mBank S.A. Group

IFRS Consolidated Financial Statements 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.

Selected financial data

The selected financial data are supplementary information to these Consolidated Financial Statements of mBank S.A. Group for 2019.

		in PLN '000		in EUR '000	
		Year ended 31.12.2019	Year ended 31.12.2018 - restated	Year ended 31.12.2019	Year ended 31.12.2018 - restated
I.	Interest income	5 071 664	4 518 190	1 178 963	1 058 893
II.	Fee and commission income	1 704 642	1 630 341	396 262	382 090
III.	Net trading income	440 530	347 336	102 406	81 402
IV.	Operating profit	2 013 703	2 200 834	468 107	515 792
V.	Profit before income tax	1 555 045	1 786 649	361 487	418 723
VI.	Net profit attributable to Owners of mBank S.A.	1 010 350	1 302 786	234 867	305 324
VII.	Net profit attributable to non-controlling interests	(98)	(82)	(23)	(19)
VIII.	Net cash flows from operating activities	1 129 056	1 132 740	262 461	265 471
IX.	Net cash flows from investing activities	(449 578)	41 757	(104 509)	9 786
X.	Net cash flows from financing activities	(1 691 110)	(388 784)	(393 117)	(91 116)
XI.	Total net increase / decrease in cash and cash equivalents	(1 011 632)	785 713	(235 165)	184 141
XII.	Basic earnings per share (in PLN/EUR)	23.86	30.79	5.55	7.22
XIII.	Diluted earnings per share (in PLN/EUR)	23.85	30.77	5.54	7.21
XIV.	Declared or paid dividend per share (in PLN/EUR)	-	5.15	-	1.21

		in PLN '000		in EUR '000	
		31.12.2019	31.12.2018	31.12.2019	31.12.2018
I.	Total assets	158 720 583	145 780 558	37 271 477	33 902 455
II.	Amounts due to other banks	1 166 871	3 108 826	274 010	722 983
III.	Amounts due to customers	116 661 138	102 009 062	27 394 890	23 723 038
IV.	Equity attributable to Owners of mBank S.A.	16 151 303	15 169 107	3 792 721	3 527 699
V.	Non-controlling interests	2 002	2 100	470	488
VI.	Share capital	169 401	169 348	39 779	39 383
VII.	Number of shares	42 350 367	42 336 982	42 350 367	42 336 982
VIII.	Book value per share (in PLN/EUR)	381.37	358.29	89.56	83.32
IX.	Total capital ratio	19.46	20.69	19.46	20.69

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

- for items of the consolidated statement of financial position – exchange rate announced by the National Bank of Poland as at 31 December 2019: EUR 1 = 4.2585 and 31 December 2018: EUR 1 = PLN 4.3000.
- for items of the consolidated income statement – exchange rate calculated as the arithmetic mean of exchange rates announced by the National Bank of Poland as at the end of each month of 2019 and 2018: EUR 1 = PLN 4.3018 and EUR 1 = PLN 4.2669 respectively.

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Consolidated income statement

	Note	Year ended 31 December	
		2019	2018 - restated
Interest income, including:	6	5 071 664	4 518 190
Interest income accounted for using the effective interest method		*4 523 483*	*3 868 051*
Income similar to interest on financial assets at fair value through profit or loss		*548 181*	*650 139*
Interest expenses	6	(1 068 892)	(1 021 716)
Net interest income		**4 002 772**	**3 496 474**
Fee and commission income	7	1 704 642	1 630 341
Fee and commission expenses	7	(740 039)	(654 491)
Net fee and commission income		**964 603**	**975 850**
Dividend income	8	4 220	3 558
Net trading income, including:	9	440 530	347 336
Foreign exchange result		*381 547*	*323 472*
Gains or losses on financial assets and liabilities held for trading		*50 788*	*30 571*
Gains or losses from hedge accounting		*8 195*	*(6 707)*
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	10	69 259	*(160 041)*
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates, including:	11	34 832	*14 495*
Gains less losses from debt securities measured at fair value through other comprehensive income		*34 995*	*16 465*
Gains less losses from investments in subsidiaries and associates		*(277)*	*(4 034)*
Gains less losses from derecognition		*114*	*2 064*
Other operating income	12	234 487	404 994
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	15	(712 337)	(527 573)
Result on provisions for legal risk related to foreign currency loans	30	(387 786)	(20 349)
Overhead costs	13	(1 953 657)	(1 911 340)
Depreciation	25, 26	(375 498)	(252 592)
Other operating expenses	14	(307 722)	(169 978)
Operating profit		**2 013 703**	**2 200 834**
Tax on the Bank's balance sheet items		(458 658)	(415 425)
Share in profits (losses) of entities under the equity method		-	1 240
Profit before income tax		**1 555 045**	**1 786 649**
Income tax expense	16	(544 793)	(483 945)
Net profit		**1 010 252**	**1 302 704**
Net profit attributable to:			
- Owners of mBank S.A.		1 010 350	1 302 786
- Non-controlling interests		(98)	(82)

Net profit attributable to Owners of mBank S.A.		**1 010 350**	**1 302 786**
Weighted average number of ordinary shares	**17**	**42 340 263**	**42 318 253**
Earnings per share (in PLN)	**17**	**23.86**	**30.79**
Weighted average number of ordinary shares for diluted earnings	**17**	**42 358 529**	**42 343 775**
Diluted earnings per share (in PLN)	**17**	**23.85**	**30.77**

Notes presented on pages 10–161 constitute an integral part of these Consolidated Financial Statements.

IFRS Consolidated Financial Statements 2019 (PLN '000)

Consolidated statement of comprehensive income

	Note	Year ended 31 December	
		2019	2018 - restated
Net profit		**1 010 252**	**1 302 704**
Other comprehensive income net of tax, including:	**18**	**(38 128)**	**109 366**
Items that may be reclassified subsequently to the income statement			
Exchange differences on translation of foreign operations (net)		32	60
Cash flows hedges (net)	20	35 499	88 841
Change in valuation of debt instruments at fair value through other comprehensive income (net)		(71 657)	23 013
Items that will not be reclassified to the income statement			
Actuarial gains and losses relating to post-employment benefits (net)		(2 002)	(2 548)
Total comprehensive income (net)		**972 124**	**1 412 070**
Total comprehensive income (net), attributable to:			
- Owners of mBank S.A.		972 222	1 412 152
- Non-controlling interests		(98)	(82)

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IFRS Consolidated Financial Statements 2019 (PLN '000)

Consolidated statement of financial position

ASSETS	Note	31.12.2019	31.12.2018 - restated	01.01.2018 - restated
Cash and balances with the Central Bank	19	7 897 010	9 199 264	7 384 869
Financial assets held for trading and hedging derivatives	20	2 866 034	2 134 741	2 499 349
Non-trading financial assets mandatorily at fair value through profit or loss, including:	21	2 267 922	*2 836 060*	*3 745 933*
Equity instruments		*162 616*	*72 775*	*41 087*
Debt securities		*133 774*	*58 130*	*46 538*
Loans and advances to customers		*1 971 532*	*2 705 155*	*3 658 308*
Financial assets at fair value through other comprehensive income	22	22 773 921	*24 338 284*	*23 491 032*
Financial assets at amortised cost, including:	23	118 779 885	*103 564 317*	*91 160 239*
Debt securities		*11 234 873*	*9 000 539*	*8 520 172*
Loans and advances to banks		*4 341 758*	*2 546 346*	*1 707 223*
Loans and advances to customers		*103 203 254*	*92 017 432*	*80 932 844*
Investments in associates		-	-	28 680
Non-current assets and disposal groups classified as held for sale	24	10 651	-	42 134
Intangible assets	25	955 440	776 175	710 642
Tangible assets	26	1 262 397	785 026	758 738
Current income tax assets		12 662	9 336	9 688
Deferred income tax assets	31	937 712	959 076	698 639
Other assets	27	956 949	1 178 279	771 013
TOTAL ASSETS		**158 720 583**	**145 780 558**	**131 300 956**

LIABILITIES AND EQUITY				
LIABILITIES				
Financial liabilities held for trading and hedging derivatives	20	948 764	981 117	1 095 365
Financial liabilities measured at amortised cost, including:	28	137 763 369	125 641 634	113 173 991
Amounts due to banks		*1 166 871*	*3 108 826*	*5 073 351*
Amounts due to customers		*116 661 138*	*102 009 062*	*91 619 645*
Debt securities issued		*17 435 143*	*18 049 583*	*14 322 852*
Subordinated liabilities		*2 500 217*	*2 474 163*	*2 158 143*
Fair value changes of the hedged items in portfolio hedge of interest rate risk		136	-	44 854
Liabilities included in disposal groups classified as held for sale	24	1 315	-	-
Provisions	30	739 296	258 283	235 299
Current income tax liabilities		161 534	352 962	179 685
Deferred income tax liabilities	31	82	83	81
Other liabilities	29	2 952 782	3 375 272	2 604 919
TOTAL LIABILITIES		**142 567 278**	**130 609 351**	**117 334 194**
EQUITY				
Equity attributable to Owners of mBank S.A.		**16 151 303**	**15 169 107**	**13 964 576**
Share capital:		**3 579 818**	**3 574 686**	**3 564 176**
Registered share capital	35	169 401	169 348	169 248
Share premium	36	3 410 417	3 405 338	3 394 928
Retained earnings:	**37**	**12 394 775**	**11 379 583**	**10 294 928**
Profit from the previous years		11 384 425	10 076 797	10 294 928
Profit for the current year		1 010 350	1 302 786	-
Other components of equity	**38**	**176 710**	**214 838**	**105 472**
Non-controlling interests		**2 002**	**2 100**	**2 186**
TOTAL EQUITY		**16 153 305**	**15 171 207**	**13 966 762**
TOTAL LIABILITIES AND EQUITY		**158 720 583**	**145 780 558**	**131 300 956**

Total capital ratio	**45**	**19.46**	**20.69**	
Common Equity Tier 1 capital ratio	**45**	**16.51**	**17.47**	
Book value		**16 151 303**	**15 169 107**	**13 964 576**
Number of shares	**35**	**42 350 367**	**42 336 982**	**42 312 122**
Book value per share (in PLN)		**381.37**	**358.29**	**330.04**

Notes presented on pages 10–161 constitute an integral part of these Consolidated Financial Statements.

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Consolidated statement of changes in equity

Changes in equity from 1 January to 31 December 2019

	Share capital		Retained earnings					Other components of equity						
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year 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 attributable to Owners of mBank S.A., total	Non-controlling interests	Total equity
Equity as at 1 January 2019	**169 348**	**3 405 338**	**9 826 282**	**93 448**	**1 153 753**	**306 100**	**-**	**(5 467)**	**145 978**	**83 643**	**(9 316)**	**15 169 107**	**2 100**	**15 171 207**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**1 010 350**	**32**	**(71 657)**	**35 499**	**(2 002)**	**972 222**	**(98)**	**972 124**
Issuance of ordinary shares	53	-	-	-	-	-	-	-	-	-	-	53	-	53
Other increase or decrease in equity	-	-	-	-	-	(26)	-	-	-	-	-	(26)	-	(26)
Stock option program for employees	**-**	**5 079**	**-**	**4 868**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**9 947**	**-**	**9 947**
- value of services provided by the employees	-	-	-	*9 947*	-	-	-	-	-	-	-	*9 947*	-	*9 947*
- settlement of exercised options	-	*5 079*	-	*(5 079)*	-	-	-	-	-	-	-	-	-	-
Equity as at 31 December 2019	**169 401**	**3 410 417**	**9 826 282**	**98 316**	**1 153 753**	**306 074**	**1 010 350**	**(5 435)**	**74 321**	**119 142**	**(11 318)**	**16 151 303**	**2 002**	**16 153 305**

Changes in equity from 1 January to 31 December 2018

	Share capital		Retained earnings					Other components of equity						
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year 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 attributable to Owners of mBank S.A., total	Non-controlling interests	Total equity
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 correction of errors	-	-	-	-	-	(31 208)	-	-	-	-	-	(31 208)	-	(31 208)
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**	**1 320 224**	**-**	**(5 527)**	**122 965**	**(5 198)**	**(6 768)**	**13 964 576**	**2 186**	**13 966 762**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**1 302 786**	**60**	**23 013**	**88 841**	**(2 548)**	**1 412 152**	**(82)**	**1 412 070**
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**	**(996 686)**	**1 302 786**	**(5 467)**	**145 978**	**83 643**	**(9 316)**	**15 169 107**	**2 100**	**15 171 207**

Notes presented on pages 10–161 constitute an integral part of these Consolidated Financial Statements.

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Consolidated statement of cash flows

	Note	Year ended 31 December	
		2019	2018 - restated
Profit before income tax		**1 555 045**	**1 786 649**
Adjustments:		***(452 989)***	***(653 909)***
Income taxes paid		(705 191)	(600 098)
Depreciation, including depreciation of fixed assets provided under operating lease	25, 26	423 463	299 326
Foreign exchange (gains) losses related to financing activities		107 844	375 493
(Gains) losses on investing activities		(37 663)	(309 106)
Dividends received	8	(4 220)	(3 558)
Interest income (income statement)	6	(5 071 664)	(4 518 190)
Interest expense (income statement)	6	1 068 892	1 021 716
Interest received		5 358 232	4 755 576
Interest paid		(1 096 272)	(1 212 902)
Changes in loans and advances to banks		(2 122 441)	(1 377 115)
Changes in financial assets and liabilities held for trading and hedging derivatives		(43 652)	(7 312)
Changes in loans and advances to customers		(10 535 348)	(10 280 705)
Changes in financial assets at fair value through other comprehensive income		1 127 294	(1 311 909)
Changes in securities at amortised cost		(2 234 334)	(276 849)
Changes of non-trading equity securities mandatorily at fair value through profit or loss		(154 430)	(408)
Changes in other assets		216 394	(390 131)
Changes in amounts due to banks		(1 399 697)	635 989
Changes in amounts due to customers		14 874 358	11 464 952
Changes in issued debt securities		(224 425)	280 813
Changes in provisions		481 013	22 984
Changes in other liabilities		(454 142)	777 525
A. Cash flows from operating activities		**1 129 056**	**1 132 740**
Disposal of shares in associates		-	54 759
Disposal of shares in subsidiaries, net of cash disposed		-	100
Disposal of intangible assets and tangible fixed assets		72 599	115 083
Dividends received	8	4 220	3 558
Other investing inflows		-	466 734
Acquisition of shares in subsidiaries		(25 636)	(39 907)
Purchase of intangible assets and tangible fixed assets		(500 761)	(558 570)
B.Cash flows from investing activities		**(449 578)**	**41 757**
Proceeds from loans and advances from banks		-	187 200
Proceeds from other loans and advances		544 735	648 378
Issue of debt securities	28	2 318 586	4 644 681
Issue of subordinated liabilities	28	-	750 000
Issue of ordinary shares		53	100
Repayments of loans and advances from banks		(560 027)	(2 945 100)
Repayments of other loans and advances		(1 058 369)	(1 501 535)
Redemption of debt securities	28	(2 723 575)	(1 355 830)
Repayments or redemption of subordinated liabilities	28	-	(500 000)
Payments of financial lease liabilities		*n/a*	(520)
Payments of lease liabilities		(122 539)	*n/a*
Dividends and other payments to shareholders		-	(217 907)
Interest paid from loans and advances received from banks and from subordinated liabilities		(89 974)	(98 251)
C. Cash flows from financing activities		**(1 691 110)**	**(388 784)**
Net increase / decrease in cash and cash equivalents (A+B+C)	**40**	**(1 011 632)**	**785 713**
Effects of exchange rate changes on cash and cash equivalents		(9 408)	20 996
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	**40**	**9 609 929**	**10 630 969**

Notes presented on pages 10–161 constitute an integral part of these Consolidated Financial Statements.

Explanatory notes to the consolidated financial statements

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

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

- strategic: shares and equity interests in companies supporting particular business segments 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;
- other: shares and equity interests in companies acquired in exchange for receivables, in transactions resulting from composition and work out agreements with debtors, with the intention to recover a part or all claims to loan receivables and insolvent companies under liquidation or receivership.

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

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

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

As at 31 December 2019, mBank S.A. Group covered by the Consolidated Financial Statements comprised the following companies:

mBank S.A., the parent entity

mBank S.A. was established under the name of Bank Rozwoju Eksportu SA by Resolution of the Council of Ministers N° 99 of 20 June 1986. The Bank was registered pursuant to the legally valid decision of the District Court for the Capital City of Warsaw, 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 company by-laws, the name of the Bank has changed from 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 31 December 2019 the headcount of mBank S.A. amounted to 6 072 FTEs (Full Time Equivalents) and of the Group to 6 771 FTEs (31 December 2018: Bank 5 839 FTEs, Group 6 524 FTEs).

As at 31 December 2019 the employment in mBank S.A. was 7 106 persons and in the Group 9 352 persons (31 December 2018: Bank 6 766 persons, Group 8 823 persons).

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

<u>Corporates and Financial Markets Segment, including:</u>

Corporate and Investment Banking

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

The core business of mBank Hipoteczny S.A. is to ensure stable and long-term financing of the Group by issuing covered bonds. At the end of 2019, the company did not conduct independent credit operations, but used the pooling model in cooperation with mBank. The company performs market analysis and provides consultancy services addressed to investors and commercial real estate sector entities.

- mFaktoring S.A., subsidiary

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

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

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

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

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

- Garbary Sp. z o.o., subsidiary

The only business of the company was to administer the buildings of a former meat factories located at 101/111 Garbary St. in Poznań currently not in use. On 27 April 2018 the final agreement on the sale of real estate was signed. The company has not been operational since the day the real estete was sold.

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

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

Financial Markets

- mFinance France S.A., subsidiary

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

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

<u>Retail Banking Segment (including Private Banking)</u>

- mFinanse S.A., subsidiary

mFinanse S.A. offers mBank S.A. and third party banks' products. Its offer includes mortgage loans, business products, cash loans, insurance products and leasing. Distribution is carried out throughout the whole country in 44 offices of mFinanse and 166 mKiosks placed in shopping centers.

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

LeaseLink is a company operating in the fintech area in the leasing of low-value items, specialises in providing leasing as a payment method for e-commerce. The Bank holds indirectly through mLeasing Sp. z o.o. 100% shares in the company. On 8 March 2019 mLeasing Sp. z o. o. acquired 100% shares in

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LeaseLink Sp. z o. o. Therefore, from March 2019 the Group began consolidating the company. Detailed information on the purchase of shares in the company is presented in Note 43.

