municipal services	486 214	0.46	431 003	0.45
28.	Media	474 005	0.45	425 252	0.45
29.	Household equipment	381 335	0.36	296 758	0.31
30.	Public administration	352 833	0.33	490 562	0.52
31.	Electronics	338 588	0.32	284 148	0.30
32.	Arts, entertainment and recreation	241 860	0.23	247 010	0.26
33.	Education and scientific research	184 620	0.17	168 568	0.18
34.	Mining	55 784	0.05	85 445	0.09

As at 30 September 2019, the total exposure of the Group in the above sectors (excluding household customers) amounts to 45.22% of the credit portfolio (31 December 2018: 46.28%).

20. Intangible assets

	30.09.2019	31.12.2018
Goodwill	27 760	3 532
Patents, licences and similar assets, including:	478 966	440 636
- computer software	370 005	367 822
Other intangible assets	2 073	1 968
Intangible assets under development	367 796	330 039
Total intangible assets	876 595	776 175

21. Tangible assets

	30.09.2019	31.12.2018
Tangible assets, including:	685 563	668 460
- land	1 033	1 033
- buildings and structures	163 482	160 804
- equipment	188 368	177 868
- vehicles	233 943	219 275
- other fixed assets	98 737	109 480
Fixed assets under construction	78 281	116 566
The right to use, including;	504 842	n/a
- real estate	453 943	n/a
- the right of perpetual usufruct of land	48 530	n/a
- cars	1 056	n/a
- other	1 313	n/a
Total tangible assets	1 268 686	785 026

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

	30.09.2019	31.12.2018
Derivatives, including:	1 051 119	981 117
- Held for trading derivative financial instruments classified into banking book	174 101	74 986
- Held for trading derivative financial instruments classified into trading book	1 029 285	995 156
- Derivative financial instruments held for fair value hedging	32	10 660
- Derivative financial instruments held for cash flow hedging	345	-
- Offsetting effect	(152 644)	(99 685)
Total financial liabilities held for trading and derivatives held for hedges	1 051 119	981 117

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

30.09.2019	Amount due to banks	Amount due to customers, total	Including:		
			Individual customers	Corporate customers	Public sector customers
Deposits, including:	1 791 098	111 551 695	72 014 202	38 053 715	1 483 778
Current accounts	624 804	81 513 181	57 059 707	23 918 041	535 433
Term deposits	770 168	29 537 600	14 954 495	13 634 760	948 345
Repo transactions	396 126	500 914	-	500 914	-
Loans and advances received	200 001	3 096 372	-	3 096 372	-
Other financial liabilities, including:	467 192	1 317 562	113 096	1 162 416	42 050
Liabilities in respect of cash collaterals	243 036	522 021	17 050	504 190	781
Leasing liabilities	-	519 180	-	478 518	40 662
Other liabilities	224 156	276 361	96 046	179 708	607
Total	2 458 291	115 965 629	72 127 298	42 312 503	1 525 828
Short-term (up to 1 year)	2 258 291	111 852 103			
Long-term (over 1 year)	200 000	4 113 526			

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

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

24. Provisions

	30.09.2019	31.12.2018
For legal proceedings	193 129	106 321
Commitments and guarantees given	130 007	109 409
Other provisions	120 587	42 553
Total provisions	443 723	258 283

The increase in provisions for litigations mostly concerned the creation of additional provisions for litigation related to loans in CHF (for a detailed description under point 26 Selected explanatory information).

In connection with the completion of the analysis of the treatment of certain transactions in previous years, the Group created a provision amounting to PLN 47 039 thousand for potential additional payment of tax on selected financial institutions (banking tax). The provision was recognised by the Group in the income statement account in the line "Taxes on the Group balance sheet items".

Moreover, other provisions present provisions for the potential claims of third parties.

Movements in the provisions

	30.09.2019	31.12.2018
As at the beginning of the period	258 283	190 975
Impact of the implementation of IFRS 9 on 1 January 2018 (increase in provisions for commitments and guarantees given)		44 324
As at the beginning of the period		235 299
Change in the period (due to)	185 440	22 984
- increase of provisions	267 405	101 933
- release of provisions	(69 125)	(66 423)
- write-offs	(13 501)	(14 672)
- foreign exchange differences	661	2 146
As at the end of the period	443 723	258 283

25. Assets and liabilities for deferred income tax

Deferred income tax assets	30.09.2019	31.12.2018
As at the beginning of the period	1 344 037	960 678
Impact of the implementation of IFRS 9 on 1 January 2018		109 632
Restated opening balance		1 070 310
Changes recognized in the income statement	97 101	272 367
Changes recognized in other comprehensive income	(386)	972
Other changes	1 058	388
As at the end of the period	1 441 810	1 344 037