Other

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

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

In November 2019, the company was liquidated, as described in note 43.

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

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

On 7 November 2019, as part of implementing the mBank Group plan to withdraw from development activity and focus on the main activity in the financial industry, mBank S.A. signed a conditional agreement for the sale of shares in the company to Archicom Polska S.A. Therefore, as at 31 December 2019, BDH Development S.A. was classified as non-current assets held for sale, which is described in detail in Note 24.

- Future Tech Fundusz Inwestycyjny Zamknięty, subsidiary

The Fund was established as an investment vehicle within the mAccelerator project, which focuses on developing and commercialising high-potential projects in the field of new technologies for the financial services sector (fintech). As at 31 December 2019 and as at 31 December 2018 the Bank held 98.04% of the Fund's investment certificates, while the remaining 1.96% was owned by minority shareholders. The entity managing the Fund is Quercus Towarzystwo Funduszy Inwestycyjnych S.A.

Other information concerning companies of the Group

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

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

Company	31.12.2019		31.12.2018	
	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method
mBank Hipoteczny S.A.	100%	full	100%	full
mLeasing Sp. z o.o.	100%	full	100%	full
mFinanse S.A.	100%	full	100%	full
mFaktoring S.A.	100%	full	100%	full
mFinance France S.A.	99,998%	full	99,998%	full
Future Tech Fundusz Inwestycyjny Zamknięty	98,04%	full	98,04%	full
Tele-Tech Investment Sp. z o.o.	100%	full	100%	full
mCentrum Operacji Sp. z o.o. in liquidation	-	-	100%	full
BDH Development Sp. z o.o.	100%	full	100%	full
Garbary Sp. z o.o.	100%	full	100%	full
Asekum Sp. z o.o.	100%	full	100%	full
LeaseLink Sp. z o.o.	100%	full	-	-

As at 31 December 2019, the Group classified BDH Development Sp. z o.o. to non-current assets held for sale (see Note 24). In November 2019, mCentrum Operacji Sp. z o.o. has been liquidated. The liquidation process is described in Note 43. 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.

These consolidated financial statements have been approved by the Management Board of mBank S.A. on 26 February 2020.

2. Description of relevant accounting policies

The most important accounting policies applied to the drafting of these consolidated financial statements are presented below. These principles were applied consistently over all presented periods, except for the accounting principles applied in connection with the implementation of IFRS 16 as of 1 January 2019, which is described in more detail in Note 2.30.

2.1. Accounting basis

These Consolidated Financial Statements of mBank S.A. Group have been prepared for the 12-month period ended 31 December 2019. Comparative data presented in these consolidated financial statements relate to the period of 12 months ended on 31 December 2018.

The Consolidated Financial Statements of mBank S.A. Group have been prepared on a historical cost basis in compliance with the International Financial Reporting Standards (IFRS) as adopted for use in the European Union, 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 4.

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

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

2.2. Consolidation

Subsidiaries

Subsidiaries comprise entities, regardless of the nature of the involvement with an entity (including special purpose vehicles) over which the Group controls the investee. The control is achieved when the Group has power over the investee, is exposed or has rights, to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. When the Group has less than a majority of the voting rights of an investee, it considers all relevant facts and circumstances in assessing whether it has power over the investee, including a contractual arrangements between the Group and other vote holders, rights arising from other contractual arrangements, the Group's voting rights and potential voting rights. If facts and circumstances indicate that there are changes in at least one of the three elements of control listed above, the Group reassess whether it controls an investee. The consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. The consolidated financial statements combine items of assets, liabilities, equity, income and expenses of the parent with those of its subsidiaries eliminating the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary. Thus arises goodwill. If goodwill has negative value, it is recognised directly in the income statement. The profit or loss and each component of other comprehensive income is attributed to the Group's owners and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. If the Group loses control of a subsidiary, it shall account for all amounts previously recognised in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Group had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group shall reclassify the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses control of the subsidiary. If a revaluation surplus previously recognised in other comprehensive income would be transferred directly to retained earnings on the disposal of the assets, the Group shall transfer the revaluation surplus directly to retained earnings when it loses control of the subsidiary.

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

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

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

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

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

2.3. Interest income and expenses

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

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

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

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

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

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

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

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

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

2.4. Fee and commission income

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

Step 1: Identifying the contract’s with a customer

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

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

Step 2: Identifying performance obligations in the contract

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

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

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

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

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

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

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

Step 3: Determining the transaction price

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

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

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

Step 4: Allocating the transaction price to the preformance obligations

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

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

The Group recognises revenue when (or as) it satisfies a performing obligation by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). The Group recognizes immediately the fees not related directly to origination of loans and advances. Fees for services delivered over the period longer than 3 months are recognised by the Group over time. As the fee and commission income, the Group treats also fees and commissions recognised over time on a straight line basis, related to loans and advances with not established timing of cash flows, for which effective interest rate is not possible to be determined. Straight line method for those services presents fairly the timing of transfer of services, because they are delivered evenly over time.

Accounting principles related to recognition of fee income from sale of assurance products bundled with loans and advances are described in a separate Note 2.5.

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

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

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

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

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

2.5. Revenue and expenses from sale of insurance products bundled with loans

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

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

The remuneration included in interest income is recognised over time as part of effective interest rate calculation for the bundled loan. The remuneration included in fee and commission income is recognised partly as upfront income and partly including deferring over time based on the analysis of the stage of completion of the service in accordance with 5-step model described above.

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

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

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

2.6. Segment reporting

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

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

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

2.7. Financial assets

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

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

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

<u>Financial assets measured at fair value through profit or loss</u>

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

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

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

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

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

Financial assets classified to this category are measured at fair value upon initial recognition.

After initial recognition, financial assets classified in this category are measured at the end of the reporting period at fair value.

Gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are recognized in the income statement in the period in which they arise.

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

Financial assets measured at amortized cost

Financial assets measured at amortized cost are assets that meet both of the following conditions, unless the Bank designated them to fair value through profit or loss: the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flow characteristics and contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets at amortized cost are entered into books on the transaction date.

At initial recognition financial assets classified to this category are valued at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. After initial recognition, these assets are measured at amortized cost using the effective interest rate.

Financial assets measured at fair value through other comprehensive income

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

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

Financial assets measured at fair value through other comprehensive income are valued at the end of the reporting period according to their fair value.

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

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

Equity instruments

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

In case of the financial instruments for which the option of measurement at fair value through other comprehensive income was used, all gains and losses related to change in fair value, including foreign exchange differences, are recognized in other comprehensive income. There is no possibility to reclassify them to profit and loss even if the instrument is derecognized. Only dividends received related to these instruments are recognized in profit and loss when the entity's right to receive payment is established.

Modification of contractual terms for financial assets

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

- Substantial increase of the credit amount of more than 10%
- Substantial prolongation of the contractual maturity of more than 12 months
- Change of currency not provided for in the terms of the contract. Change of the currency provided for in the terms of the agreement is such a change that defines both the FX rate at which it would have place and the interest rate of the loan after the change of the currency.
- Change of the borrower – only if the current borrower is exempted from the debt
- Change of the cash flow criterion from 'SPPI compliance' of a financial assets to 'SPPI non-compliance' and vice versa
- Change of the financed asset in case of object finance or project finance.

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

Purchased or originated credit impaired financial assets (POCI assets)

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

Reclassification of financial assets

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

Finacial liabilities are not subject to reclassification by the Group.

2.8. Offsetting of financial instruments

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

2.9. Impairment of financial assets

Financial instruments subject to estimation of expected credit losses are: financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income, loan commitments if not measured at fair value through profit or loss, financial guarantee contracts if not measured at fair value through profit or loss, leases under IFRS 16, contract assets under IFRS 15, as well as trading receivables.

A detailed description of issues regarding the principles of estimation of expected credit losses is presented in Note 3.3.6.

<u>How exposures are classified to stages</u>

The transfer logic is an algorithm used to classify exposures to one of the four Stages: 1, 2, 3, POCI.

Stage 1 includes exposures for which expected credit losses are calculated on a 12-month basis.

Stage 2 contains exposures for which, as at the reporting date, a significant deterioration in credit quality was identified compared to the date of their initial recognition – expected credit losses are calculated over a lifetime period.

Stage 3 contains exposures identified as credit-impaired.

Stage POCI contains assets identified as credit-impaired at initial recognition.

A detailed description of issues regarding the principles of classification of exposures to stages is presented in Note 3.3.6.1.

<u>Significant deterioration in credit quality</u>

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

<u>Rebuttable presumption</u>

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

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

A detailed description of issues regarding the significant deterioration in credit quality is presented in Note 3.3.6.1.1.

<u>Low credit risk</u>

According to the IFRS 9, the Group distinguishes a category of assets with low credit risk (ang. Low Credit Risk, LCR). Assets marked as LCR are not subject to the process of identifying indications of significant deterioration of credit quality (if they are not in the default status, they are in Stage 1).

A detailed description of issues regarding the low credit risk criteria is presented in Note 3.3.6.1.2.

<u>Impairment</u>

The Group applies a common default definition in all areas of credit risk management, including for the purpose of calculating expected credit losses and capital requirement. The basis for the adopted definition of default is the definition of default in the CRR Regulation.

The customer is reclassified to the default category in case of loss event occurrence. Reclassification of at least one customer credit liability to the default category reclassifies all credit and non-credit liabilities of the customer to the default category.

A detailed description of issues regarding loss events is presented in Note 3.3.6.1.3 (corporate) and 3.3.6.1.4 (retail).

Estimating expected credit losses (ECL)

An expected loss is measured for non-zero exposures that are active at the reporting date (balance sheet and off-balance sheet). An expected credit loss is estimated separately for on and off-balance-sheet exposures. The calculation of expected credit losses uses:

- portfolio approach: concerning exposures for which no loss event was identified at the reporting date and exposures from the retail portfolio with identified loss event (excluding exposures for which an individual approach is used);
- individual approach: concerning all corporate exposures and all Private Banking customer exposures registered in corporate systems for which a loss event was identified, as well as in specific cases of retail microfirms exposures for which a loss event was identified.

A detailed description of issues regarding expected credit losses estimation is presented in Note 3.3.6.2.

Loan receivable write-off

Loan receivable write-off can be partial or total.

In case of retail banking, writing off receivables can be done in the case of:

1. Debt recovery is not possible e.g.:
    a. the claim limitation,
    b. fraud – inability to identify the debtor,
    c. limitation of inheritors' liability,
    d. the claim was questioned by the debtor in court.
2. Lack of recovery e.g.:
    a. the enforcement proceedings have been completed and the whole debt was not recovered - then the unrecovered portion is written off,
    b. bankruptcy proceeding has been rejected or has been completed due to debtors lack of liquidation assets to cover the costs of the proceedings,
    c. the conclusion is that a claim is as a bad debt.

Due to the periodically executed debt sale of NPL, only fraud cases are systematically written off. Other cases are included to the debt sale portfolio.

In case of corporate portfolio, writing off receivables is carried out when all recovery options are exhausted. This happens when:

1. Bankruptcy proceedings have been completed, the debtor was removed from the National Court Register and the whole debt was not recovered - then the unrecovered portion is written off.
2. Restructuring proceedings have been initiated and the arrangement implies that part of the debt will be written off - then part of the debt is written off as well.
3. Enforcement proceedings are pending which have not led to the repayment of the debt - then part of the debt is written off as well.
4. The claim is questioned by the debtor in court. According with the decision of the court the claims are waved.

2.10. Financial guarantee contracts

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

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

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

2.11. Cash and cash equivalents

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

2.12. Sale and repurchase agreements

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

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

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

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

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

2.13. Derivative financial instruments and hedge accounting

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

The best fair value indicator for a derivative instrument at the time of its initial recognition is the price of the transaction (i.e., the fair value of the paid or received consideration). If the fair value of the particular instrument may be determined by comparison with other current market transactions concerning the same instrument (not modified) or relying on valuation techniques based exclusively on market data that are available for observation, then the Group recognises the respective gains or losses from the first day in accordance with the principles described under Note 2.14.

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

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

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

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

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

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

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

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

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

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

Due to the split of derivatives classified into banking book and into trading book, the Group applies a different approach to the presentation of interest income/expense for each of these groups of derivatives that is described in Note 2.3 "Interest income and expenses". The remaining result from fair value measurement of derivatives is recognised in "Net trading income".

Fair value hedges

Changes in the fair value of derivative instruments designated and qualifying as fair value hedges are recognised in the income statement together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Hedging gain or loss on the hedged item adjusts the carrying amount of the hedged item.

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

<u>Cash flow hedges</u>

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

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

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

<u>Derivative instruments not fulfilling the criteria of hedge accounting</u>

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

The Group holds the following derivative instruments in its portfolio:

Market risk instruments:

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

Interest rate risk instruments:

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

Foreign exchange risk instruments:

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

2.14. Gains and losses on initial recognition

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

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

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

2.15. Financial liabilities measured at amortised cost

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

2.16. Intangible assets

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

Goodwill

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

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

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

Computer software

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

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

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

Development costs

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

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

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

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

2.17. Tangible fixed assets

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

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only where it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Any other expenses incurred on repairs and maintenance are expensed to the income statement in the reporting period in which they were incurred.

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

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

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

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

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

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

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

2.18. Inventories

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

2.19. Non-current assets held for sale and discontinued operations

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

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

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

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

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

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

2.20. Deferred income tax

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

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

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

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

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

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

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

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

Deferred income tax for the Group is provided on assets or liabilities due to temporary differences arising from investments in subsidiaries and associates, except where, on the basis of any probable evidence, the timing of the reversal of the temporary difference is controlled by the Group and it is possible that the difference will not reverse in the foreseeable future.

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

2.21. Assets repossessed for debt

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

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

2.22. Prepayments, accruals and deferred income

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

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

2.23. Leasing

A 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. The Group shall reassess whether a contract is, or contains, a lease if the terms and conditions of the contract are changed.

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 and it controls the use of the asset throughout the period of use

mBank S.A. Group as a lessee

If lease definition is fullfilled, the Bank recognizes the right to use of the leased asset and a financial liability representing its obligation to make future lease payments in the amount of discounted future cash flows throughout the lease period.

The Group as a lessee applies simplified approach and it does not apply the requirements in terms of recognition, measurement and presentation for short-term lease contracts lasting no longer than 12 months for each class of underlying asset as well as for lease contracts for which the underlying asset is of low value, i.e. less than PLN 20 000 for separate leases. Lease payments are recognized as costs using straight-line method throughout the lease period for lease contracts for which the Group applies simplified approach.

Perpetual usufruct right is classified as a lease according to IFRS 16 due to the occurrence of future fees for the use of this right. The Group assumed that the lease period for this type of contracts is the remaining period of the right granted since the transition to IFRS 16.

The Group shall determine the lease term as the non-cancellable period of a lease, together with both:

- periods covered by an option to extend the lease if the Group as a lessee is reasonable certain to exercise that option, and
- periods covered by an option to terminate the lease if the Group as a lessee is reasonable certain not to exercise that option,

The Group shall reassess whether it is reasonably certain to exercise an option to extend a lease, or not to exercise an option to terminate a lease. The Group shall consider all relevant facts and circumstances that create an economic incentive for the lessee to exercise an option to extend a lease, or not to exercise an option to terminate a lease. The Group shall reassess whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the Group as a lessee, and that affects whether the lessee is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term. The Group shall revise the lease term if there is a change in the non-cancellable period of a lease.

At the commencement date, the Group as a lessee shall measure the right-of-use asset at cost. 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 Group as a lessee in connection with the conclusion of the leasing contract and
- an estimate of the costs to be incurred by the Group as a lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

After the commencement date, the Group as a lessee shall measure the right-of-use asset at cost:

- less any accumulated depreciation and any accumulated impairment losses and,
- adjusted for any remeasurement of the lease liability,

The Group applies the depreciation requirements in IAS 16 Property, Plant and Equipment in depreciating the right-of-use asset and requirements in IAS 36 Impairment of Assets to determine whether the right-of-use asset is impaired.

At the commencement date, the Group shall measure the lease liability at the present value of the lease payments that are not paid at that date. At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments:

- fixed lease payments less any lease incentives,
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date,
- 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 and,
- payment of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Variable lease payments that depend on an index or a rate include, for example, payments linked to a customer price index, payments linked to a benchmark interest rate (such as LIBOR) or payments that vary to reflect changes in market rental rates.

After the commencement date, the Group shall measure the lease liability by:

- increasing the carrying amount to reflect interest on the lease liability,
- reducing the carrying amount to reflect the lease payments made and,
- remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments

The Group discounts lease payments using the interest rate of lease if this rate can be easily determined. Otherwise, the Group applies the marginal interest rate of lessee. As the lessee the Group estimates the discount rate taking into account the duration and the currency of the contract.

All assets due to the right to use are recognized in tangible assets.

Cash payments of lease liabilities are classified in statement of cash flows within financial activities. Short term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability are classified in statement of cash flows within operating activites.

mBank S.A. Group as a lessor

- In operating lease:

The Group recognizes the lease payments from operating leases as income on a straight-line basis or in another systematic manner. The Group recognizes costs, including depreciation, incurred in order to obtain benefits from leasing. The Group adds the initial direct costs incurred in order to obtain operating leasing to the carrying value of the underlying asset and it recognizes these costs as expenses incurred throughout the lease period on the same basis as lease revenues. The method of depreciation of leased out depreciable assets should be the same as that foreseen by the normal depreciation rules adopted by the Group with regard to similar assets, and the depreciation charges should be calculated in accordance with IAS 16 and IAS 38. In order to determine whether there has been any impairment of the object of the lease, the Group applies IAS 36.

- In finance lease:

At the commencement date the Group shall recognise assets held under a finance lease as receivable at an amount equal to the net investment in the lease. Initial direct costs are included in the initial measurement of the net investment in the lease and reduce the amount of income recognised over the lease term. A Group recognises finance income over the lease term on a systematic and rational bais. The lease payments relating to the period reduce gross investment in the lease both the principal and the unearned finance income. The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease.