Provisions for deferred income tax	30.09.2019	31.12.2018
As at the beginning of the period	(385 044)	(331 509)
Impact of the implementation of IFRS 9 on 1 January 2018		(40 243)
Restated opening balance		(371 752)
Changes recognized in the income statement	(168 021)	10 905
Changes recognized in other comprehensive income	(21 076)	(27 252)
Other changes	(3)	3 055
As at the end of the period	(574 144)	(385 044)

Income tax	30.09.2019	30.09.2018
Current income tax	(304 203)	(592 864)
Deferred income tax recognised in the income statement	(70 920)	239 073
Income tax recognised in the income statement	(375 123)	(353 791)
Recognised in other comprehensive income	(21 462)	(6 180)
Total income tax	(396 585)	(359 971)

26. Fair value of assets and liabilities

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

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

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

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

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

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

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

Financial assets and liabilities measured at amortised cost

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

	30.09.2019		31.12.2018	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets at amortised cost				
Debt securities	10 297 536	10 492 705	9 000 539	9 148 798
Loans and advances to banks	4 792 282	4 786 447	2 546 346	2 521 793
Loans and advances to customers, including:	102 424 342	102 890 626	92 017 432	91 924 443
Individual customers	55 411 019	56 786 582	48 924 332	49 612 551
Current accounts	6 708 814	6 899 191	5 809 899	5 972 042
Term loans	48 395 329	49 580 515	42 754 960	43 281 036
Other receivables	306 876	306 876	359 473	359 473
Corporate customers	46 528 207	45 616 886	42 456 817	41 673 943
Current accounts	6 092 159	5 954 714	5 331 403	5 217 161
Term loans, including finance leases	37 064 306	36 290 430	33 581 972	32 913 340
Reverse repo / buy-sell-back transactions	789 653	789 653	1 146 263	1 146 263
Other loans and advances	2 551 482	2 551 482	2 382 247	2 382 247
Other receivables	30 607	30 607	14 932	14 932
Public sector customers	485 116	487 158	636 283	637 949
Financial liabilities measured at amortised cost				
Amounts due to banks	2 458 291	2 457 669	3 078 387	3 076 822
Amounts due to customers	115 965 629	115 998 565	102 009 062	101 932 151
Debt securities issued	16 716 850	17 082 030	18 049 583	18 236 156
Subordinated financial liabilities	2 526 217	2 545 689	2 474 163	2 492 101

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

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

Financial liabilities. Financial instruments representing liabilities include the following:

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

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

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

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

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

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

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

Financial assets and liabilities measured at fair value

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

30.09.2019	Including:	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
Financial assets				
Financial assets held for trading and derivatives held for hedges	2 141 635	484 595	1 180 589	476 451
Loans and advances to customers	171 213	-	-	171 213
Debt securities	789 833	484 595	-	305 238
Derivative financial instruments, including:	1 180 589	-	1 180 589	-
Derivative financial instruments held for trading	1 213 136	-	1 213 136	-
Derivative financial instruments held for hedging	665 199	-	665 199	-
Ineffective portion of cash flow hedge	(697 746)	-	(697 746)	-
Non-trading financial assets mandatorily at fair value through profit or loss	2 388 906	843	-	2 388 063
Loans and advances to customers	2 130 045	-	-	2 130 045
Debt securities	128 985	-	-	128 985
Equity securities	129 876	843	-	129 033
Financial assets at fair value through other comprehensive income	24 199 667	20 950 958	2 164 631	1 084 078
Debt securities	24 199 667	20 950 958	2 164 631	1 084 078
Total financial assets	28 730 208	21 436 396	3 345 220	3 948 592
FINANCIAL LIABILITIES				
Derivative financial instruments, including:	1 051 119	-	1 051 119	-
Derivative financial instruments held for trading	1 203 386	-	1 203 386	-
Derivative financial instruments held for hedging	377	-	377	-
Ineffective portion of cash flow hedge	(152 644)	-	(152 644)	-
Total financial liabilities	1 051 119	-	1 051 119	-
Assets Measured at Fair Value Based on Level 3 - changes in the period from 1st January to 30 September 2019				
As at the beginning of the period	306 763	58 130	72 005	1 266 558
Gains and losses for the period:	3 095	70 855	52 585	(7 738)
Recognised in profit or loss:	3 095	70 855	52 585	-
- Net trading income	3 095	5 036	20	-
- Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	-	65 819	57 486	-
- Gains less losses from investments in subsidiaries and associates	-	-	(4 921)	-
Recognised in other comprehensive income:	-	-	-	(7 738)
- Financial assets at fair value through other comprehensive income	-	-	-	(7 738)
Purchases	1 299 777	-	4 493	819 249
Redemptions	(466 845)	-	-	(103 854)
Sales	(5 063 509)	-	(50)	(1 524 880)
Issues	4 225 957	-	-	634 743
As at the end of the period	305 238	128 985	129 033	1 084 078

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

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

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

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

Level 1

As at 30 September 2019, at level 1 of the fair value hierarchy, the Group has presented the fair value of held for trading government bonds in the amount of PLN 484 595 thousand (see Note 16) and the fair value of government bonds and treasury bills measured at fair value through other comprehensive income in the amount of PLN 19 720 738 thousand (see Note 18) (31 December 2018 respectively: PLN 748 294 thousand and PLN 21 251 235 thousand). Level 1 includes the fair values

of corporate bonds in the amount of PLN 1 230 220 thousand (31 December 2018: PLN 1 230 590 thousand).

In addition, as at 30 September 2019 level 1 includes the value of the registered privileged shares of Giełda Papierów Wartościowych in the amount of PLN 843 thousand (31 December 2018: PLN 770 thousand).

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

Level 2

Level 2 of the fair value hierarchy mainly includes the fair values of bills issued by NBP in the amount of PLN 2 164 631 thousand (31 December 2018: PLN 589 901 thousand), whose valuation is based on a NPV model (discounted future cash flows) fed with interest rate curves generated by transformation of quotations taken directly from active and liquid financial markets.

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

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

Level 3

Level 3 of the hierarchy presents the fair values of commercial debt securities issued by local banks and companies in the amount of PLN 1 482 445 thousand (31 December 2018: PLN 1 595 063 thousand) and includes the fair value of a debt instrument measured at fair value through profit or loss, resulting from the reclassification of preferred stock in Visa Inc.

Level 3 includes also the fair value of local government bonds in the amount of PLN 35 856 thousand (31 December 2018 - PLN 36 388 thousand).

The above mentioned debt instruments are classified as level 3 because in addition to parameters which transform quotations taken directly from active and liquid financial markets (interest rate curves), their valuation uses credit spread estimated by the Bank by means of an internal credit risk model and reflects the credit risk of the issuer. The model uses parameters (e.g. PD, LGD) and information acquired from the market (including credit spreads implied from transactions). Credit risk parameters PD and LGD are not observed on active markets and hence were generated by statistical analysis.

Level 3 as at 30 September 2019 includes the value of loans and advances to customers in the amount of PLN 2 301 258 thousand (31 December 2018 - PLN 2 748 321 thousand).

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

Moreover, level 3 covers mainly the fair value of equity securities amounting to PLN 129 033 thousand (31 December 2018: PLN 72 005 thousand). Equity securities presented at level 3 have been valued using the market multiples method. The market multiples method, consists of valuating the equity capital of a company by using a relation between the market values of the own equity capital or market values of the total capital invested in comparable companies (goodwill) and selected economic and financial figures.

Selected explanatory information

1. Compliance with international financial reporting standards

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

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

2. Consistency of accounting principles and calculation methods applied to the drafting of the quarterly report and the last annual financial statements

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

3. Seasonal or cyclical nature of the business

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

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

From 1 January 2019, the Group has implemented the International Financial Reporting Standard - IFRS 16: "Leases", whose impact on the statement of financial situation of the Group as at 1 January 2019 has been presented under Note 2 in point "New standards, interpretations and amendments to published standards".

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

Events as indicated above did not occur in the Group.

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

In the third quarter of 2019, mBank Hipoteczny S.A. redeemed long term bonds in the amount of PLN 200 000 thousand.

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

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

8. Significant events after the end of the third quarter of 2019, which are not reflected in the financial statements

Events as indicated above did not occur in the Group.

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

On March 8, 2019, mLeasing acquired 100% shares in LeaseLink Sp. z o.o. (hereinafter "Leaselink"). LeaseLink is a company operating in the field of fintech in the sectors of leasing of low-value objects and e-commerce, specializing in leasing payment services. The Bank indirectly holds 100% shares in LeaseLink through mLeasing. The consideration transferred for shares amounted to PLN 31 452 thousand.

In connection with the end of the accounting for the acquisition of LeaseLink's shares, as at the date of these condensed consolidated financial statements, the Group retrospectively adjusted the provisional amounts recognized as at the acquisition date to reflect information obtained about the facts and circumstances that existed as at the acquisition date.