2.24. Provisions

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

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

2.25. Post-employment employee benefits and other employee benefits

Post-employment employee benefits

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

Equity-settled share-based payment transactions

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

Cash-settled share-based payment transactions

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

Other employee benefits

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

2.26. Equity

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

Registered share capital

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

- Own shares

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

Share premium

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

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

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

Retained earnings

Retained earnings include:

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

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

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

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

Other components of equity

Other components of equity result from:

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

2.27. Valuation of items denominated in foreign currencies

Functional currency and presentation currency

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

Transactions and balances

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

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

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

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

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

Items of the statement of financial position of foreign branches are converted from functional currency to the presentation currency with the application of the average exchange rate as at the end of the reporting period. Income statement items of these entities are converted to presentation currency with the application of the arithmetical mean of average exchange rates quoted by the National Bank of Poland on the last day of each month of the reporting period. Foreign exchange differences so arisen are recognised in other comprehensive income.

Companies belonging to the Group

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

- assets and liabilities in each presented statement of financial position are converted at the average rate of exchange of the National Bank of Poland (NBP) in force at the end of this reporting period,
- revenues and expenses in each income statement are converted at the rate equal to the arithmetical mean of the average rates quoted by NBP on the last day of each of 12 months of each presented periods,
- all resulting foreign exchange differences are recognised as a distinct item of other comprehensive income.

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

Leasing business

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

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

2.28. Trust and fiduciary activities

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

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

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

2.29. 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 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 was endorsed by the European Union on 31 October 2017. IFRS 16 applies for annual reporting periods beginning on or after 1 January 2019. The incoming standard supersedes regulations binding 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 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 consisted of all finance and operating leasing contracts, 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 leasing contracts 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,

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- 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.

<u>Impact on the consolidated statement of financial position of mBank Group</u>

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 r. (without IFRS 16 effect)	IFRS 16 effect	1 January 2019 (with IFRS 16 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	125 641 634	563 360	126 204 994
including: Lease liabilities	-	563 360	563 360

The reconciliation of the difference between the amounts of future lease payments due to non-cancellable 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 r.	**563 360**
Other adjustments to right-uf-use assets	(985)
Right-of-use as at 1 January 2019 r.	**562 375**

<u>Impact on the income statement</u>

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).

<u>Impact on equity</u>

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

<u>Impact on capital ratios</u>

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.

Standards and interpretations endorsed by the European Union:

<u>Published Standards and Interpretations which have been early adopted</u>

- Amendments to IFRS 9, IAS 39 and IFRS 7, Interest Rate Benchmark Reform, published by International Accounting Standards Board on 26 September 2019, endorsed by European Union on 16 January 2020, binding for annuals periods starting on or after 1 January 2020.

  Amendments to IFRS 9, IAS 39 and IFRS 7 conclude phase one of the International Accounting Standards Board's work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative risk-free interest rate. As a result of interest rate benchmark reform, there may be uncertainties about the timing and amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective.

The Group exercised its right to apply earlier the amendments to the standards and therefore it did not verify effectiveness of hedging relationships.

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

- Amendments to IAS 1 and IAS 8, Definition of Material, published by the International Accounting Standards Board on 31 October 2018, endorsed by European Union on 10 December 2019, 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 References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018), endorsed by European Union on 6 December 2019 and 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.

Standards and interpretations not yet endorsed by the European Union

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

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

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

  The 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, Classification of liabilities as current or non-current, published by International Accounting Standards Board on 23 January 2020, binding for annuals periods starting on or after 1 January 2022.

  Amendments to IAS 1 affect the requirements for the presentation of liabilities in the financial statements. In particular, they explain one of the criteria for classifying liabilities as non-current.

  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 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.

2.30. Comparative data

- Presentation of result on provisions for legal risk related to foreign currency loans

Since the end of 2019 a new line item in the income statement has been separated in which the Group presents the result on provisions for legal risk related to foreign currency loans. Previously the expenses of creating provisions for court cases relating to foreign currency loans were presented as Other operating expenses, and income relating to release of those provisions was presented within other operating income. The change in presentation is relevant to the understanding of the financial performance of the Group. The comparative data have been adjusted accordingly, which resulted in the decrease of other operating income in 2018 by PLN 2 626 thousand and decrease of other operating expenses by PLN 22 975 thousand. The result on provisions for legal risk related to foreign currency loans in 2018 was negative and amounted to PLN 20 349 thousand.

- The recognition of some transactions of purchase and sale of securities

In the fourth quarter 2019, the Group adjusted the recognition of transactions in Treasury securities which in the previous years were incorrectly classified as outright buy or sale of securities and should have been classified as buy/sell back ("BSB") or sell/buy back ("SBB") transactions instead.

As part of pursued financial operations, the Group trades in securities issued by the Treasury. Apart from outright buy or sale, the Group concludes BSB and SBB transactions in T-bills and T-bonds. Outright buy or sale of securities is understood as unconditional acquisition or disposal of securities. A 'BSB transaction' means a transaction by which the Group buys a securities for which a commitment has been made to resell them at a contractual date and for a specified contractual price. A 'SBB transaction' means a transaction by which the bank sells securities for which a commitment has been made to repurchase them at a contractual date and for a specified contractual price.

Some concluded transactions of purchase and sale of securities which, when considered jointly, were equivalent to BSB or SBB transactions taking into account their economic nature. Such transactions had been incorrectly recognised by the Bank as unconditional sale or purchase transactions in line with their legal nature until December 2018. In accordance with substance over form principle, the Group adjusted the recognition of those transactions. This adjustment resulted in an increase in the carrying amount of debt securities held for trading and in the amounts due to banks arising from SBB transactions by PLN 30 439 thousand as at 31 December 2018, and an increase in receivables arising from BSB transactions presented in the item "Loans and advances to clients measured at amortised cost" by PLN 385 954 thousand, an increase in the amounts due to clients by PLN 123 618 thousand and a decrease in the value of debt securities held for trading by PLN 262 336 thousand as at 1 January 2018.

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The said adjustment also resulted in recognising an additional tax on selected financial institutions (banking tax). In the period from February 2016 to 31 December 2017 the tax on selected financial institutions (together with late payment interest) should have been higher by PLN 31 208 thousand and by PLN 13 665 thousand in the period from 1 January 2018 to 31 December 2018. Due to the above the Group adjusted the retained earnings by the respective amounts in correspondence with the liabilities to tax authorities. As a result Group also corrected the preliminary recognition of provision for the banking tax through the income statement of 2019.

- Netting revenues and costs due to fees and commissions related to car fleet management

In accordance with the requirements of IFRS 15 "Revenue from contracts with customers", the Group made changes in the presentation of revenues and costs that required restatement of comparative data for 2018. In accordance with the requirements of IFRS 15, the Group decreased by PLN 11 441 thousand fees and commissions expenses for the period from 1 January to 31 December 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 adjustments on the comparative data presented in these financial statements for relevant reporting periods is presented below.

Restatement of consolidated income statement for 2018

	Period from 01.01.2018 to 31.12.2018 before restatement	Restatement	Period from 01.01.2018 to 31.12.2018 after restatement
Interest income, including:	4 518 190	-	4 518 190
Interest income accounted for using the effective interest method	*3 868 051*	-	*3 868 051*
Income similar to interest on financial assets at fair value through profit or loss	*650 139*	-	*650 139*
Interest expenses	(1 021 716)	-	(1 021 716)
Net interest income	**3 496 474**	**-**	**3 496 474**
Fee and commission income	1 641 782	(11 441)	1 630 341
Fee and commission expenses	(665 932)	11 441	(654 491)
Net fee and commission income	**975 850**	**-**	**975 850**
Dividend income	3 558	-	3 558
Net trading income, including:	347 336	-	347 336
Foreign exchange result	*323 472*	-	*323 472*
Gains or losses on financial assets and liabilities held for trading	*30 571*	-	*30 571*
Gains or losses from hedge accounting	*(6 707)*	-	*(6 707)*
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	*(160 041)*	-	*(160 041)*
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates, including:	14 495	-	14 495
Gains less losses from debt securities measured at fair value through other comprehensive income	*16 465*	-	*16 465*
Gains less losses from investments in subsidiaries and associates	*(4 034)*	-	*(4 034)*
Gains less losses from derecognition	*2 064*	-	*2 064*
Other operating income	407 620	(2 626)	404 994
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(527 573)	-	(527 573)
Result on provisions for legal risk related to foreign currency loans	-	(20 349)	(20 349)
Overhead costs	(1 911 340)	-	(1 911 340)
Depreciation	(252 592)	-	(252 592)
Other operating expenses	(192 953)	22 975	(169 978)
Operating profit	**2 200 834**	-	**2 200 834**
Tax on the Bank's balance sheet items	(401 760)	(13 665)	(415 425)
Share in profits (losses) of entities under the equity method	1 240	-	1 240
Profit before income tax	**1 800 314**	**(13 665)**	**1 786 649**
Inome tax expense	(483 945)	-	(483 945)
Net profit	**1 316 369**	**(13 665)**	**1 302 704**
Net profit attributable to:			
- Owners of mBank S.A.	1 316 451	(13 665)	1 302 786
- Non-controlling interests	(82)	-	(82)
Earnings per share (in PLN)	**31.11**	**(0.32)**	**30.79**
Diluted earnings per share (in PLN)	**31.09**	**(0.32)**	**30.77**

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Restatement of consolidated statement of comprehensive income for 2018

	Period from 01.01.2018 to 31.12.2018 before restatement	Restatement	Period from 01.01.2018 to 31.12.2018 after restatement
Net profit	**1 316 369**	**(13 665)**	**1 302 704**
Other comprehensive income net of tax	**109 366**	-	**109 366**
Total comprehensive income (net)	**1 425 735**	**(13 665)**	**1 412 070**
Total comprehensive income (net), attributable to:			
- Owners of mBank S.A.	1 425 817	(13 665)	1 412 152
- Non-controlling interests	(82)	-	(82)

Restatement of consolidated statement of financial position

ASSETS	31.12.2018 before restatement	Restatement	31.12.2018 after restatement
Financial assets held for trading and hedging derivatives	2 104 302	30 439	2 134 741
Other items of assets	143 645 817	-	143 645 817
TOTAL ASSETS	**145 750 119**	**30 439**	**145 780 558**

LIABILITIES	31.12.2018 before restatement	Restatement	31.12.2018 after restatement
Financial liabilities measured at amortised cost, including:	125 611 195	30 439	125 641 634
- Amount due to banks	*3 078 387*	*30 439*	*3 108 826*
Other liabilities	3 330 399	44 873	3 375 272
Other items of liabilities	1 592 454	-	1 592 454
TOTAL LIABILITIES	**130 534 039**	**75 312**	**130 609 351**
EQUITY	**31.12.2018 before restatement**	**Restatement**	**31.12.2018 after restatement**
Equity attributable to Owners of mBank S.A.	**15 213 980**	**(44 873)**	**15 169 107**
Share capital	**3 574 686**	**-**	**3 574 686**
Retained earnings	**11 424 456**	**(44 873)**	**11 379 583**
- Profit from the previous year	10 108 005	(31 208)	10 076 797
- Profit for the current year	1 316 451	(13 665)	1 302 786
Other components of equity	**214 838**	**-**	**214 838**
Non-controlling interests	**2 100**	**-**	**2 100**
TOTAL EQUITY	**15 216 080**	**(44 873)**	**15 171 207**
TOTAL LIABILITIES AND EQUITY	**145 750 119**	**30 439**	**145 780 558**

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Restatement of consolidated statement of cash flow for 2018

	Period from 01.01.2018 to 31.12.2018 before restatement	Restatement	Period from 01.01.2018 to 31.12.2018 after restatement
Profit before income tax	**1 800 314**	**(13 665)**	**1 786 649**
Adjustments, incuding:	**(667 574)**	**13 665**	**(653 909)**
Changes in financial assets and liabilities held for trading and hedging derivatives	285 463	(292 775)	(7 312)
Changes in loans and advances to customers	(10 666 659)	385 954	(10 280 705)
Changes in amounts due to other banks	605 550	30 439	635 989
Changes in amounts due to customers	11 588 570	(123 618)	11 464 952
Changes in other liabilities	763 860	13 665	777 525
Other adjustments	(3 244 358)	-	(3 244 358)
A. Cash flows from operating activities	**1 132 740**	**-**	**1 132 740**
B.Cash flows from investing activities	**41 757**	**-**	**41 757**
C. Cash flows from financing activities	**(388 784)**	**-**	**(388 784)**
Net increase / decrease in cash and cash equivalents (A+B+C)	**785 713**	**-**	**785 713**
Effects of exchange rate changes on cash and cash equivalents	20 996	-	20 996
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	**10 630 969**	**-**	**10 630 969**

The aforementioned changes in the comparative data, as presented above, were provided for in these financial statements in all the notes to which they referred. The data on capital ratios for comparative periods remained unchanged.

Restatement of consolidated statement of financial position as at 1 January 2018

ASSETS	01.01.2018 before restatement	Restatement	01.01.2018 after restatement
Financial assets held for trading and hedging derivatives	2 761 685	(262 336)	2 499 349
Financial assets at amortised cost, including:	90 774 285	385 954	91 160 239
- Loans and advances to customers	*80 546 890*	*385 954*	*80 932 844*
Other items of assets	37 641 368	-	37 641 368
TOTAL ASSETS	**131 177 338**	**123 618**	**131 300 956**

LIABILITIES	01.01.2018 before restatement	Restatement	01.01.2018 after restatement
Financial liabilities measured at amortised cost, including:	113 050 373	123 618	113 173 991
- Amount due to banks	*91 496 027*	*123 618*	*91 619 645*
Other liabilities	2 573 711	31 208	2 604 919
Other items of liabilities	1 555 284	-	1 555 284
TOTAL LIABILITIES	**117 179 368**	**154 826**	**117 334 194**

EQUITY	01.01.2018 before restatement	Restatement	01.01.2018 after restatement
Equity attributable to Owners of mBank S.A.	**13 995 784**	**(31 208)**	**13 964 576**
Share capital	**3 564 176**	**-**	**3 564 176**
Retained earnings	**10 326 136**	**(31 208)**	**10 294 928**
- Profit from the previous year	10 326 136	(31 208)	10 294 928
- Profit for the current year	-	-	-
Other components of equity	**105 472**	**-**	**105 472**
Non-controlling interests	**2 186**	**-**	**2 186**
TOTAL EQUITY	**13 997 970**	**(31 208)**	**13 966 762**
TOTAL LIABILITIES AND EQUITY	**131 177 338**	**123 618**	**131 300 956**

3. Risk management

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

3.1. Risk management in mBank Group in 2019 – external environment

The Bank is in the process of introducing changes resulting from the Delegated Commission Regulation (EU) 2018/1620 of 13 July 2018 with regard to liquidity coverage requirement for credit institutions and their impact on the method used to calculate the LCR. The Bank applies the LCR as a key ratio for measuring liquidity risk in the context of the recovery plan.

Currently, in light of the publication of Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 and Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending the CRR/CRD IV regulatory package (Capital Requirements Regulation & Capital Requirements Directive), the mBank Group is working on the analysis of the new regulatory requirements and their implementation. Most of the amendments to the CRR Regulation will be applicable 2 years after the effective date of the regulation.

The proposed amendments include new methods of calculating capital requirements for counterparty credit risk and market risk, which shall replace the methods used so far. A change in the approach to the treatment of exposure to a central counterparty and the extension of capital "incentives" for banks financing small and medium-sized enterprises were also proposed. The binding 3% minimum value of the leverage ratio was introduced as the prudential measure. The Bank analyses changes with regard to the calculation of the net stable funding ratio (NSFR) which was introduced as the prudential measure at the minimum binding level of 100%, applicable form 28 June 2021.

In 2019 an amendment to the CRR Regulation was published, aiming at reducing the risk posed by high volumes of non-performing loans. It introduces the minimum level required to cover losses due to non-performing loans. In the event that this requirement is not met by the bank, it introduces a penalty in the form of a subsequent reduction of Tier 1 capital by the difference between the level of actual coverage and the level of the required minimum coverage. The minimum required level of coverage of losses is introduced progressively, so the effects of the new regulation will be visible few years after the entry into force.

The amendments to the CRD IV, published in 2019, include more detailed guidelines on restrictions on profit-sharing. The provisions on the use of supervisory tools for micro and macro prudential purposes have been clarified and changes in the calibration of capital buffers have been proposed. Supervisory expectations have been addressed as to the need for a standardized methodology of interest rate risk management in the banking portfolio in order to identify, assess, manage and mitigate risk. Amended provisions of CRD IV should be introduced to the Polish regulations by the end of 2020.

In light of the publication of Directive (EU) 2019/879 of the European Parliament and of the Council of 20 May 2019 amending BRRD (Bank Recovery and Resolution Directive), the requirements regarding recovery and resolution also changed. New provisions require transposition into the national law. The Directive proposed changes to the design of the MREL ratio to make it consistent with TLAC ratio (total loss absorbing capacity). The amendments to the BRDD are expected to be implemented in the legislation in Poland by the end of 2020.

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

- Between 2016-2019 the EBA published, as part of a broader regulatory initiative concerning revision of the Internal Ratings Based Approach (AIRB), documents which include:
    a. guidelines for the application of a consistent default definition, including determining materiality thresholds for credit exposures in default;
    b. draft of methodology of assessment by the supervisory authorities if banks meet regulatory requirements for the use of the Internal Ratings Based Approach (AIRB);
    c. guidelines for estimating PD and LGD parameters and dealing with defaulted exposures;
    d. guidelines for estimating the LGD parameter, appropriate to the economic downturn and a technical standard for the estimation and identification of the economic downturn in IRB modeling.

Due to potentially wide range of changes that will be necessary in order to implement regulations by banks, they will be implemented within the timeframe envisaged by the EBA.

- Beginning from 30 June 2019 the EBA guidelines on management of non-performing and forborne exposures entered into force; they are accompanied by changes in reporting and disclosures regarding non-performing and forborne exposures that would apply from 2020.
- In February 2019 the EBA published revised Guidelines on outsourcing arrangements, which are consistent with the requirements on outsourcing under the Payments Services Directive (PSD2) and the Markets in Financial Instruments Directive (MiFID II); and aim at ensuring that banks can apply a single framework on outsourcing for all their banking, investment and payment activities. KNF expects banks to comply with the guidelines by 30 June 2020.
- In June 2019 the EBA published draft guidelines on loan origination and monitoring for consultation purposes. The final version is expected to be published by 30 June 2020. The guidelines aim to ensure that banks have robust and prudent standards for taking credit risk, managing and monitoring risk and that new lending is of high credit quality. Banks should also align their practices with consumer protection rules and anti-money laundering requirements.
- In November 2019 the EBA published guidelines on information and communication technology (ICT) and security risk management to be applied from 30 June 2020, which aim at ensuring that banks can safely manage the abovementioned risks.

In order to update the good practices of banks in their operations, also in the context of new recommendations and requirements defined by the European supervisors, including regulatory solutions and practices in other countries, the Polish Financial Supervisory Authority (KNF) has just accomplished or has been working on:

- update of Recommendation S on good practices in the management of credit exposures secured by mortgages, in the scope of taking into account the rules on mortgage loans with a fixed interest rate; updated recommendation should be implemented by banks till 31 December 2020;
- new Recommendation Z on the rules of internal governance in banks;
- update of Recommendation R on the rules for credit risk management and recognizing expected credit losses;
- update of Recommendation G on interest rate risk management.

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

3.2. Principles of risk management

3.2.1. Risk culture

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

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

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

3.2.2. Division of responsibilities in the risk management process

Supervisory Board exercises constant supervision over the Bank's operations in the risk taking area, which includes approving the Risk Management Strategy of the Group and supervising its implementation.

Risk Committee of the Supervisory Board exercises constant supervision over the risk, in particular issues recommendations regarding approval of risk management strategies, including the Risk Management Strategy of mBank Group, by the Supervisory Board.

Management Board of the Bank accepts the Risk Management Strategy of the Group and is responsible for defining and implementing the principles of managing individual risk types and for their consistency with the Strategy. The Management Board defines the organisational structure of the Bank, ensuring the appropriate distribution of key roles from the point of view of the risk management, and allocates the tasks and responsibilities to individual organizational units. The Management Board is responsible for developing, implementing, effectiveness and updating written strategies and procedures for: internal control system, risk management system, internal capital adequacy assessment process, capital management and capital planning.

Chief Risk Officer is responsible for integrated risk and capital management of the Bank and the Group in the scope of: defining strategies and policies, measuring, controlling and independent reporting on all risk types (in particular credit risk, market risk, liquidity risk, non-financial risk including operational risk), approving limits (in accordance with internal regulations), and for processes of managing the risk of the retail credit portfolio and corporate portfolio.

Committees:

- **The Committees of the Business and Risk Forum of mBank Group** (Retail Banking Risk Committee – KRD, Corporate and Investment Banking Risk Committee – KRK, Financial Markets Risk Committee – KRF) are a platform for making decisions and dialogue for organizational units in particular business lines and the risk management area in mBank as well as between the Bank and the Group subsidiaries. In particular, the Committees take decisions and make recommendations concerning risk management principles, risk policies, risk appetite, risk limits' definitions and values for given business line.
- **Model Risk Committee** is responsible for supervising the model risk management process, performing the following functions: information, discussion, decision and legislative.
- **The Balance Sheet Management Committee (BSM)** is responsible for the systematic monitoring of the bank's balance sheet structure and the allocation of funds within acceptable risks in order to optimize the financial result. In particular, the Committee introduces the principles of managing the bank's balance sheet, implements activities ensuring an adequate level of financing in the bank, recommends the Bank's Management Board changes in the strategic approach to the balance sheet management.
- **Assets and Liabilities Committee of mBank Group (ALCO)** is an expert committee responsible for monitoring the structure of assets and liabilities and recommending their optimization to the BSM. ALCO is also responsible for preparing materials for discussion at the BSM Committee.
- **Capital Management Committee** is responsible, in particular, for managing capital. Based on the decisions made, the Committee issues recommendations for the Management Board of the Bank on: measures in respect of capital management as well as capital level and structure, increasing the effectiveness of capital utilization, internal procedures related to capital management and capital planning.
- **Credit Committee of the mBank Group** is responsible, in particular, for the supervision of concentration risk and large exposures at the Group level by taken decisions and made recommendations. The Committee shall also take credit decisions as well as decisions on debt conversion into shares, stocks, and on taking over properties in return for debts (applies to the Bank).
- **Investment Banking Committee** is responsible, in particular, for the control and management of risks (including market, credit, reputational and operational) of the Brokerage House transactions and making decisions regarding the execution of these transactions.
- **Foreign Branch Supervision Committee of mBank S.A.** is responsible, among others, for issuing recommendations on approval of the operational strategy and the rules for stable and prudent management of a particular foreign branch of the Bank, especially with reference to credit risk.

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

3.2.3. Internal capital and liquidity adequacy assessment process (ICAAP/ILAAP)

The mBank Group applies the internal capital adequacy assessment process (ICAAP) aimed at maintaining own funds at the level adequate to the profile and the level of risk in its operations. The ICAAP includes:

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

The liquidity adequacy assessment process (ILAAP) implemented in mBank Group plays a key role in maintaining the Bank’s and the Group's business continuity by ensuring an appropriate liquidity and financial position. ILAAP comprises of:

- Group’s liquidity and funding risk inventory,
- calculation of liquidity measures, including modelling of selected banking products,
- balance sheet planning and setting limits in line with the risk appetite,
- management, taking into account the stress tests, risk measures, contingency plan, early warning indicators (EWI), recovery indicators (RI) and limits monitoring,
- process review and assessment,
- Funds Transfer Pricing (FTP) system,
- model validation.

The ICAAP and ILAAP are reviewed by the Bank’s Management Board on a regular basis. Reviews of these processes are supervised by the Supervisory Board of the Bank.

Material risks in the mBank Group’s operations

The Management Board is taking activities for ensuring that the Bank manages all material risks arising from the implementation of adopted business strategy. Therefore, the mBank Group carries out an annual process of identifying and assessing risk materiality. All material types of risk are included in the Risk Management Strategy of mBank Group, in particular in the process of risk bearing capacity management.

The following risks were recognized as material for the Group as at 31 December 2019: credit risk, market risk, operational risk, business risk (including strategic risk), liquidity risk, reputational risk, model risk, capital risk (including risk of excessive leverage) and regulatory risk.

3.2.4. Risk appetite

Risk appetite is defined within the mBank Group as the maximum risk, in terms of both amount and structure, which the Group is willing and able to incur in pursuing its business objectives under going concern scenario.

Capital and liquidity buffers

Risk appetite is determined taking into account the available resources determined by the minimum supervisory requirements on capital adequacy and liquidity, set in the European and Polish regulations, in order to ensure that the Group is functioning in an uninterrupted manner in the case of negative changes in the Group or in its environment, thereby providing the ability to assure risk bearing capacity. Funding sources and capital position of the Group, both in the regulatory and economic perspective, are taken into consideration while defining the risk capacity and risk appetite. The Bank maintains capital and liquid assets on the levels ensuring to meet regulatory requirements under normal and realistic stress conditions. To determine the appropriate volume of the liquidity buffer, a minimum level of LCR above the regulatory requirement has been established.

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

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

Risk Bearing Capacity

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

- adequate risk bearing capacity must be ensured (limits must be ensured in normal conditions) in accordance with ICAAP principles,
- internal targets set for regulatory capital ratios must be observed,
- financial liquidity and adequate structural liquidity of the Group must be ensured at all times in accordance with ILAAP principles.

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

Risk limit system

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

3.2.5. Stress tests within ICAAP and ILAAP

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

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

As part of ICAAP, the Group carries out stress tests using various scenarios, including historical scenarios, macroeconomic scenarios for economic downturn, scenarios that take into account idiosyncratic events, in the context of specific risk concentrations in the Bank and Group. Such analyses take into account different levels of severity of the scenarios, which are characterised by different probability levels regarding their realisation.

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

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

The Group and the Bank carry out so called reverse stress tests, the goal of which is to identify events potentially leading to unviability of the Bank and the Group. Reverse stress tests are used for making strategic decisions concerning the acceptable risk profile of the Group.

3.3. Credit risk

3.3.1. Organization of risk management

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

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

Decision-making for credit exposures in the retail banking area. Due to a profile of retail banking clients, the accepted amount of exposure per client and standardisation of products offered to those clients, the credit decision-making process differs from that applied to corporate clients. The decision-making process is automated to a large extent, both in terms of acquiring data on the borrower from internal and external data sources, and in terms of risk assessment by means of scoring techniques and standardised decision-making criteria. The tasks, which are not automated concern mainly the verification of credit documentation and potential derogations when a decision is made with the escalation to the decision-making level in accordance with the applicable rules. In addition, in case of mortgage loans, the value of the collateral is established (standard applications evaluated internally, other with the use of external appraisal report which is additionally evaluated internally).

3.3.2. Credit Policy

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

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

3.3.3. Collateral accepted

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

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

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

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

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

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

Collateral accepted for transactions in derivative instruments. The Bank manages the risk of derivative instruments. Credit exposures arising from concluded derivative transactions are managed as a part of clients' general credit limits, taking into account potential impact of changes in market parameters on the value of the exposure. Existing master agreements with contractors obligate the Bank to monitor the value of exposure to the client on a daily basis and provide for additional collateral against the exposure to be contributed by the client or mBank in accordance with signed agreements. At the same time, the master agreements provide for early settlement of the transaction with the client in the event of breach of contract. mBank applies an Early Warning Process in order to monitor the usage of limits on derivatives and the Bank's ability to respond to the client when the exposure due to open derivative transactions nears the maximum limit. Moreover, taking into consideration credit risk related to a derivative limit granted to a specific client, the Bank may apply additional collaterals from standard catalogue of collaterals of credit risk-bearing products.

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

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

mFaktoring accepts only highly liquid collateral. Apart from own blank bills of exchange, these are mainly bill of exchange surety of the owners of the customer's company, cession of receivables from bank accounts (mainly those maintained by mBank), insurance of receivables, cession of rights from insurance policies in respect of receivables, concluded by customers.

mLeasing applies types of collateral that are most similar to those of mBank. It accepts both standard personal collateral: bill of exchange and civil surety, letters of comfort, guarantees, assuming the debt, debt take over, and tangible collateral: mortgage, registered liens, transfer of ownership of collateral, transfer of receivables and cession of receivables and rights to an insurance policy, and deposits. The company manages the residual value risk by applying additional fees for excessive use of the leased item and exceeding the mileage limits specified in the contract. These fees are collected at the end of the leasing contract. In addition, during the term of the contract, if for semi-annual periods, starting from the date of vehicle delivery, the proportional mileage of the vehicle differs from the amount agreed by the parties by more than 10%, the financing party has the right to recalculate the amount of remuneration installments based on the new expected mileage of the vehicle. The residual value calculation includes the lease period, estimated mileage, estimated vehicle condition after the lease period. The residual value also includes factors such as color and year of manufacture (if the vehicle was manufactured earlier than in the year of leasing). The residual value calculation is based on Eurotax forecasts. The value obtained is reduced by a safety factor to cover the risks associated with achieving the estimated level. At the last stage the calculation is compared with observed prices on used car market and approved by authorized personnel.

3.3.4. Rating system

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

- customer rating (PD-rating) – describing the probability of default (PD);
- Loss Given Default (LGD) model for non-default portfolio (for in-default portfolio individual method of estimating recoveries is used). Model consists of components: recoveries from unsecured part of the credit (based on contractual and customer factors, information from financial statement), recoveries from secured part of exposure (based on collateral factors);
- Exposure at Default (EAD) model, which includes Credit Conversion Factor (CCF) model and Limit Utilization (LU) model. The components are based on contract and customer characteristics;
- credit rating (EL-rating) – describing expected loss (EL) and taking into consideration both customer risk (PD) and transaction risk (LGD, Loss Given Default – loss resulting from default). EL can be described as PD*LGD. EL indicator is used mainly at the credit decision-making stage.

The rating produces relative credit risk measures, both as percentages (PD%, EL%) and on a conventional scale from 1.0 to 6.5 (PD-rating, EL-rating) for corporations (sales over PLN 50 million) and SMEs (sales up to and including PLN 50 million). PD rating calculation is a strictly defined process, which comprises seven steps including: financial analysis of annual reports, financial analysis of interim figures, assessment of timeliness of presenting financial statements, analysis of qualitative risks, warning indicators, level of integration of the debtor’s group, and additional discretionary criteria. Credit rating based on expected loss (EL) is created by combining customer risk rating and transaction risk rating, which results from the value of exposure (EAD, Exposure at Default) and the character and coverage with collateral for transactions concluded with the client (LGD). LGD, described as % of EAD, is a function of possibly executed value of tangible and financial collateral and depends on the type and the value of the collateral, the type of transaction and the ratio of recovery from sources other than collateral.

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

Sub-portfplio	1				2			3		4			5			6	7	8	
PD rating	1,0 - 1,2	1,4	1,6	1,8	2	2,2	2,4 - 2,6	2,8	3	3,2 - 3,4	3,6	3,8	4	4,2 - 4,6	4,8	5	5,2 - 5,8	No rating	6,1 - 6,5
S&P	AAA	AA+	AA, AA-	A+, A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B+	B	B-	B-	CCC+ till C	*n/a*	D
	Investment Grade								Subinvestment Grade			Non-investment Grade							Default

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

- Loss Given Default (LGD) model, which covers the entire retail portfolio. The ultimate loss level is determined basing on integration of three components:
  - recovery rate for cured cases (based on mean recoveries achieved for cured defaults),
  - recovery rate for non-cured cases (based on contractual factors, bank-client relations and collateral characteristic),
  - probability of cure (based on socio-demographic factors and full product structure of contract owner).

Estimation of loss level takes place in homogenous segments, taking into account the type of product and the type of collateral. Separate models are in place for non-default and in-default portfolio.

- Exposure at Default (EAD) model, which includes Credit Conversion Factor (CCF) model, Limit Utilization (LU) model and Prepayments model. The components are based on contract and customer characteristics,
- PD model with a modular structure, which integrates results of scoring cards dedicated to the retail area:
  - application scoring cards (based on socio-demographic factors, factors describing the characteristics of business activity and factors related to the specificity of applied credit products),
  - behavioural scoring cards (based on information on the history of credit and deposit relation with the Bank),
  - internal scoring card based on Credit Information Bureau data (regarding the data about liabilities held outside the Bank).

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

3.3.5. Monitoring and validation of models

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

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

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

Validation

Validation is an internal, complex process of independent and objective assessment of model operation, which is consistent with the Recommendation W requirements and - in case of the AIRB method - meets the supervisory guidelines set out in the CRR. The validation rules are set out in general in the Model

Management Policy and described in details in other mBank's internal regulations. The validation covers models directly and indirectly used in the assessment of capital adequacy under the AIRB approach and other models indicated in the Model List maintained in mBank.

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

The scope of validation performed by the Validation Unit covers the assessment of models, model implementation and their application process.

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

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

IRB Method Change Policy

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

3.3.6. Calculating impairment charges and provisions

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

3.3.6.1. How exposures are classified to stages

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

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

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

Once the quantitative or qualitative criteria that were used to classify the exposure in Stage 2 at the reporting date are no longer met (the client and the exposure assigned to him or her no longer meet any of the Transfer Logic qualitative criteria or quantitative criteria), the exposure will be moved from Stage 2 to Stage 1. In case of exposures classified as forborne, the additional condition for reclassification to Stage 1 is the 24-month probation period during which the loan has a performing status.

The exposure may also be transferred from Stage 3 to Stage 2 or to Stage 1 in case of the retail part of the portfolio when the impairment triggers are no longer met (except for the restructuring), and in case of the corporate customers when:

1. the loss events that caused the classification of a client to the stage 3 do not longer exist, and
2. the economic and financial situation of the debtor has improved to the extent which gives a high probability of repayment of all credit obligations in accordance with the conditions resulting from the original agreement or from the contract specifying the restructuring terms, and

3. the overdue debt has been repaid, and
4. the indebtedness is timely handled for at least 12 months after the change of contractual terms, or
5. the balance of the client's credit and non-credit obligations equals to zero as a result of: their total repayment by the customer, recovery of the Bank's receivables as a result of the debt collection activities or the receivables write-off.

3.3.6.1.1. Significant deterrioration of credit quality (classification to stage 2)

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

Qualitative criteria are:

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

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

3.3.6.1.2. Low credit risk criteria

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

3.3.6.1.3. Impairment triggers – corporate portfolio

The list of definite loss events in corporate portfolio:

1. The number of days past due is above 90 days (14 days in the case of banks) and the overdue amount exceeds PLN 3,000 for corporate customers and PLN 500 for Private Banking.
2. The Bank has sold exposures with a significant economic loss related to the decrease of the debtor creditworthiness.
3. The Bank performed enforced restructuring of the exposure, which resulted in the change of the loan/transaction service schedule due to the lack of possibility of the obligor to meet his obligations under loan/transaction agreement, as initially stipulated, which resulted in:
   a. reduction of financial liabilities by remitting part of these obligations, or
   b. postponing the repayment of the substantial part of the principal, interest or (if it refers to) commission; provided that the lack of approval for restructuring would cause more than 90 calendar days delay in repayment of substantial part of the obligation.
4. Filing by the debtor or filing by the Bank, the parent or subsidiary entity of the Bank a bankruptcy motion against debtor or filing similar motion in respect of credit obligations of the debtor towards the Bank, the parent or subsidiary entity of the Bank.

5. Bankruptcy of debtor or acquiring by him a similar legal protection resulting in his evasion of or delay in repayment of credit obligations towards the Bank, the parent or subsidiary entity of the Bank.
6. Termination of part or whole credit agreement by the Bank and the beginning of restructuring/collection procedures.
7. Client’s fraud.
8. Bank expects a loss on a client’s exposure.

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

3.3.6.1.4. Impairment triggers - retail receivables

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

The list of definite loss events in retail portfolio:

1. The main impairment trigger is delay in repayment, which is identified in different ways depending on the abovementioned approach. In the retail banking in Poland, impairment trigger is identified, when the total of all customer’s exposures past due more than 30 days exceeds PLN 500 and the eldest delay exceeds 90 days. In the Czech and Slovak branches, an individual exposure is considered impaired when the overdue amount exceeds CZK 3000 or EUR 120, respectively, while the delay is more than 90 days.
2. Enforced restructuring of debt.
3. Bankruptcy of debtor.
4. Recognition of the contract as fraudulent.
5. Sale of the exposure with considerable economic loss.
6. Uncollectable status of debt.
7. Payout of low downpayment insurance.