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

Items	
Loans and advances to banks	1 343
Loans and advances to customers	71 014
Intangible assets	5 340
Tangible asstes	1 175
Other assets	3 520
Total assets	82 392
Amounts due to banks	72 340
Other liabilities	2 828
Total liabilities	75 168
Net assets	7 224

As at the acquisition date of 100% shares in LeaseLink the Group recognized goodwill in the amount of PLN 29 955 thousand. After the completion of the accounting for the acquisition, the Group adjusted goodwill by PLN 5 727 thousand to the value of PLN 24 228 thousand.

Purchase price	31 452
Net asstes acquired	7 224
Goodwill	24 228

10. Changes in contingent liabilities and commitments

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

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

In the third quarter of 2019, events as indicated above did not occur in the Group.

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

In the third quarter of 2019, events as indicated above did not occur in the Group.

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

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

14. Reversals of provisions against restructuring costs

In the third quarter of 2019, events as indicated above did not occur in the Group.

15. Acquisitions and disposals of tangible fixed asset items

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

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

In the third quarter of 2019, events as indicated above did not occur in the Group.

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

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

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

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

19. Corrections of errors from previous reporting periods

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

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

In the third quarter of 2019, events as indicated above did not occur in the Group.

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

In the third quarter of 2019, events as indicated above did not occur in the Group.

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

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

23. Registered share capital

The total number of ordinary shares as at 30 September 2019 was 42 348 437 shares (31 December 2018: 42 336 982 shares) at PLN 4 nominal value each. All issued shares were fully paid up.

REGISTERED SHARE CAPITAL (THE STRUCTURE) AS AT 30 SEPTEMBER 2019						
Share type	Type of privilege	Type of limitation	Number of shares	Series / face value of issue in PLN	Paid up	Registered on
ordinary bearer*	-	-	9 988 000	39 952 000	fully paid in cash	1986
ordinary registered*	-	-	12 000	48 000	fully paid in cash	1986
ordinary bearer	-	-	2 500 000	10 000 000	fully paid in cash	1994
ordinary bearer	-	-	2 000 000	8 000 000	fully paid in cash	1995
ordinary bearer	-	-	4 500 000	18 000 000	fully paid in cash	1997
ordinary bearer	-	-	3 800 000	15 200 000	fully paid in cash	1998
ordinary bearer	-	-	170 500	682 000	fully paid in cash	2000
ordinary bearer	-	-	5 742 625	22 970 500	fully paid in cash	2004
ordinary bearer	-	-	270 847	1 083 388	fully paid in cash	2005
ordinary bearer	-	-	532 063	2 128 252	fully paid in cash	2006
ordinary bearer	-	-	144 633	578 532	fully paid in cash	2007
ordinary bearer	-	-	30 214	120 856	fully paid in cash	2008
ordinary bearer	-	-	12 395 792	49 583 168	fully paid in cash	2010
ordinary bearer	-	-	16 072	64 288	fully paid in cash	2011
ordinary bearer	-	-	36 230	144 920	fully paid in cash	2012
ordinary bearer	-	-	35 037	140 148	fully paid in cash	2013
ordinary bearer	-	-	36 044	144 176	fully paid in cash	2014
ordinary bearer	-	-	28 867	115 468	fully paid in cash	2015
ordinary bearer	-	-	41 203	164 812	fully paid in cash	2016
ordinary bearer	-	-	31 995	127 980	fully paid in cash	2017
ordinary bearer	-	-	24 860	99 440	fully paid in cash	2018
ordinary bearer	-	-	11 455	45 820	fully paid in cash	2019
Total number of shares			42 348 437			
Total registered share capital				169 393 748		
Nominal value per share (PLN)			4			

* As at the end of the reporting period

In connection with registration on 24 September 2019 by the National Depository of Securities (KDPW) of 11 455 shares of mBank S.A., the share capital of mBank S.A. increased by PLN 45 820 with the effect from 24 September 2019. The shares 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 S.A.

24. Material share packages

Commerzbank AG is a shareholder holding over 5% of the share capital and votes at the General Meeting and as at 30 September 2019 it held 69.31% of the share capital and votes at the General Meeting of mBank S.A.

- Commerzbank AG announcement regarding the approval of the strategy including, among others, the potential sale of mBank S.A shares

On 26 September 2019 Commerzbank AG published a communication according to which the new business strategy of Commerzbank was approved by the Management and Supervisory Board of Commerzbank. The strategy provides for sale of the majority stake in mBank held by Commerzbank. The potential sale of the Bank's shares would depend on obtaining the required regulatory approvals.