3.3.6.2. Calculation of expected credit losses

Expected credit losses (ECL) are measured at the level of a single contract or exposure (agreement). In the portfolio approach, expected credit losses are the multiplication of individual for each exposure estimated value of PD, LGD and EAD and the final value of expected credit losses is the sum of expected credit losses in particular periods discounted with the effective interest rate. The calculation of expected credit losses does not use a collective approach (assigning one parameter value to selected portfolios). If on the reporting date the exposure credit risk did not increase significantly since the initial recognition, expected credit losses are calculated in 12-month horizon (12m ECL). If the exposure credit risk increased significantly since the initial recognition (exposure is in the stage 2), the Bank calculates expected credit losses in the life-time horizon (Lt ECL). The parameters used to calculate an expected credit loss in Stage 1 are identical to those used to calculate a long-term credit loss in Stage 2 for t=1, where ‘t’ stands for the first year of the forecast.

In case of non-financial guarantees, the Group applied an approach that the expected credit losses are always included in lifetime horizon (Lt ECL).

The individual approach concerns all balance sheet and off-balance sheet credit exposures with an impairment in the corporate loan portfolio and Private Banking loan portfolio, which is registered in corporate systems, as well as selected credit exposures with an impairment in the retail microfirms loan portfolio (used in the case of exposures with mortgage collateral with a debt balance over PLN 300 thousand and arrears over 1 year). The expected credit losses are calculated as a difference between the gross carrying amount of the asset and the present value of the estimated future cash flows discounted with the effective interest rate. The method of calculating the expected recoveries takes place in scenarios and depends on the Bank’s chosen strategy for the client. In case of restructuring strategy, considered scenarios are developed for exposures and assume a significant share of recoveries from the customer’s own payments. In case of vindication strategy, the scenarios are developed for each recovery source (collateral) separately. Bank identifies scenarios per exposure/recovery source, minimum 2 are considered obligatory, provided one of them reflects a partial loss on exposure/recovery source. Weight of scenario results from an expert assessment of the likelihood of scenarios based on the relevant facts of the case, in particular, on existing security and their type, client's financial situation, client's willingness to cooperate, the risks that may occur in the case and micro- and macroeconomic factors.

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

3.3.6.2.1. Use of macroeconomics scenarios in ECL estimation

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

1. the probability-weighted average of the expected loss from 3 macroeconomic scenarios ('average estimation') comprising: baseline scenario, optimistic scenario, pessimistic scenario. The weights of scenarios are consistent with probabilities of realization each scenario – 60% for base, 20% for optimistic and 20% for pessimistic.
2. divided by the expected loss determined under baseline scenario (reference estimate).

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

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

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

3.3.6.2.2. Significant model changes

In the third quarter of 2019, due to significant changes on the cure rate level, the LT LGD model for retail segment was adjusted accordingly. The changes included adjusting the models to the currently observed cure rate levels, changing the assumptions regarding the estimation methods and shortening the calibration window to highlight the PIT character of the model. Impact of the above changes to the level of expected credit loss amounted to PLN 45 million (negative impact).

In the fourth quarter of 2019, the Bank has recalibrated the allocation level to stage 2 for the retail portfolio, resulting in a change in the allocation level to 8% for the retail non-mortgage loan portfolio and to 5% for the retail mortgage loan portfolio. The change was dictated by the improvement of the adequacy for the quantitative criterion of the Transfer Logic algorithm, and, as a consequence, the increase in the precision of estimation of the expected credit loss. Impact of the above change to the level of expected credit loss amounted to PLN 21 million (positive impact).

3.3.6.3. Provision coverage of individual sub-portfolios

The tables below show the percentage of the Group's balance sheet and off-balance sheet items relating to loans and advances, guarantees and letters of credit to individuals, corporate entities an public sector and the coverage of the exposure with credit risk costs for each of the Bank's internal rating categories (the description of rating model is included in Note 3.3.4).

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Portfolio measured at amortized cost

Sub - portfolio	31.12.2019		31.12.2018	
	Exposure (%)	Provision coverage (%)	Exposure (%)	Provision coverage (%)
1	14.32	0.01	13.36	0.01
2	28.13	0.06	31.63	0.06
3	16.61	0.15	14.52	0.16
4	25.05	0.48	24.56	0.42
5	6.17	1.62	5.95	1.33
6	0.76	3.43	0.48	3.25
7	2.00	7.84	1.86	7.07
8	0.69	0.49	1.41	0.03
Other	3.19	0.04	2.95	0.04
Default category	3.08	60.57	3.28	61.74
Total	**100.00**	**2.31**	**100.00**	**2.40**

As at 31 December 2019, 42.45% of the loans and advances portfolio for balance sheet and off-balance sheet exposures is categorized in the top two grades of the internal rating system (31 December 2018: 44.99%).

3.3.7. Fair value for credit assets

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

3.3.7.1. Fair value valuation of non-impaired credit assets

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

Future cash flows are determined taking into account:

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

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

3.3.7.2. Fair value valuation of impaired credit assets

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

3.3.8. Repossessed collateral

The Group classifies repossessed collaterals as assets repossessed for debts and measures them in accordance with the adopted accounting policies described in paragraph 2.21. Assets repossessed for debts classified as assets held for sale will be put up for sale on an appropriate market and sold at the soonest possible date. The process of selling collaterals repossessed by the Bank is arranged in line with the policies and procedures specified for individual types of repossessed collaterals.

The policy of the companies of the Group is to sell repossessed assets or - in the case of leases - lease them out again to another customer. Cases in which the repossessed collateral is used for own needs are rare – such a step must be economically justified and reflect the Group companies' urgent need, and must at each time be approved by their Management Boards. In 2019 and 2018, the Group did not have any repossessed collaterals that were difficult to sell. As at 31 December 2019, value of repossessed collaterals was PLN 70 262 thousand (31 December 2018: PLN 33 211 thousand) included mainly leasing assets. The value of repossessed collaterals was included in the item inventories (Note 27).

3.3.9. mBank Group Forbearance Policy

Definition

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

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

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

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

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

Instruments used

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

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

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

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

- maturity extension/extension of loan duration,
- restructuring (medium or long term refinancing),
- capitalization of interest,
- interest deferrals,
- principal deferrals,
- covenant waiver,
- standstills.

Risk management

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

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

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

Forborne exit conditions – corporate banking area

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

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

Forborne exit conditions – retail banking area

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

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

Portfolio characteristics

	31.12.2019			31.12.2018		
	Gross carrying amount	Accumulated impairment	Net value/ fair value	Gross carrying amount	Accumulated impairment	Net value/ fair value
Loans and advances to customers at amortised cost	**106 393 532**	**(3 190 278)**	**103 203 254**	**95 059 979**	**(3 042 547)**	**92 017 432**
of which: forborne exposures	2 118 673	(626 254)	1 492 419	1 810 116	(577 912)	1 232 204
of which: defaulted	*1 232 518*	*(603 456)*	*629 062*	*1 203 040*	*(564 052)*	*638 988*
Loans and advances to customers mandatorily at fair value through profit or loss			**1 971 532**			**2 705 155**
of which: forborne exposures			123 818			144 476
of which: defaulted			*103 286*			*98 902*
Forborne exposures, total			**1 616 237**			**1 376 680**
of which: defaulted			*732 348*			*737 890*

Change of net carrying value of forborne exposures	31.12.2019	31.12.2018
As at the begining of the period	**1 376 680**	**1 365 850**
Outputs	(301 593)	(407 971)
New forbearance	664 882	509 526
Changes on existing loans	(123 732)	(90 725)
As at the end of the period	**1 616 237**	**1 376 680**

The analysis carried out for the above reporting periods showed a negligible share of exposures that leave the forbearance status within one year and then return to it.

Forborne exposures by client segment	31.12.2019	31.12.2018
Loans and advances to customers		
Loans to individuals	609 041	743 817
including: housing and mortgage loans	*537 252*	*552 442*
Loans to corporate clients	1 007 196	632 863
Loans and advances to public sector	-	-
Total	**1 616 237**	**1 376 680**

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Forborne exposures by the type of concession	31.12.2019	31.12.2018
Refinancing	159 214	112 168
Modification of terms and conditions	1 457 023	1 264 512
Total	**1 616 237**	**1 376 680**

Froborne exposures by geographical breakdown	31.12.2019	31.12.2018
Poland	1 561 030	1 332 903
Other countries	55 207	43 777
Total	**1 616 237**	**1 376 680**

Forborne exposures by period of overdue	31.12.2019	31.12.2018
Not past due	1 071 540	785 376
Past due less than 30 days	176 597	209 224
Past due 31 - 90 days	73 577	88 199
Past due over 90 days	294 523	293 881
Total	**1 616 237**	**1 376 680**

Forborne exposures by industry	31.12.2019	31.12.2018
Natural persons	609 040	683 604
Construction	195 145	159 560
Real estate	148 249	145 772
Scientific and technical activities	103 741	5 123
Financial sector	101 841	34 087
Food sector	86 417	45 162
Textiles and wearing apparel	65 377	4 338
Transport and logistics	62 130	14 891
Wood, furniture and paper products	51 759	53 645
Construction materials	41 954	14 932
Other industry	150 584	215 566
Total	**1 616 237**	**1 376 680**

3.3.10. Counterparty risk that arises from derivatives transactions

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

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

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

- 36% banks,
- 9% central counterparties (CCP),
- 6% financial institutions,
- 49% corporates, private banking and others.

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

Client type	Credit exposure 2019 (PLN m)	Credit exposure 2018 (PLN m)
Bank CSA	1 169	1 222
Bank uncollateralized	1	2
CCP	282	229
Corpo limit	1 616	919
Non-Bank Financial Institution	205	274
Private Banking	(2)	(4)
Corpo collateralized and other	(15)	(18)

**negative exposure means overcollateralization*

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

(PLN m)	Banks		CCP*		Corporates and others			
					CSA	w/o CSA	CSA	w/o CSA**
	2019	2018	2019	2018	2019		2018	
NPV	32.11	26.78	-	5.87	1.23	129.73	38.45	127.48
Collateral received (including collateral posted to custodian)	154.86	86.93	-	-	-	51.31	-	41.26
Collateral posed (including collateral posted to custodian)	55.30	0.64	256.45	194.97	-	-	-	-

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

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

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

The value of derivatives, which are financial assets for each category of internal rating used by the Group (a description of the rating model is presented in Note 3.3.4) is presented in Note 20.

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

Geographic concentration risk

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

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

As at 31 December 2019 and as at 31 December 2018 there was no substantial level of geographical concentration in the credit portfolio of mBank Group. In terms of exposure relating to countries other than Poland there was no substantial share of impaired exposures.

Sector concentration risk

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

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

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

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

- 12% of the gross loan corporate portfolio for low risk sectors but not higher than 60% of Tier 1,
- 10% of the gross loan corporate portfolio for medium risk sectors but not higher than 50% of Tier 1,
- 7% of the gross loan corporate portfolio for high risk sectors but not higher than 35% of Tier 1.

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

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

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

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

No.	Sectors	Gross value	%	Gross value	%
		31.12.2019		31.12.2018	
1.	Household customers	58 674 891	55.15	50 554 503	53.18
2.	Real estate	6 305 974	5.93	5 781 986	6.08
3.	Construction	5 160 496	4.85	4 367 250	4.59
4.	Food sector	3 017 507	2.84	2 854 184	3.00
5.	Transport and logistics	2 825 670	2.66	2 729 735	2.87
6.	Metals	2 331 810	2.19	2 512 155	2.64
7.	Motorisation	2 240 037	2.11	2 019 772	2.12
8.	Construction materials	2 178 231	2.05	1 897 015	2.00
9.	Chemicals and plastic products	1 915 441	1.80	1 913 025	2.01
10.	Wood, furniture and paper products	1 782 443	1.68	1 378 926	1.45
11.	Financial sector	1 766 892	1.66	3 379 316	3.55
12.	Wholesale trade	1 427 747	1.34	1 362 759	1.43
13.	Scientific and technical activities	1 406 065	1.32	1 216 481	1.28
14.	Retail trade	1 231 428	1.16	835 071	0.88
15.	IT	1 172 087	1.10	1 024 833	1.08
16.	Power, power and heating distribution	1 126 577	1.06	1 011 767	1.06
17.	Retail and leasing activities	1 116 106	1.05	1 131 910	1.19
18.	Fuels	1 033 659	0.97	1 286 179	1.35
19.	Information and communication	944 929	0.89	887 843	0.93
20.	Pharmacy	894 470	0.84	342 945	0.36

As at 31 December 2019, the total exposure of the Bank in the above sectors (excluding household customers) amounted to 37.50% of the credit portfolio (31 December 2018 – 39.87%).

The table below presents the risk of limited sectors as at the end of 2019 and 2018.

No.	Sectors	31.12.2019	31.12.2018
1.	Finanacial sector	low	low
2.	Fuels	medium	medium
3.	Food sector	medium	medium
4.	Construction	high	high
5.	Motorisation	medium	medium
6.	Metals	high	medium
7.	Chemistry and materials	medium	medium

Large exposures concentration risk

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

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

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

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

The Bank monitors exposures considered a large exposure limit i.e. exposures after taking into account the effect of the credit risk mitigation (in accordance with art. 401-403 CRR Regulation) and exemptions (art. 390 paragraph 6, Art. 400, Art. 493, paragraph 3 of CRR Regulation), which are equal or exceed 10% of the eligible capital. At the end of 2019 there was no exposure in line with the above definition.

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

3.5. Market risk

In its operations, the mBank Group is exposed to market risk, which is defined as a risk resulting from unfavourable change of the current valuation of financial instruments in the mBank Group's portfolios due to changes of the market risk factors, in particular:

- interest rates;
- foreign exchange rates;
- stock share prices and indices;
- implied volatilities of relevant options;
- credit spreads (to the extent reflecting market fluctuations of debt instruments prices, reflecting credit spread for corporate bonds, and spread between government yield curve and swap curve - for government bonds).

In terms of the banking book, the mBank Group distinguishes the interest rate risk, which defines as the risk of an adverse change in both the current valuation of the banking book position and the net interest income as a result of changes in interest rates.

3.5.1. Organisation of market risk management

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

The fundamental principle applied in the organisation of the market risk management is the separation of the market risk control and monitoring functions from the functions related to opening and keeping open market risk positions.

3.5.2. Tools and measures

For the purpose of internal management, the Bank quantifies exposure to market risk, both for banking and trading book, by measuring:

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

The Bank allocates market risk to positions in the banking book, irrespective of the method of presentation of the financial result on those positions used for financial accounting purposes. Market risk measures for interest rate positions in the banking books are determined on the basis of Net Present Value (NPV).

The Bank monitors market risk on a daily basis. For selected risk measures, the measurement is conducted on a weekly basis (Stressed VaR, CS BPV by rating classes) or monthly (economic capital).

For the banking book, the Bank also uses the following measures (described in more detail in the chapter on interest rate risk):

- sensitivity of the economic value of capital (delta EVE);
- sensitivity of net interest income (delta NII);
- repricing gap.

The Value at Risk (VaR) is calculated for each risk factor using the historical method for a 1-day and a 10-day holding period and a 95%, 97.5% and 99% confidence level, assuming a static portfolio. In this method, historical data concerning risk factors for last 254 business days are taken into consideration.

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

The Value at Risk in stressed conditions is a measure of the potential portfolio loss under adverse market conditions that deviate from typical market behaviour. The calculation is analogous to the Value at Risk calculation, and the only difference is the period of occurrence of stressed conditions, which is determined on the basis of series of Value at Risk based on successive 12-month windows of risk factors changes since 2007.

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

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

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

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

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

Measurement and analysis of market risk takes place in two perspectives (including and without taking into account the modelling of stable parts of capital and current accounts, insensitive to changes in interest rates), which allows controlling the impact on the market risk level of the applied strategy for stabilising the net interest income. The VaR and IR BPV measurement results presented later in the report show the perspective including modelling. There is a change in presentation compared to 2018, when the values were given without taking into account the modelling of stable parts of capital and current accounts, insensitive to changes in interest rates.

The measurement methodology is subject to initial and periodic validation carried out by the Validation Unit and control by the Internal Audit Department.

In order to mitigate market risk exposure the limits are established on:

- VaR at 97,5% confidence level for a 1-day holding period;
- stress tests results;
- sensitivity measures IR BPV and CS BPV.

Decisions regarding the values of market risk limits are taken by:

- the Supervisory Board (with respect to the mBank Group's portfolio);
- the Management Board (with respect to the mBank's portfolio);
- the Financial Markets Risk Committee (with respect to the business units' portfolios).

3.5.3. Risk measurement

mBank's positions are the main source of market risk for mBank Group.

Value at Risk

In 2019, Bank's market risk exposure, as measured by the Value at Risk (VaR, for a 1-day holding period, at 97.5% confidence level), was in relation to the established limits on moderate level.

The table below presents VaR and Stressed VaR for the Group's and mBank's portfolios:

PLN 000's	2019				2018			
	mBank Group		mBank		mBank Group		mBank	
	31.12.2019	Mean	31.12.2019	Mean	31.12.2018	Mean	31.12.2018	Mean
VaR IR	4 294	3 840	3 778	3 759	3 223	3 439	3 248	3 443
VaR FX	767	957	728	961	317	427	341	421
VaR EQ	0	0	0	0	0	51	0	51
VaR CS	21 908	21 927	20 989	21 241	18 234	13 674	17 839	13 255
VaR	**22 494**	**21 999**	**21 978**	**21 344**	**18 155**	**13 768**	**17 776**	**13 436**
Stressed VaR	**97 073**	**108 369**	**94 229**	**104 269**	**106 235**	**93 723**	**104 743**	**90 316**

VaR IR – interest rate risk (without separate credit spread)
VaR FX – currency risk
VaR EQ – equity risk
VaR CS – credit spread risk

The measurement results are presented taking into the account the estimation of stable parts of capital and current accounts, invulnerable to interest rate fluctuation. There is a change of presentation in comparison to 2018, when the values were presented without including of estimation.

The value at risk (VaR) was largely influenced by the portfolios of instruments sensitive to interest rates and the credit spread - mainly the portfolios of Treasury debt securities (in the banking and trading book) and positions resulting from interest rate exchange transactions.

Sensitivity measures

The table presents the values of IR BPV and CS BPV (+1 b.p.) measures for the Group's and mBank's portfolios, broken down into the banking and trading book.

mln zł	IR BPV				CS BPV			
	mBank Group		mBank		mBank Group		mBank	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Banking book	257	(306)	263	(237)	(8 302)	(8 131)	(8 075)	(7 957)
Trading book	56	33	56	33	(504)	21	(504)	21
Total	**313**	**(273)**	**319**	**(204)**	**(8 806)**	**(8 110)**	**(8 579)**	**(7 936)**

The credit spread sensitivity (CS BPV) for the mBank's banking book, results in c.a. 40% from the positions in debt securities valued at amortized cost. Changes in market price have no impact on the revaluation reserve or the income statement for these positions.

Economic capital for market risk

The Bank calculates economic capital to cover market risk without taking into account the modelling of stable parts of capital and current accounts, insensitive to changes in interest rates.

For the mBank Group, the average utilisation of limit on economic capital for market risk in 2019 amounted to 59% (PLN 1 057.2 million). The average level of economic capital for mBank was equal to PLN 1 041.0 million.

As of the end of 2019 the economic capital for market risk for the mBank Group was PLN 1 162.8 million and for mBank was PLN 1 134.8 million. For comparison, at the end of 2018, values of this measure amounted to PLN 925.6 million and PLN 912.7 million, respectively. The economic capital increased in 2019 mainly due to the change of observations in the 12-month window taken to calculation (increase of interest rates volatility), as well as an increase in the volume and duration of the bond portfolio.

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3.6. Currency risk

The Group is exposed to changes in currency exchange rates due to its financial assets and liabilities other than PLN. The following tables present the exposure of the Group to currency risk as at 31 December 2019 and 31 December 2018.

The tables below present assets and liabilities of the Group at balance sheet carrying amount, for each currency.

31.12.2019	PLN	EUR	USD	CHF	CZK	Other	Total
ASSETS							
Cash and cash balances with central banks	6 830 666	826 679	34 340	6 883	184 482	13 960	7 897 010
Financial assets held for trading and hedging derivatives	2 643 346	164 803	53 957	3 926	2	-	2 866 034
Non-trading financial assets mandatorily at fair value through profit or loss, including:	1 984 096	150 052	133 774	-	-	-	2 267 922
Equity instruments	*161 577*	*1 039*	-	-	-	-	*162 616*
Debt securities	-	-	*133 774*	-	-	-	*133 774*
Loans and advances to customers	*1 822 519*	*149 013*	-	-	-	-	*1 971 532*
Financial assets at fair value through other comprehensive income	21 893 509	549 880	76 748	-	253 784	-	22 773 921
Financial assets at amortised cost, including:	80 080 299	16 139 899	1 127 263	13 945 654	7 352 302	134 468	118 779 885
Debt securities	*11 234 873*	-	-	-	-	-	*11 234 873*
Loans and advances to banks	*239 794*	*498 310*	*91 344*	*1 019*	*3 485 083*	*26 208*	*4 341 758*
Loans and advances to customers	*68 605 632*	*15 641 589*	*1 035 919*	*13 944 635*	*3 867 219*	*108 260*	*103 203 254*
Non-current assets and disposal groups classified as held for sale	10 651	-	-	-	-	-	10 651
Intangible assets	955 188	38	-	-	214	-	955 440
Tangible assets	1 223 158	7 828	-	-	31 411	-	1 262 397
Current income tax assets	784	-	-	-	11 878	-	12 662
Deferred income tax assets	935 335	-	-	-	2 377	-	937 712
Other assets	817 799	22 445	90 855	-	25 850	-	956 949
TOTAL ASSETS	**117 374 831**	**17 861 624**	**1 516 937**	**13 956 463**	**7 862 300**	**148 428**	**158 720 583**
LIABILITIES							
Financial liabilities held for trading and hedging derivatives	736 540	163 102	40 685	-	8 437	-	948 764
Financial liabilities measured at amortised cost, including:	93 572 790	27 665 133	3 655 467	4 971 109	7 394 510	504 360	137 763 369
Amounts due to banks	*439 154*	*513 210*	*214 463*	-	-	*44*	*1 166 871*
Amounts due to customers	*86 862 884*	*16 460 938*	*3 441 004*	*1 997 486*	*7 394 510*	*504 316*	*116 661 138*
Debt securities issued	*4 751 306*	*10 690 985*	-	*1 992 852*	-	-	*17 435 143*
Subordinated liabilities	*1 519 446*	-	-	*980 771*	-	-	*2 500 217*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	136	-	136
Liabilities included in disposal groups classified as held for sale	1 315	-	-	-	-	-	1 315
Provisions	698 444	37 215	1 451	1 435	701	50	739 296
Current income tax liabilities	135 549	-	-	-	25 985	-	161 534
Deferred income tax liabilities	-	82	-	-	-	-	82
Other liabilities	2 504 654	165 482	144 432	4 436	107 598	26 180	2 952 782
TOTAL LIABILITIES	**97 649 292**	**28 031 014**	**3 842 035**	**4 976 980**	**7 537 367**	**530 590**	**142 567 278**
Net on-balance sheet position	**19 725 539**	**(10 169 390)**	**(2 325 098)**	**8 979 483**	**324 933**	**(382 162)**	**16 153 305**
Loan commitments and other commitments	26 264 641	2 026 955	331 737	2	510 904	696	29 134 935
Guarantees, banker's acceptances, documentary and commercial letters of credit	6 528 126	1 405 314	955 210	-	1 667	48 110	8 938 427

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31.12.2018	PLN	EUR	USD	CHF	CZK	Other	Total
ASSETS							
Cash and cash balances with central banks	5 924 554	516 028	44 148	10 499	2 670 180	33 855	9 199 264
Financial assets held for trading and hedging derivatives	1 802 868	254 866	61 362	15 272	373	-	2 134 741
Non-trading financial assets mandatorily at fair value through profit or loss, including:	2 587 940	189 990	58 130	-	-	-	2 836 060
Equity instruments	*71 704*	*1 071*	-	-	-	-	*72 775*
Debt securities	-	-	*58 130*	-	-	-	*58 130*
Loans and advances to customers	*2 516 236*	*188 919*	-	-	-	-	*2 705 155*
Financial assets at fair value through other comprehensive income	23 397 111	682 448	-	-	258 725	-	24 338 284
Financial assets at amortised cost, including:	67 026 378	16 203 235	1 618 899	14 829 912	3 758 829	127 064	103 564 317
Debt securities	*9 000 539*	-	-	-	-	-	*9 000 539*
Loans and advances to banks	*1 202 544*	*868 828*	*377 184*	*4 313*	*42 047*	*51 430*	*2 546 346*
Loans and advances to customers	*56 823 295*	*15 334 407*	*1 241 715*	*14 825 599*	*3 716 782*	*75 634*	*92 017 432*
Intangible assets	775 762	253	-	-	160	-	776 175
Tangible assets	765 953	3 115	-	-	15 958	-	785 026
Current income tax assets	-	-	-	-	9 336	-	9 336
Deferred income tax assets	957 159	-	-	-	1 917	-	959 076
Other assets	1 041 179	94 365	24 541	18	18 131	45	1 178 279
TOTAL ASSETS	**104 278 904**	**17 944 300**	**1 807 080**	**14 855 701**	**6 733 609**	**160 964**	**145 780 558**
LIABILITIES							
Financial liabilities held for trading and hedging derivatives	706 868	204 624	61 415	-	8 210	-	981 117
Financial liabilities measured at amortised cost, including:	82 165 495	28 627 561	3 384 888	3 779 559	7 190 096	494 035	125 641 634
Amounts due to banks	*1 848 691*	*1 040 035*	*212 094*	*563*	*416*	*7 027*	*3 108 826*
Amounts due to customers	*74 049 582*	*15 745 425*	*3 172 794*	*1 364 573*	*7 189 680*	*487 008*	*102 009 062*
Debt securities issued	*4 747 743*	*11 842 101*	-	*1 459 739*	-	-	*18 049 583*
Subordinated liabilities	*1 519 479*	-	-	*954 684*	-	-	*2 474 163*
Provisions	205 610	49 634	898	320	1 765	56	258 283
Current income tax liabilities	338 122	-	-	-	14 840	-	352 962
Deferred income tax liabilities	-	83	-	-	-	-	83
Other liabilities	2 958 775	180 467	135 076	3 998	80 972	15 984	3 375 272
TOTAL LIABILITIES	**86 374 870**	**29 062 369**	**3 582 277**	**3 783 877**	**7 295 883**	**510 075**	**130 609 351**
Net on-balance sheet position	**17 904 034**	**(11 118 069)**	**(1 775 197)**	**11 071 824**	**(562 274)**	**(349 111)**	**15 171 207**
Loan commitments and other commitments	24 573 772	2 350 470	415 703	-	521 964	2 483	27 864 392
Guarantees, banker's acceptances, documentary and commercial letters of credit	6 374 884	1 371 605	763 694	-	5 472	25 778	8 541 433

3.7. Interest rate risk

mBank S.A.

In the process of management of interest rate risk in the banking book, the Group ensures independence of risk measurement, monitoring and control functions from operational activity creating the Group's positions.

Interest rate risk of the banking book is the risk resulting from the exposure of the Bank's interest income and capital to the adverse impact of interest rates movements. Following recommendations of the Polish Financial Supervisory Authority (KNF), in particular Recommendation G, and EBA guidelines (EBA/GL/2018/02) the Bank monitors the banking book structure in terms of repricing risk, basis risk, yield curve risk and customer option risk.

The basic measures of interest rate risk of the banking book are:

- the repricing gap (the difference between assets, liabilities and off-balance sheet banking book positions, measured in defined repricing buckets, based on repricing date of the interest rate sensitive products);
- sensitivity of net interest income (delta NII), i.e. the difference of net interest income between the base and alternative scenarios, assuming different possibilities of shifting the profitability curve and changes in the balance sheet structure;
- sensitivity of the economic value of capital (delta EVE), i.e. the difference in the present value of cash flows between the base scenario and the alternative scenario, assuming various shifts in the profitability curve, including those in line with the EBA guidelines on the regulatory outlier test.

The interest rate risk on the banking portfolio is hedged and managed based on the repricing gap limits for the entire portfolio, including separately for significant currencies, limits for market risk - imposed on Value at Risk (VaR), stress tests as well as BPV and CS BPV. Reports on the above measures are prepared on a daily basis.

The Bank calculates on monthly basis and reports quarterly the level of sensitivity of net interest income calculated for 22 scenarios of interest rate changes, taking into account changes in the level of the yield curve (including parallel curve shift, its steepening and flattening) and the base risk, both in static, dynamic and outflow balance over a 5-year horizon. The main assumptions used to calculate the measure are:

- the use of customer rates, decomposed into a trade margin and market rate;
- for products without a specific maturity date, assigning repricing dates based on the replicating portfolio model;
- limits applied to the level of lower interest rate changes to 0%;
- behavioral options including deposit termination and loan prepayments are calculated on the basis of the historical average.

In addition, the Bank calculates on a monthly basis and reports quarterly the sensitivity of the economic value of capital for 14 scenarios (including regulatory shock scenarios described in the EBA guidelines) taking into account changes in the level and slope of the yield curve as well as currency and credit spreads, broken down into values in currencies together and separately for material currencies based on the following assumptions:

- taking into account cash flows from interest rate sensitive assets and liabilities, including commercial margins;
- use of risk-free curves, except of debt securities, in case of debt securities the curve includes credit spread;
- exclusion of capital from liabilities;
- run-off balance sheet.

In the case of calculated sensitivity measures of net interest income and economic value of capital, the Bank takes into account the risk of partial or total repayment of the loan before its maturity. The prepayment algorithm used is based on the historical average and its result is the annual prepayment rate by major currencies (PLN, CHF, EUR, CZK) and the portfolio of retail and corporate clients. As at 31 December 2019, the percentage annual prepayments estimated for the purposes of the above-mentioned risk measures were as follows: retail clients (8,7%), corporate clients (18%).

As at 31 December 2019 and 31 December 2018, the sensitivity of net interest income (based on a static balance sheet over a 12-month horizon) and the economic value of capital (for the outflow balance) in standard (regulatory) shock scenarios for interest rate risk are presented in the table below:

	Δ NII		Δ EVE	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Sudden parallel increase of 200 bp	193 591	100 352	(597 790)	(534 376)
Sudden parallel decrease by 200 bp	(857 302)	(649 544)	659 163	574 611
Parallel shock up	184 864	83 148	(621 015)	(557 863)
Parallel shock down	(1 229 657)	(756 903)	683 062	598 575
Steepener shock	(639 348)	(298 938)	27 127	88 247
Flattener shock	(53 429)	(160 831)	(129 019)	(180 644)
Short rates shock up	(9 013)	(130 320)	(305 383)	(333 653)
Short rates shock down	(1 426 397)	(185 353)	116 267	127 634
Maximum	(1 426 397)	(756 903)	(621 015)	(557 863)
Tier 1 Capital	14 053 467	13 419 690	14 053 467	13 419 690

Absolut increase of ΔNII in most of scenarios was caused by several reasons combined. First reason was annual update of shocks values in stress scenarios. In 2019 more conservative, absolute higher, shocks were used for most of scenarios, especially for PLN currency. It has significant impact on increase of short rates down scenario. Another reason were changes in methodology of calculation ΔNII measure which took place in 2019, the most important of them was including option risk (credits prepayments, deposits withdrawals). Changes of ΔNII could be caused also by increase of balance sheet total which was observed between 2018 and 2019.

mBank Hipoteczny S.A.

Repricing date misfit gap and interest earnings at risk (EaR) based on the former are the key interest rate risk measures at mBank Hipoteczny S.A.

A sudden, lasting and disadvantageous change of market interest rates by 100 basis points for all maturities would result in decrease in the annual interest income by the following amounts:

EaR (PLN 000's)	31.12.2019	31.12.2018
for position in PLN	8 002	6 487
for position in USD	20	2
for position in EUR	510	705

To calculate these values, there was assumed that the structure of financial assets and liabilities disclosed in the financial statements as at 31 December 2019 and 31 December 2018 would be fixed and the Bank would not take any measures to change related exposure to interest rate change risk.

mLeasing Sp. z o.o.

Market risk means a potential loss caused by disadvantageous changes of market prices or parameters affected by market prices. The Company is exposed to risk arising from open currency positions and non-adjustment of products charged with the interest rate risk within the scope of maturity and/or revaluation periods.

The Company applies a global measure to measure the value of bank portfolio exposed to currency and interest rate risk, namely VAR (Value at Risk).

The sum of VAR of interest rate and VAR of exchange rate constitutes the global VAR of the Company. VAR of the interest rate risk presents the impact of interest rate changes on the value of the Company's portfolio. VAR of exchange rate risk presents the impact of changes of exchange rates on estimation of items of balance-sheet assets and liabilities until the date of their revaluation (change of interest).

Pursuant to the decision of the Risk Committee of mBank SA concerning the rules of monitoring the level of market risk in subsidiaries belonging to the mBank Group, mBank provides indicated values of risk measures for the portfolio of mLeasing.

The amount of VAR (97.5% confidence level, holding period 1 day) cannot exceed the basic VAR limit for mLeasing applied by mBank SA in a given period (PLN 0,6 milion at the end of 2019).

The table below presents VAR values as at 31 December 2019 and 31 December 2018, calculated using the parameters specified above.

PLN 000's	VaR	
	31.12.2019	31.12.2018
Interest rate risk	70	64
Currency risk	4	6
Total VaR	**74**	**70**

mBank S.A. Group interest rate risk

The following tables present the Group's exposure to interest rate risk. The tables present the Group's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

31.12.2019	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
ASSETS							
Cash and balances with the Central Bank	3 773 915	-	-	-	-	4 123 095	**7 897 010**
Loans and advances to banks	4 080 164	253	74 699	-	-	186 642	**4 341 758**
Debt and equity securities and investments in subsidiaries	8 338 555	1 547 699	7 552 578	17 646 331	657 201	296 389	**36 038 753**
Loans and advances to customers	65 919 348	33 600 772	2 540 545	2 844 928	193 622	248 260	**105 347 475**
Other assets and derivative financial instruments	167 091	133 930	169 852	257 799	24 000	1 164 053	**1 916 725**
Total assets	**82 279 073**	**35 282 654**	**10 337 674**	**20 749 058**	**874 823**	**6 018 439**	**155 541 721**
LIABILITIES							
Amounts due to banks	966 951	189 901	-	-	-	10 019	**1 166 871**
Amounts due to customers	99 748 135	9 296 587	4 256 380	2 616 421	2 071	741 544	**116 661 138**
Debt securities in issue	1 071 199	4 050 378	2 877 871	6 406 116	3 029 579	-	**17 435 143**
Subordinated liabilities	763 355	980 771	756 091	-	-	-	**2 500 217**
Other liabilities and derivative financial instruments	376 119	121 995	197 518	186 144	19 807	2 999 964	**3 901 547**
Total liabilities	**102 925 759**	**14 639 632**	**8 087 860**	**9 208 681**	**3 051 457**	**3 751 527**	**141 664 916**
Total interest repricing gap	**(20 646 686)**	**20 643 022**	**2 249 814**	**11 540 377**	**(2 176 634)**		

31.12.2018	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
ASSETS							
Cash and balances with the Central Bank	3 314 448	-	-	-	-	5 884 816	**9 199 264**
Loans and advances to banks	2 392 163	8 329	87 738	15 265	-	42 851	**2 546 346**
Debt and equity securities and investments in subsidiaries	6 366 921	1 719 955	10 712 438	14 361 468	1 291 606	102 836	**34 555 224**
Loans and advances to customers	62 235 515	25 963 158	3 086 287	3 271 202	44 799	164 792	**94 765 753**
Other assets and derivative financial instruments	241 548	152 350	178 789	252 602	30 226	1 328 843	**2 184 358**
Total assets	**74 550 595**	**27 843 792**	**14 065 252**	**17 900 537**	**1 366 631**	**7 524 138**	**143 250 945**
LIABILITIES							
Amounts due to banks	1 920 938	895 617	288 985	-	-	3 286	**3 108 826**
Amounts due to customers	85 656 253	9 419 449	5 604 957	1 012 170	56 213	260 020	**102 009 062**
Debt securities in issue	1 408 019	3 359 216	2 736 927	8 705 679	1 839 742	-	**18 049 583**
Subordinated liabilities	763 318	954 684	756 161	-	-	-	**2 474 163**
Other liabilities and derivative financial instruments	356 118	159 780	264 576	209 898	25 736	3 295 408	**4 311 516**
Total liabilities	**90 104 646**	**14 788 746**	**9 651 606**	**9 927 747**	**1 921 691**	**3 558 714**	**129 953 150**
Total interest repricing gap	**(15 554 051)**	**13 055 046**	**4 413 646**	**7 972 790**	**(555 060)**		

3.8. Liquidity risk

Sources of liquidity risk

The liquidity risk is understood as the risk of failure to fund assets and meet payment obligations arising from balance sheet and off-balance sheet items owed by the Bank in a timely manner and at a market price.