- The changes in the ownership structure of Bank's material shares packages

On September 30, 2019 mBank S.A. was notified by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A. about increasing the share in the total number of votes at the General Meeting of the Bank above 5% resulting from the purchase of mBanks' shares at the WSE, settled on 24 September 2019. As a result of the same transaction, the funds managed by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A.: Nationale-Nederlanden Otwarty Fundusz Emerytalny (OFE)

and Nationale-Nederlanden Dobrowolny Fundusz Emerytalny (DEF) increased their share in the total number of votes at the General Meeting of mBank S.A. above 5%.

From 24 September 2019, OFE and DEF together have 2 129 384 shares of mBank S.A., which represents 5.030% of the share capital of mBank S.A. and entitles to 2 129 384 votes at the General Meeting of mBank S.A.

On 23 September 2019, before the acquisition of mBank S.A. shares, the Fund held 2 116 439 shares of mBank S.A., which represented 4.999% of the share capital of mBank S.A. and entitled to 2 116 439 votes at the General Meeting of mBank S.A.

On October 25, 2019 mBank S.A. was notified by Nationale-Nederlanden Powszechno Towarzystwo Emerytalne S.A. about decreasing the share in the total number of votes at the General Meeting of mBank S.A. below 5% resulting from the sale of the mBanks' shares at the WSE on 17 October 2019. As a result of the same transaction, the funds managed by Nationale-Nederlanden Powszechno Towarzystwo Emerytalne S.A.: OFE and DEF decreased their share in the total number of votes at the General Meeting of mBank S.A. below 5%.

From 25 October 2019, OFE and DEF together have 2 092 050 shares of mBank S.A., which represents 4.94% of the share capital of mBank S.A. and entitles to 2 092 050 votes at the General Meeting of mBank S.A.

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

	Number of rights to shares held as at the date of publishing the report for H1 2019	Number of rights to shares acquired from the date of publishing the report for H1 2019 to the date of publishing the report for Q3 2019	Number of rights to shares realised from the date of publishing the report for H1 2019 to the date of publishing the report for Q3 2019	Number of rights to shares held as at the date of publishing the report for Q3 2019
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Management Board

1. Cezary Stypułkowski	-	1 360	1 360	-
2. Lidia Jabłonowska-Luba	-	905	905	-
3. Frank Bock	-	111	111	-
4. Andreas Böger	-	90	90	-
5. Krzysztof Dąbrowski	-	306	306	-
6. Cezary Kocik	-	1 040	1 040	-
7. Adam Pers	-	252	252	-

	Number of shares held as at the date of publishing the report for H1 2019	Number of shares acquired from the date of publishing the report for H1 2019 to the date of publishing the report for Q3 2019	Number of shares sold from the date of publishing the report for H1 2019 to the date of publishing the report for Q3 2019	Number of shares held as at the date of publishing the report for Q3 2019
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Management Board

1. Cezary Stypułkowski	19 384	1 360	-	20 744
2. Lidia Jabłonowska-Luba	-	905	905	-
3. Frank Bock	223	111	-	334
4. Andreas Böger	180	90	-	270
5. Krzysztof Dąbrowski	1 630	306	936	1 000
6. Cezary Kocik	-	1 040	-	1 040
7. Adam Pers	-	252	252	-

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

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

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

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

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

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

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

The value of provisions for litigations as at 30 September 2019 amounted to PLN 193 129 thousand (PLN 106 321 thousand as at 31 December 2018). A potential outflow of funds due to the fulfilment of the obligation takes place at the moment of the final resolution of the cases by the courts, which is beyond the control of the Group.