The reasons for liquidity risk may appear with respect to assets, liabilities and off-balance sheet liabilities and receivables.

As regards assets, their main sources of liquidity risk are market liquidity risk and untimely repayments of loans. Market liquidity risk is a threat of complete or partial impossibility of liquidating the assets held, or the possibility of selling these assets only at an unfavourable price.

As regards liabilities, the risks posed by funding and withdrawal of funds by the clients are the most common source of the liquidity risk. The former is a type of risk in terms of which, should the crisis occur, funding can be acquired only at a higher price, and in an extreme situation, it is not possible to acquire funding or renew existing. The latter is a type of threat associated with uncertainty as to the behaviour of clients whose decisions (for instance, about withdrawal of deposited funds) may weaken the Bank's ability to service its current financial obligations.

A source of risk for off-balance sheet liabilities is a risk posed by clients' behaviour and unexpected drawdown of granted lines. It also concerns the use of intraday and overdraft lines by custody and corporate clients. Materialisation of such a risk may be experienced as severe especially in the case of high concentration of commitments. In respect of derivative transactions concluded within framework agreements or settled by CCP, liquidity risk can materialize in consequence of adverse and severe changes in market conditions resulting in sudden decrease in valuation of derivative instruments and related to necessity of pledging the collateral.

Daily operations of the Bank require settlements of various payment operations. Such activity generates high level of liquidity needs during a business day.

Taking into account the mBank Group the liquidity risk is also identified as a possibility of unexpected growth in significant liquidity needs of subsidiaries of mBank. In the Group a centralised approach to the management of financing was introduced in order to increase the effectiveness of the used liquidity resources and to ensure better tenor match of financing with assets.

Liquidity risk may appear as a result of usage of inappropriate models in liquidity analysis (e.g. deposit base stable part model), which may lead to underestimation of liquidity risk. It is monitored by verification and back-testing models pursuant to the Model Management Policy.

Organization of risk management

In order to ensure that the liquidity risk management process is effective, the Management Board of the Bank lies down an adequate organizational structure and delegates powers to dedicated units and Committees. Liquidity risk management is conducted based on three lines of defence.

Liquidity risk management aims at ensuring and maintaining the Bank's and the Group's ability to fulfil both current and future liabilities taking into account the cost of liquidity. The liquidity management process consists of procedures that aim at identification, measurement, controlling, monitoring, reducing and defining the acceptable level of exposure to risks. This process can be divided into two main elements in the operational sense: the part involving all forms of liquidity management and the part of controlling and monitoring liquidity risk.

mBank S.A.

The objective of liquidity risk management is to ensure and maintain the Bank's ability to fulfil both current and future commitments. The Bank achieves this objective by diversifying stable funding sources in terms of clients' groups (from whom acquires deposits), products and currencies groups, and at the same time, maintains liquidity buffer and optimizes its balance sheet in terms of profitability. Long-term activities of mBank in this scope are carried out taking into account conditions on funding capacity and business profitability.

In 2019, the liquidity situation was monitored and kept at a level adequate to the Bank's needs by adjusting the deposit base and securing additional funding sources in form of loans from banks and issuance of debt securities depending on the development of lending activity and other funding needs.

The internal liquidity adequacy assessment process (ILAAP)

In order to review the liquidity risk management system in the Bank and the Group, the ILAAP process was developed. As part of this process all elements of the liquidity risk management system are subject to review including:

- liquidity risk management strategy,
- stress tests,
- liquidity contingency plan,
- liquidity buffer,
- intraday liquidity risk management,
- early warning system,
- identification and measurement of liquidity risk,
- reporting system.

The review is performed annually. The conclusions of the conducted review serve for further improvement and development of the liquidity risk management.

Tools and measures used in measuring liquidity risk

As part of liquidity risk management, a range of risk measures is being analysed, out of which the mismatch gap is the basic. It includes all assets, liabilities and off-balance sheet items of the Bank for all currencies in the time horizons set by the Bank. In 2019, the Bank maintained a liquidity surplus level adequate to its operating activity and current market situation in the form of a portfolio of liquid treasury bonds and bills, for which there is a possibility of pledging or selling at any time without significant loss of value.

In accordance with KNF Resolution No. 386/2008 on establishing liquidity measures binding banks and in accordance with Commission Delegated Regulation (EU) No 2015/61 of October 10, 2014 the Bank calculates the supervisory liquidity measures. In 2019, the supervisory limits were not exceeded. Moreover, the Bank conducts an in-depth analysis of long-term liquidity and sets internal limits (management action triggers) on involvement in long-term assets. Internal limits and appropriate buffers are also imposed on supervisory measures. Relevant analysis of the stability and structure of the funding sources, including the core and concentration level of term deposits and current accounts are performed. Additionally, the Bank analyses the variability of the balance sheet and off-balance sheet items, in particular the open credit line facilities and current account and overdrafts limits utilisation.

The ongoing analysis covers liquidity under normal and stressed conditions, which may result in potential liquidity loss. In order to determine the Bank's resistance to major unfavourable events, the Bank conducts scenario analyses covering extreme assumptions on the operation of financial markets and/or behavioural events relative to the Bank's clients.

For this purpose stress test scenarios are regularly calculated in the short- and long-term, in the bank, market and combined scenarios.

In addition a reverse stress test for liquidity risk is performed in the Bank on annual basis and an intraday liquidity crisis scenario on a monthly basis.

Liquidity stress tests are used in the Bank for operational management of liquidity risk.

The Bank has also adequate procedures in case mBank is threatened with financial liquidity loss. Base on severity of risk factors and the degree of the threat of financial loss relevant actions are defined either in the Contingency Plan in case of a threat of losing financial liquidity by mBank Group (Contingency Plan) or in the Recovery Plan of mBank Group (Recovery Plan). Scenarios used in both plans are consistent with the above stress tests.

Execution of the strategy of ensuring liquidity of the Bank consists in active management of the balance sheet structure of future cash flows and keeping liquidity reserves adequate to the liquidity needs, resulting from the activity and structure of the balance sheet of the Bank, obligations to subsidiaries and the current market situation as well as the demand for liquid assets, resulting from the conducted stress tests. For this purpose the Bank keeps a surplus of liquid and unencumbered assets constituting the Liquidity Reserves, for which there is a possibility of pledging, transaction on repo market or selling at any time without significant loss in value. Liquidity Reserves were composed of the Polish Government debt securities in PLN and EUR, bills issued by the National Bank of Poland in PLN, the Czech Republic’s Government debt securities and bills issued by Czech National Bank in CZK.

Values of these Reserves amounted to:

Value of Liquidity Reserves (in PLN million)	
31.12.2019	**31.12.2018**
32 750	25 700

In the Group the Liquidity Reserves are held also by mBank Hipoteczny. Liquidity Reserves of mBank Hipoteczny were composed of the Polish Government debt securities in PLN and bills issued by the National Bank of Poland in PLN and amounted to:

Value of Liquidity Reserves (in PLN million)	
31.12.2019	**31.12.2018**
1 010	1 051

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

Due to the use by the Bank of FX swap and CIRS instruments to convert surpluses in local currencies into foreign currencies, internal limits are in place on the use of these instruments. Moreover, in order to limit the concentration in FX swaps, the amounts obtained in such transactions are monitored in monthly time bands up to 1 year.

Other measures of liquidity risk are calculated and reported in the Bank as follows:

- concentration of funding sources,
- stability of deposit base,
- early withdrawals of deposits,
- ratio of long-term funding for the real estate market,
- liquidity risk concentration within off-balance sheet positions related to financial and guarantee liabilities.

The Bank includes product's liquidity in its liquidity risk management framework. It is reflected in terms of measuring market liquidity of Treasury bonds, which make up Liquidity Reserves. The analysis is performed on monthly basis and takes account of market liquidity determinants such as: market turnover, order book depth, purchase/sale transaction spread and issue volume. The measurement of market liquidity is reflected in internal liquidity measures, where the scenario structure provides for liquidating the Treasury bonds held by the Bank in line with market trading in particular series of bonds. A similar check is carried out in the context of the market potential of pledging particular bond series.

The measurement, limiting and reporting the liquidity risk

At the Bank, there is a reporting process of liquidity risk. It covers both daily information delivery to entities engaged in operational management of liquidity risk and entities controlling liquidity risk management on operational level, as well as regular reporting to higher management levels for the purpose of making strategic decisions on liquidity risk.

Daily reporting covers:

- regulatory measures,
- liquidity gaps for mBank, the mBank Group and the material subsidiaries from liquidity risk perspective with the utilization of limits imposed on these measures,
- intraday liquidity,
- other internal liquidity risk measures.

Weekly reporting covers:

- early warnings indicators (EWI).

Monthly reporting covers:

- regulatory measures and internal liquidity measures to the Management Board members and Financial Markets Risk Committee (KRF),
- regulatory measures, internal liquidity measures and forecasts of liquidity measures based on business development forecasts to the Assets and Liabilities Committee of the mBank Group (ALCO) and Balance Sheet Management Committeee.

Regulatory measures and internal liquidity measures are reported on a quarterly basis to the mBank's Supervisory Board.

For the purpose of current monitoring of liquidity, the Bank establishes values of realistic, cumulated gap of cash flows. The realistic gap is calculated on the basis of contractual cash flows (Note 3.8.1). Mainly cash flows in portfolios of non-banking customers' deposits, overdrafts and term loans are amended. In the calculation of the liquidity measures the Bank takes into account the possibilities of raising the funds by selling or pledging the debt securities from Bank's Liquidity Reserves.

In the LAB methodology, the LAB Base Case measure is the primary management measure and it is also used for limiting the liquidity gap in particular foreign currencies.

Value of realistic, bucket and cumulative gap of cash flows misfit (in PLN million)				
Time range	gap LAB Base Case - 31.12.2019		gap LAB Base Case - 31.12.2018	
	bucket	cumulative	bucket	cumulative
up to 1 working day	18 801	18 801	19 207	19 207
up to 3 working days	(1 210)	17 591	417	19 624
up to 7 calendar days	0	17 591	(2 987)	16 637
up to 15 calendar days	(568)	17 023	64	16 701
up to 1 month	(2 340)	14 683	(330)	16 371
up to 2 months	1 979	16 662	1 937	18 308
up to 3 months	(6)	16 656	(574)	17 734
up to 4 months	(94)	16 562	(2 218)	15 516
up to 5 months	(476)	16 086	(1 105)	14 411
up to 6 months	(13)	16 073	(933)	13 478
up to 7 months	(225)	15 848	(12)	13 466
up to 8 months	(335)	15 513	(366)	13 100
up to 9 months	(2 318)	13 195	150	13 250
up to 10 months	(565)	12 630	761	14 011
up to 11 months	(142)	12 488	(109)	13 902
up to 12 months	361	12 849	349	14 251

The above values should be interpreted as liquidity surplus/deficit in relevant time buckets. The dynamics of the development of term deposits and current accounts (PLN 13.8 billion - the exchange rate of 31 December 2019 was used in calculation) had a positive impact on the level of liquidity gap, exceeding the dynamics of the development of lending activities (PLN 10.1 billion - the exchange rate of 31 December 2019 was used in calculation).

The level of liquidity gap was adversely affected by the development of wholesale funding - repayment exceeded the value of acquired funding resulting from repayment of EUR 500m of unsecured funding, repayment of EUR 376m of secured funding and obtaining CHF 263m.

Moreover the Bank calculates the amount of additional collateral requirement resulting from signed agreements with the counterparties that the Bank would have to deliver in case of potential rating downgrade. As of 31 December 2019 the Bank would not have to post additional collateral.

In 2019 the Bank's liquidity remained at a safe level which was reflected in surplus of liquid assets over short-term liabilities according to LAB in various scenarios and supervisory liquidity measures.

LAB cash flows gaps mismatch in terms up to 1 month and up to 1 year within 2019 and values of regulatory measures M3–M4 and LCR are presented in the following table:

	31.12.2019	31.12.2018
LAB Base Case 1M	14 683	16 371
LAB Base Case 1Y	12 849	14 251
M3	4.30	4.95
M4	1.38	1.38
LCR	169%	190%

**LAB measures are shown in PLN million; M3, M4 and LCR are relative measures presented as a decimal.*

The long-term coverage ratios (M3, M4) are characterized by high stability on safe level, above minimum established by regulatory authority equal to 1. The LCR measure remained on safe level, significantly exceeding 100%.

Funding sources

The strategic assumptions concerning the diversification of funding sources and profitable structure of the balance sheet are reflected in the financial plan of the mBank Group defined by selected measures, e.g. L/D ratio (Loans to Deposits). The Bank measures a specific relation of loans to deposits in order to maintain a stable structure of its balance sheet. In 2019 the L/D ratio slightly changed from 75.9% to 76.4% for the Bank and from 92.9% to 90.3% for the Group. The Bank aims at building a stable deposit base by offering to clients deposit and investment products, regular and specific-purpose savings offerings. Funds acquired from the Bank's clients constitute the major funding source for the business activity along with the portfolio of long-term loans from banks and issuances of debt securities (with maturities over 1 year) (Note 28). The loans and issuances together with subordinated loans (Note 28) are the core funding source for the portfolio of mortgage loans in CHF. According to the suspension of granting new mortgage loans in CHF, Bank's receivables in this currency have been decreasing successively along with loans repayments.

Moreover, in order to acquire funding (also in foreign currencies) the Bank uses mid-term and long-term instruments, including credit line facilities on the international markets, unsecured issuances, bilateral loans as well as FX swap and CIRS transactions.

In the Group except mBank, access to external funding have only mBank Hipoteczny via issuance of mortgage covered bonds and short-term debt securities and mLeasing via short-term debt securities.

When making funding-related decisions, in order to match the term structure of its funding sources with the structure of long-term assets, the Group takes into consideration the supervisory liquidity measures and limits, as well as the internal liquidity risk limits.

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Liquidity risk in the mBank Group is generated mainly by mBank's items. Nevertheless, liquidity risk level in the mBank Group subsidiaries, where liquidity risk was deemed significant, is also a subject to monitoring. In the subsidiaries generating the greatest liquidity risk (mHipoteczny and mLeasing) the Bank monitors the level of liquidity risk on a daily basis. The data provided by these companies allow for reporting contractual cash-flow mismatch as well as calculation of a realistic cash-flows mismatch based on LAB model and modelling assumptions for selected products according to risk profiles, funding possibilities and products specificity of the subsidiary.

The levels of realistic, cumulative cash-flow mismatch in the mBank Group is presented in the following table:

Value of realistic, bucket and cumulative gap of cash flows misfit (in PLN million)				
Time range	gap LAB Base Case - 31.12.2019		gap LAB Base Case - 31.12.2018	
	bucket	cumulative	bucket	cumulative
up to 1 working day	20 626	20 626	19 809	19 809
up to 3 working days	(1 189)	19 437	624	20 434
up to 7 calendar days	0	19 437	(2 950)	17 484
up to 15 calendar days	(498)	18 939	(10)	17 474
up to 1 month	(2 403)	16 536	(387)	17 087
up to 2 months	2 224	18 760	2 503	19 589
up to 3 months	83	18 843	(269)	19 320
up to 4 months	(98)	18 745	(1 707)	17 613
up to 5 months	(578)	18 167	(570)	17 043
up to 6 months	(128)	18 039	(665)	16 378
up to 7 months	(405)	17 634	516	16 895
up to 8 months	(162)	17 472	(157)	16 738
up to 9 months	(2 682)	14 790	504	17 243
up to 10 months	(394)	14 396	608	17 851
up to 11 months	(2)	14 394	(254)	17 597
up to 12 months	531	14 925	716	18 313

LAB gaps mismatch in terms up to 1 month and up to 1 year within 2019 and 2018 and supervisory liquidity measure LCR on Group level are presented in the following table:

	31.12.2019	31.12.2018
LAB Base Case 1M	16 536	17 087
LAB Base Case 1Y	14 925	18 313
LCR Grupa	190%	231%

**LAB measures are shown in PLN million; LCR is relative measure presented as a decimal.*

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For other subsidiaries, due to lower total assets and simpler amounts products, the process of monitoring has been worked out based on two criteria: the size of the balance sheet and, if the subsidiary is covered by LCR measure for the Group in accordance with Commission Delegated Regulation (EU) No 2015/61 of October 10, 2014, its share in total outflows. In case of exceedance of imposed thresholds, the decision is made on the possible inclusion of the subsidiary into the liquidity risk management system.

3.8.1. Cash flows from transactions in non-derivative financial instruments

The table below shows cash flows the Group is required to settle, resulting from financial liabilities. The cash flows have been presented as at the year-end date, categorised by the remaining contractual maturities. The amounts denominated in foreign currencies were converted to Polish zloty at the average rate of exchange announced by the National Bank of Poland at the year-end date. The amounts disclosed in maturity dates analysis are undiscounted contractual cash flows.