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

1. Claims of Interbrok's clients

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

2. A lawsuit filed by LPP S.A.

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

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

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

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

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

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

On 6 May 2011, the Regional Court in Łódź decided to dismiss the application for dismissing the lawsuit, filed by mBank S.A., and admitted the case to be heard as a class action. In response to this decision, mBank S.A. filed a complaint with the Court of Appeal in Łódź on 13 June 2011. However, the Court of Appeal in Łódź dismissed mBank S.A.'s complaint on 28 September 2011. Currently, the case proceeds as a class action. Until March 2012, new individuals had been joining the class action. As at 17 October 2012, the group of class members consisted of 1,247 individuals. The Regional Court in Łódź did not establish bail for the benefit of mBank S.A., which was applied for by the Bank. The Bank filed a complaint about this decision. But on 29 November 2012, the Court of Appeal in Łódź overturned the Bank's complaint about the establishment of bail. The judgment is binding and the plaintiff is not obliged to pay bail. The final statement of defence was sent in January 2013 and on 15 February 2013, the plaintiff answered it in a pleading. By its decision of 18 February 2013, the Regional Court in Łódź submitted the case to mediation. On 26 February 2013, the Municipal Consumer Ombudsman appealed against the case being submitted to mediation. On 22 June 2013, a trial was held and on 3 July 2013, the Court announced its judgment allowing the claim in full. According to the Court, the Bank did not properly execute the agreements concluded with consumers, as a result of which they suffered losses. The Bank appealed against this judgment on 9 September 2013. However, on 30 April 2014, the Court of Appeal in Łódź dismissed the appeal of mBank S.A., upholding the stance adopted by the Regional Court expressed in the judgment. Upon receiving a written justification of the judgment, mBank S.A. brought a cassation appeal. The cassation appeal was filed with the Supreme Court by mBank S.A. on 3 October 2014. By its decision of 7 October 2014, the Court of Appeal in Łódź suspended the enforcement of the judgment passed by the Regional Court until the cassation appeal of mBank S.A. has been resolved. On 18 February 2015, the Supreme Court accepted the cassation appeal filed by mBank S.A. for review. On 14 May 2015, the Supreme Court revoked the ruling of the Court of Appeal in Łódź and referred the case back to that court for re-examination. By the decision of 24 September 2015, the Court of Appeal in Łódź admitted the expert opinion evidence in order to verify the legality of mBank's actions connected with changing the interest rates on the mortgage loans covered by the class action in the period from 1 January 2009 to 28 February 2010.

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

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

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

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

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

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

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

By its decision of 9 May 2017, the Regional Court in Łódź decided on instigating a class action and set the time limit of three months from the publication of the decision for persons whose claims may be covered by the class action to join the class. Within the time limit set, 352 persons joined the group of class members. As decided by the Court on 13 March 2018, the group is composed of 1,731 persons. The said decision was appealed against by both parties. Regardless of the appeal proceedings, the Court scheduled a hearing for 5 October 2018. On 5 October 2018, after conducting the substantive hearing, hearing the parties and presenting final votes, the court closed the hearing. On 19 October 2018 the court issued a judgment in which it dismissed all claim of the plaintiff. In the oral justification, the court stated that the Plaintiff had not shown that he had a legal interest in bringing the claim in question, and also referred to the validity of loan agreements indexed by CHF, stressing that both the contract itself and the indexation clause are in compliance with both applicable regulations and rules of social coexistence. On 11 January 2019, the appeal of the plaintiff to which the Bank submitted a response.

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

Apart from the class action proceedings there are also individual court proceedings initiated against the Bank by its customers in connection with CHF loan agreements. As at 30 September 2019, 3 453 individual court proceedings were initiated against the Group by its customers in connection with CHF loan agreements with the total value of claims amounting to PLN 794.7 million. The value of provisions for all individual and class action court proceedings related to CHF loan agreements amounted to PLN 186.3 million as at 30 September 2019.

Out of the individual proceedings, 2 498 proceedings with the total value of claims amounting to PLN 369 million related to indexation clauses in CHF loan agreements and include claims for declaring invalidity of the loan agreements in part (i.e. in the scope of the provisions related to indexation) or in whole. The final rulings to-date in the indexation clauses proceedings are favourable to the Group in vast majority of the cases.

However, given the potential impact of the verdict of the Court of Justice of the European Union (CJEU) (the matter described below) as well as some recent verdicts of Polish courts in similar cases, the risk exists that the observed line of verdicts in such cases may change and the number of such cases may increase. If materialized, such risk might create significant negative impact on mBank Group and other banks having foreign currency mortgage loan portfolios. Since too few binding

verdicts have been issued by Polish courts since the date of the CJEU ruling as at the date of signing these financial statements, the Group is unable to reliably estimate the amount of the contingent liability arising from future legal cases concerning CHF loan portfolio. Nonetheless, the Management Board of the Bank decided to increase the level of provisions related to indexation clauses in CHF loan agreements from PLN 66.1 million as of 30 June 2019 to PLN 132.2 million as of 30 September 2019 as a result of recent developments concerning these issues.

The carrying amount of mortgage and housing loans granted to individual customers in CHF presented in the consolidated financial statements of mBank S.A. Group as of 30 September 2019 amounted to PLN 14 232 627 thousand (i.e. CHF 3 533 598 thousand).

Ruling of the Court of Justice of the European Union regarding a CHF mortgage

On 3 October 2019 the Court of Justice of the European Union issued the ruling in the prejudicial mode regarding a mortgage linked to the Swiss franc granted by a Polish bank. The submitted prejudicial questions were to determine, among other things, if a generally applicable custom can be used where there is no provision in domestic law that could replace an abusive exchange rate clause. In accordance with CJEU's ruling, the question of abusiveness will be decided by Polish courts. CJEU did not refer to this issue. In addition, CJEU did not make a clear-cut decision regarding the consequences of an exchange rate clause being considered abusive by a domestic court. However, the possibility of a credit agreement being performed further in PLN and with interest calculated according to LIBOR was found doubtful by the Court. If an exchange rate clause is found abusive, a domestic court must decide whether the agreement in question can be performed further or should be declared invalid, taking into account the client's will and the consequences of invalidity for the client. CJEU approved the application of a disposable norm (in the bank's opinion article 358 of the Polish Civil Code referring to the NBP fixing rate can be considered to be a disposable norm), if the invalidity of the agreement would be unfavourable for the client. CJEU rejected the application of general provisions referring to a custom or equity principles. The impact of CJEU's ruling on decisions taken by Polish courts is currently difficult to predict.

Verdict of the CJEU regarding the consumer's right to reduce the cost of loan in the event of early repayment of the amount due under the credit agreement

In its judgement of 11 September 2019 in case concerning consumer loans paid off prematurely CJEU ruled that the right of the consumer to a reduction in the total cost of the credit in the event of early repayment of the credit includes all the costs imposed on the consumer. The interpretation constitute an answer to a prejudicial question asked in a court case in which a few banks have participated including mBank.

The judgement of TSUE concerns consumer loans granted by banks in a period starting on 18 December 2011, in the amount not exceeding 255 550 PLN or its equivalent in other currency and mortgage loans granted after 22 July 2017 with no limit of the loan amount, which have been paid off fully or partially. In the CJEU judgement of 11 September 2019 a method of settlement of full costs of a loan in a situation of a premature payment has not been decided.

The judgement will affect future settlements with customers in the event of early repayment of consumer loan. The Bank, like other banking sector entities, is in the process of analyzing the actual effects of the CJEU judgment for its business activities and financial standing. In the third quarter of 2019 the Bank created the provision for potential costs related to this matter amounting to PLN 15 200 thousand.

Tax audits

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

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

From 11 June 2018 to 5 September 2018, in CSK Sp. z o. o., (on 100% dependent on BDH Development Sp. z o.o.) the employees of the Lodz Treasury Office in Łódź (Urząd Skarbowy Łódź

Śródmieście) conducted the tax inspection in the area of corporate income tax for 2016. The inspection did not reveal any irregularities.

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

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

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

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

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

On 25 April 2019, Bank submitted to PFSA Office a declaration of actions taken as realization of post-inspection recommendations. PFSA by letter dated 4 September 2019 objected to the implementation of selected recommendations. On 11 October 2019 Bank submitted to PFSA the response addressing given objections, in which the description of taken actions was further specified as well as some new solutions for implementation were presented.

27. Off-balance sheet liabilities

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

Consolidated data of mBank S.A. Group

	30.09.2019	31.12.2018
1. Contingent liabilities granted and received	43 265 464	40 041 417
Commitments granted	39 540 471	36 461 423
- financing	28 647 793	27 882 914
- guarantees and other financial facilities	9 104 010	8 541 433
- other commitments	1 788 668	37 076
Commitments received	3 724 993	3 579 994
- financial commitments	425 187	381 660
- guarantees	3 299 806	3 198 334
2. Derivative financial instruments (nominal value of contracts)	641 807 307	517 423 172
Interest rate derivatives	532 790 770	420 056 711
Currency derivatives	104 172 651	93 080 870
Market risk derivatives	4 843 886	4 285 591
Total off-balance sheet items	685 072 771	557 464 589

Stand-alone data of mBank S.A.

	30.09.2019	31.12.2018
1. Contingent liabilities granted and received	47 827 485	46 586 902
Commitments granted	44 102 492	43 006 908
- financing	28 054 832	27 256 725
- guarantees and other financial facilities	14 258 992	15 713 107
- other commitments	1 788 668	37 076
Commitments received	3 724 993	3 579 994
- financial commitments	425 187	381 660
- guarantees	3 299 806	3 198 334
2. Derivative financial instruments (nominal value of contracts)	637 172 212	515 651 767
Interest rate derivatives	527 583 054	417 184 171
Currency derivatives	104 745 272	94 182 005
Market risk derivatives	4 843 886	4 285 591
Total off-balance sheet items	684 999 697	562 238 669

28. Transactions with related entities

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

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

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

PLN (000's)	mBank S.A. subsidiaries and associates			Commerzbank AG			Other companies of the Commerzbank AG Group		
	30.09.2019	31.12.2018	30.09.2018	30.09.2019	31.12.2018	30.09.2018	30.09.2019	31.12.2018	30.09.2018
As at the end of the period									
Statement of Financial Position									
Assets	-	-	-	1 465 100	555 810	-	19 186	7 587	-
Liabilities	17 940	24 895	-	2 610 125	2 188 337	-	943 311	968 311	-
Income Statement									
Interest income	4	-	1 260	50 457	-	79 069	519	-	397
Interest expense	(53)	-	(579)	(25 185)	-	(58 709)	(3 715)	-	(4 856)
Fee and commission income	74	-	937	3 509	-	2 672	42	-	73
Fee and commission expense	-	-	-	(1 030)	-	3	-	-	-
Other operating income	73	-	-	1 098	-	15	-	-	-
Overhead costs, amortisation and other operating expenses	(2)	-	-	(7 280)	-	(7 233)	-	-	-
Contingent liabilities granted and received									
Contingent liabilities granted	374 530	352 182	-	2 062 830	1 842 625	-	-	-	-
Contingent liabilities received	-	-	-	1 830 201	2 074 354	-	-	-	-

The total costs of remuneration of Members of the Supervisory Board, the Management Board and other key management personnel of the Bank that perform their duties from 1 January to 30 September 2019 recognized in the Group's income statement for that period amounted to PLN 26 058 453 (in the period from 1 January to 30 September 2018: PLN 29 250 049).

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

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

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

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

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

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

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

- On 19 September 2019, Mr. Maciej Leśny, Chairman of the Bank's Supervisory Board, received a letter of resignation from Mr. Andre Carls, who decided to resign as member of the Bank's Supervisory Board and member of the Executive and Nomination Committee, Remuneration Committee and Audit Committee of the Bank's Supervisory Board as of 30 September 2018.
- On 2 September 2019, the Management Board of mBank S.A. became aware that Dr Janusz Fiszler, a member of the Bank's Supervisory Board, died on September 2, 2019.

31. Factors affecting the results in the coming quarter

- As described in the Point 26 of Selected explanatory information "Proceedings before a court, arbitration body or public administration authority" concerning the legal cases against the Bank related to CHF indexation clause and TSUE verdict issued on 3rd October 2019, the risk exists that the observed line of verdicts in such cases may change and the number of such cases may increase. If materialized, such risk might create significant negative impact on mBank Group and other banks having foreign currency mortgage loan portfolios.

At the same time in the period of three quarters of 2019, the Group did not observe the impact of the CJEU judgment or Polish courts judgments regarding mortgage and housing loans in CHF on cash flows from this portfolio. However, given the recent developments concerning the above issues the Management Board of the Bank decided to increase the level of provisions related to indexation clauses in CHF loan agreements from PLN 66.1 million as of 30 June 2019 to PLN 132.2 million as of 30 September 2019.

The Bank is currently analyzing its approach towards valuation of provisions for legal cases related to CHF loan portfolio as well as the valuation of this portfolio in the light of the recent development described above and in the Note 26. The Bank cannot exclude changing that approach which may have significant negative impact on the financial position of the Bank and its financial results in the coming quarter or quarters.

- As described in the Point 26 of Selected explanatory information, in its judgement of 11 September 2019 in case concerning consumer loans paid off prematurely CJEU ruled that the right of the consumer to a reduction in the total cost of the credit in the event of early repayment of the credit includes all the costs imposed on the consumer. The judgement will affect future settlements with customers in the event of early repayment of consumer loan. The Bank is in the process of analyzing the actual effects of the CJEU judgment for its business activities and financial standing.

32. Other information

- Requirements on mBank Group capital ratios as of 30 September 2019

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

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

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

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

At the beginning of the fourth quarter of 2019, the current level of buffer for other systemically important institution (O-SII) will change from 0.50% to 0.75% in line with the KNF decision received regarding the update of the OSII buffer.

More details on capital adequacy of mBank S.A. Group at the end of the third quarter of 2019 are to be found in the Disclosures regarding capital adequacy of mBank S.A. Group.

■ **Proposals for restructuring foreign currency mortgage loans**

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

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

■ **Commerzbank AG announcement regarding the approval of the strategy including, among others, the potential sale of mBank S.A shares**

On 26 September 2019, Commerzbank AG published a communication according to which the new business strategy of Commerzbank was approved by the Management and Supervisory board of Commerzbank. The strategy provides for sale of the majority stake in mBank held by Commerzbank. The potential sale of the Bank's shares would depend on obtaining the required regulatory approvals.

33. Events after the balance sheet date

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