31.12.2019	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities (by contractual maturity dates)						
Amounts due to banks	1 045 928	1 301	3 932	192 315	-	**1 243 476**
Amounts due to customers	100 159 708	8 758 198	4 643 196	1 857 214	1 684 193	**117 102 509**
Debt securities in issue	199 186	600 907	3 527 303	10 852 325	3 152 488	**18 332 209**
Subordinated liabilities	34 828	5 068	57 163	307 123	2 684 908	**3 089 090**
Other liabilities	1 605 558	1 763	487 420	-	-	**2 094 741**
Total liabilities	**103 045 208**	**9 367 237**	**8 719 014**	**13 208 977**	**7 521 589**	**141 862 025**
Assets (by remaining contractual maturity dates)	-	-	-	-	-	-
Total assets	**21 707 301**	**9 576 282**	**24 333 627**	**71 286 197**	**53 415 447**	**180 318 854**
Net liquidity gap	**(81 337 907)**	**209 045**	**15 614 613**	**58 077 220**	**45 893 858**	**38 456 829**

31.12.2018	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities (by contractual maturity dates)						
Amounts due to banks	2 286 677	47 156	672 106	197 996	-	**3 203 935**
Amounts due to customers	85 556 018	7 477 488	6 153 475	2 249 094	1 605 173	**103 041 248**
Debt securities in issue	379 019	355 806	3 410 614	13 142 018	2 223 770	**19 511 227**
Subordinated liabilities	34 918	4 814	56 440	303 605	2 732 251	**3 132 028**
Other liabilities	2 051 526	1 378	438 963	-	-	**2 491 867**
Total liabilities	**90 308 158**	**7 886 642**	**10 731 598**	**15 892 713**	**6 561 194**	**131 380 305**
Assets (by remaining contractual maturity dates)	-	-	-	-	-	-
Total assets	**19 750 626**	**7 335 020**	**26 213 788**	**60 915 168**	**48 321 843**	**162 536 445**
Net liquidity gap	**(70 557 532)**	**(551 622)**	**15 482 190**	**45 022 455**	**41 760 649**	**31 156 140**

The assets which ensure the payment of all the liabilities and lending commitments comprise cash in hand, cash at the Central Bank, cash in transit and treasury bonds and other eligible bonds; amounts due from banks; loans and advances to customers.

In the normal course of business, some of the loans granted to customers with the contractual repayment date falling due within the year, will be prolonged. Moreover, a part of debt securities, were pledged as collateral for liabilities. The Group could ensure cash for unexpected net outflows by selling securities and availing itself of other sources of financing, such as the market of securities secured with assets.

Lease liabilities by maturity dates (undiscounted) are presented in the Note 28.

Remaining contractual maturities for guarantees issued are presented in the Note 33.

3.8.2. Cash flows from derivatives

<u>Derivative financial instruments settled in net amounts</u>

Derivative financial instruments settled in net amounts by the Group comprise:

- Futures,
- Forward Rate Agreements (FRA),
- Options,
- Warrants,
- Interest rate swaps (IRS),
- Cross currency interest rate swaps (CIRS),
- Security forwards.

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The table below shows derivative financial liabilities of the Group, which valuation as of end of 2019 was negative, grouped by appropriate remaining maturities as at the balance sheet date and are presented as contractual maturities apart from Other up to 1 month and Futures contracts which are presented as net present value (NPV). The amounts denominated in foreign currencies were converted to Polish zloty at the average rate of exchange announced by the National Bank of Poland at the balance sheet date.

31.12.2019	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Forward Rate Agreements (FRA)	597	338	242	27	-	**1 204**
Interest Rate Swaps (IRS)	43 637	189 639	337 406	1 409 739	159 838	**2 140 259**
- hedging Interest Rate Swaps	*131*	*611*	*1 548*	-	-	***2 290***
Cross Currency Interest Rate Swaps (CIRS)	(1 213)	(7 053)	(17 266)	12 699	1 415	**(11 418)**
Options	2 863	8 875	21 751	8 177	3	**41 669**
Other	2 309	87 475	171 391	184 307	-	**445 482**
Total derivatives settled on a net basis	**48 193**	**279 274**	**513 524**	**1 614 949**	**161 256**	**2 617 196**

31.12.2018	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Forward Rate Agreements (FRA)	31	284	2 814	700	-	**3 829**
Interest Rate Swaps (IRS)	13 853	142 352	389 687	1 142 976	77 461	**1 766 329**
- hedging Interest Rate Swaps	-	*361*	*3 576*	*20 206*	*19 908*	***44 051***
Cross Currency Interest Rate Swaps (CIRS)	7 652	(15 228)	(41 909)	(49 193)	(6 424)	**(105 102)**
Options	3 696	3 211	16 929	7 024	(50)	**30 810**
Other	5 226	3 735	15 765	18 833	-	**43 559**
Total derivatives settled on a net basis	**30 458**	**134 354**	**383 286**	**1 120 340**	**70 987**	**1 739 425**

Derivative financial instruments settled in gross amounts

Derivative financial instruments settled in gross amounts by the Group comprise foreign exchange derivatives: currency forwards and currency swaps.

The table below shows derivative financial liabilities/assets of the Group, which will be settled on a gross basis, grouped by appropriate remaining maturities as at the Balance Sheet date. The amounts denominated in foreign currencies were converted to Polish zloty at the average rate of exchange announced by the National Bank of Poland at the balance sheet date.

31.12.2019	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Currency derivatives:						
- outflows	13 637 448	4 902 487	5 672 219	3 916 331	1 304 587	**29 433 072**
- inflows	13 620 463	4 886 803	5 636 831	3 714 444	1 280 639	**29 139 180**

31.12.2018	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Currency derivatives:						
- outflows	16 914 479	4 086 705	4 678 672	2 018 037	-	**27 697 893**
- inflows	16 911 612	4 074 380	4 655 793	1 987 573	-	**27 629 358**

The amounts disclosed in the table are undiscounted contractual outflows/inflows.

The amounts presented in the table above are nominal cash flows of currency derivatives, which have not been settled, while the Note 20 shows nominal values of all open derivative transactions.

Detailed data concerning liquidity risk related to off-balance sheet items are presented in the Note 33.

3.9. Operational risk

Operational risk is understood as the risk of loss resulting from a mismatch or unreliability of internal processes, systems, mistakes or activities taken by the employee of the Bank or external events. Operational risk includes, in particular, the following material sub-categories: legal risk, IT risk, cyber risk, compliance risk, conduct risk, external fraud risk, outsourcing risk. Operational risk does not include reputational risk, however materialisation of operational risk may increase reputational risk.

Operational risk management is performed in mBank and, at the consolidated level, in mBank Group. While organising the operational risk management process, the Bank takes into account regulatory requirements, which are the starting point for preparation of framework for the operational risk control and management system in the Bank and the Group.

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The aim of operational risk management in the Bank is to reduce the causes of operational events, the probability of their occurrence and the severity of potential consequences. Cost vs benefits analysis is considered while deciding on an acceptable operational risk level.

Operational risk control and management consists of a set of activities aimed at identifying, monitoring, measurement, assessment, reporting as well as reduction, avoidance, transfer or acceptance of operational risk, the Bank is exposed to in particular areas of its operations. It is based on quantitative and qualitative methods and tools for operational risk control. The tools applied by the Bank intend to cause-oriented operational risk management and focus on bottom-up approach to identify risk.

Qualitative tools are aimed at establishing (within the Bank and the mBank Group) consistent qualitative assessment of internal and external factors affecting the operational risk management process. The basic qualitative tool is the Internal Control System Self-assessment (ICS) process, which enables to assess the most important risks, control mechanisms and independent monitoring of control mechanisms, and then to develop and implement necessary corrective action plans.

In addition, mBank collects data about operational risk events and losses of the Group, collects and monitors key risk indicators, and develops and performs operational scenario analyses in order to identify exposure to potential high-severity events. At the same time, the communication with all areas of the Bank (business and support areas) is maintained for the purpose of monitoring and taking preventive actions once the risk of critical events has been signalled in any area.

Operational losses

The vast majority of the Group’s operational losses refers to the following business lines (separated in accordance with the CRR Regulation): commercial banking and retail banking.

In terms of losses by risk category, the Group incurs the highest losses in two categories of operational risk: (i) crimes committed by outsiders; (ii) customers, products and business practices.

The following table presents the distribution of actual net losses (net of recoveries) by operational risk category, incurred by the mBank Group in 2019:

Operational risk category	Distribution	Value of losses in relations to the value of gross profit
Crimes committed by outsiders	9.59%	2.81%
Customers, products and business practices	89.60%	26.30%
Other	0.81%	0.24%
Total	100.00%	29.35%

The high share of losses in the 'Customers, products and business practices' category in 2019 resulted from the creation of legal risk provisions for foreign currency loans. More information on the above provisions is provided in Note 4 and in Note 32.

The level of operational risk losses is constantly monitored and regularly reported to the management and Supervisory Board of the Bank. Monitoring takes place at the level of individual transactions and at the level of the value of total losses. In the case of single operational events with a high loss or a total of losses exceeding the set thresholds, analysis of the causes and development of corrective action plans that will reduce the occurrence of similar losses in the future is required.

3.9.1 Compliance risk

Compliance risk management is realized in mBank, in particular, in accordance with the provisions of the Compliance Policy at mBank S.A. The Policy sets forth general rules for ensuring compliance of operations pursued by the Bank with provisions of law, internal regulations and market standards.

Compliance risk is understood as a consequence of failure to observe the law, internal regulations and market standards adopted by the Bank. Compliance risk management aims to mitigate the risk connected with the Bank’s failure to observe and comply with the law, internal regulations, and the market standards adopted by the Bank. Non-compliance of the Bank's operation with internal regulations, mentioned above, is understood as non-compliance of the internal regulations with the generally applicable law and market standards adopted by the Bank, including the failure to implement recommendations issued by the Polish Financial Supervision Authority (KNF) and other supervisory authorities executing their tasks towards financial institutions.

In order to guarantee compliance, the objectives of the internal control system are met within the three lines of defence. The first level comprises risk management in operational activities. The second level comprises at least risk management by employees holding dedicated positions or working in dedicated organisational units, irrespective of risk management performed at the first level, and the measures taken by the Compliance Department. The third level comprises operations of the Internal Audit Department. At all three levels, the Bank’s employees apply control mechanisms and independently monitor observance of these mechanisms.

Compliance of the bank's internal rules with the Polish and international law and with market standards adopted by the bank and observing internal rules by the bank employees guarantees fulfilment of the objectives of the internal control system and mitigates compliance risk, and eliminates or minimises the possibility of occurrence of the following risks: legal risk, reputational risk, risk of imposing sanctions and financial losses and risk resulting from discrepancies in interpretations of the law.

All the Bank employees are responsible for the implementation of compliance risk management process in line with the scope of their duties as well as granted authorisations.

The Compliance Department is responsible for the coordination and supervision of the compliance risk management process.

The supervision over the implementation of common compliance standards by the mBank Group subsidiaries is exercised in a manner that does not violate applicable law, prudential regulations and independence of employees performing the compliance function in the subsidiaries, in particular under agreements concluded with the subsidiaries.

3.10. Business risk

Business risk shall mean the risk of losses resulting from deviations between actual net operating result of the mBank Group and the planned level. The calculation of deviations between actual and planned values is done separately for revenues and costs. Business risk includes, in particular, strategic risk connected with the possibility of occurrence of negative financial consequences as a result of wrong or disadvantageous decisions or their wrong implementation. It is assumed, that the results of the strategic decisions are reflected in deviations between actual operating result and the planned level in one-year horizon.

Business risk is included in the calculation of economic capital of mBank and mBank Group.

In order to manage effectively and reduce business risk, the following actions are taken:

- coordination of the planning process by the Controlling and Management Information Department, which includes also verification of the planned data,
- regular analysis of the causes of observed deviations of the actual financial performance of the mBank Group organizational units from the planned level and informing the Management Board about results of the above analyses,
- periodic verification of the adopted strategy,
- regular analysis of the competitors’ activities.

3.11. Model risk

Model risk is understood as the risk of negative consequences connected with the decisions made on the basis of the output data of models which have been improperly constructed or are improperly administered. Model risk may result in financial losses, improper business or strategic decisions or negatively influence the bank’s reputation.

The following specific subcategories can be distinguished, in particular, in model risk: risk inextricably linked with the restrictions connected with modelling a given phenomenon, assumption/methodology risk, data risk, models administration risk, and risk of interdependence.

Model risk is managed in the bank on a systemic basis by proper internal regulations concerning model and their risk management process, in particular monitoring and validation of models.

An important role in the model and their risk management process is played by the Model Risk Committee. It recommends, among others, model risk tolerance level, which is finally approved by the Management Board and the Supervisory Board.

3.12. Reputational risk

The aim of management of reputational risk, defined as a risk resulting from a negative perception of the image of the bank or other member of the group among their stakeholders, is to identify, assess and reduce reputational risk in specific processes in order to protect and strengthen the good name of mBank and mBank Group.

The all Bank's organizational units, foreign branches, and subsidiaries are directly responsible for any reputational risk arising from their own business activities.

The following tools and methods are used in mBank to monitor and manage reputational risk:

- mBank’s values (client-centric organization, simplicity, professionalism, engagement and forward looking), which are the mBank’s code used while building either business relations or internal inside of the Group,
- engagement culture survey - perception of mBank by its employees,
- Corporate Social Responsibility: taking responsible action for the benefit of customers, employees, the environment and local communities (including employee volunteer work) and participation in projects of the mBank Foundation,
- monitoring of press publications, comments in the Internet and social media,
- customer satisfaction analysis in retail and corporate banking,
- new product process: reputational risk is one of the aspects analyzed during the new products’ implementation process,
- analysis of customers’ complaints.

Reputational Risk Management Strategy of mBank Group describes rules and components of reputational risk management.

3.13. Capital risk

In the mBank Group there is a capital management process in order to prevent materialization of capital risk, understood as risk resulting from the lack of capital as well as lack of the possibility to achieve sufficient capital adequate to the business activity’s risk undertaken by the Bank, required to absorb unexpected losses and meet regulatory requirements enabling further independent functioning of the Bank. Capital risk encompasses the risk of excessive leverage.

Capital risk management is performed, at an individual level, in mBank and, at a consolidated level, in mBank Group.

The capital management in mBank Group is organised as a process including planning, steering and controlling regulatory and internal capital. Within the framework of capital management process, regular monitoring of capital adequacy and effectiveness is conducted, aimed at assurance that adequate and optimum level of capital is maintained in mBank Group. This is supported by stress test analyses, aiming to provide in depth view on current capital position, as well as its possible future developments resulting from the stress scenarios adopted for the analysis.

More information on capital adequacy of mBank Group is provided in Note 45.

3.14. Regulatory risk

Regulatory risk, understood as the risk of changes in legal regulations or introduction of new regulations concerning specific area of the Group’s activity affecting capital adequacy or liquidity, is addressed by the Group in the framework of the capital and liquidity risk management process.

3.15. Fair value of assets and liabilities

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

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

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

The approach to the method used for the loans that are fair valued in line of IFRS9 requirements, is described in the point 3.3.7

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

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

Positions that are recognised in GL through amortised cost

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

	31.12.2019		31.12.2018	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets at amortised cost				
Debt securities	**11 234 873**	**11 409 164**	**9 000 539**	**9 148 798**
Loans and advances to banks	**4 341 758**	**4 338 448**	**2 546 346**	**2 521 793**
Loans and advances to customers, including:	**103 203 254**	**103 538 180**	**92 017 432**	**91 924 443**
Loans and advances to individuals	**56 999 856**	**58 296 285**	**48 924 332**	**49 612 551**
Current accounts	6 828 579	7 011 607	5 809 899	5 972 042
Term loans	49 809 251	50 922 652	42 754 960	43 281 036
Other	362 026	362 026	359 473	359 473
Loans and advances to corporate entities	**45 819 083**	**44 854 574**	**42 456 817**	**41 673 943**
Current accounts	5 657 614	5 522 094	5 331 403	5 217 161
Term loans, including finance lease	37 301 706	36 472 717	33 581 972	32 913 340
Reverse repo or buy/sell back transactions	13 398	13 398	1 146 263	1 146 263
Other loans and advances	2 596 454	2 596 454	2 382 247	2 382 247
Other	249 911	249 911	14 932	14 932
Loans and advances to public sector	**384 315**	**387 321**	**636 283**	**637 949**
Financial liabilities at amortised cost				
Amounts due to other banks	**1 166 871**	**1 166 836**	**3 108 826**	**3 107 261**
Amounts due to customers	**116 661 138**	**116 661 251**	**102 009 062**	**101 932 151**
Debt securities in issue	**17 435 143**	**17 711 082**	**18 049 583**	**18 236 156**
Subordinated liabilities	**2 500 217**	**2 519 770**	**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 using current interest rates including appropriate credit spreads and is based on the expected maturity of the respective loan agreements. The level of credit spread was determined based on market quotation of median credit spreads for Moody's rating grade. Attribution of a credit spread to a given credit exposure is based on a mapping between Moody's rating grade and internal rating grades of the Group. To reflect the fact that the majority of the Group's exposures is collateralised whereas the median of market quotation is centred around unsecured issues, the Group applied appropriate adjustments.

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

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

The fair value for these financial liabilities with more than 1 year to maturity is based on discounted cash flows by the use of discounting factor including an estimation of a spread reflecting the credit spread for mBank and the liquidity margin. For the loans received from European Investment Bank in EUR and in CHF 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.

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

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

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

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

The table below presents the fair value hierarchy of financial assets and liabilities measured at fair value in accordance with the assumptions and methods described above, exclusively for disclosure as at 31 December 2019 and 31 December 2018.

31.12.2019	**Including:**	**Level 1**	**Level 2**	**Level 3**
		Quoted prices in active markets	**Valuation techniques based on observable market data**	**Other valuation techniques**
VALUATION ONLY FOR PURPOSES OF DISCLOSURE				
FINANCIAL ASSETS				
Debt securities	11 409 164	11 409 164	-	-
Loans and advances to banks	4 338 448	-	-	4 338 448
Loans and advances to customers	103 538 180	-	-	103 538 180
FINANCIAL LIABILITIES				
Amounts due to banks	1 166 836	-	189 885	976 951
Amounts due to customers	116 661 251	-	7 158 593	109 502 658
Debt securities in issue	17 711 082	8 461 410	-	9 249 672
Subordinated liabilities	2 519 770	-	2 519 770	-
Total financial assets	**119 285 792**	**11 409 164**	**-**	**107 876 628**
Total financial liabilities	**138 058 939**	**8 461 410**	**9 868 248**	**119 729 281**

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**
VALUATION ONLY FOR PURPOSES OF DISCLOSURE				
FINANCIAL ASSETS				
Debt securities	9 148 798	9 148 798	-	-
Loans and advances to banks	2 521 793	-	-	2 521 793
Loans and advances to customers	91 924 443	-	-	91 924 443
FINANCIAL LIABILITIES				
Amounts due to banks	3 107 261	-	474 235	2 633 026
Amounts due to customers	101 932 151	-	4 251 823	97 680 328
Debt securities in issue	18 236 156	10 114 558	-	8 121 598
Subordinated liabilities	2 492 101	-	2 492 101	-
Total financial assets	**103 595 034**	**9 148 798**	**-**	**94 446 236**
Total financial liabilities	**125 767 669**	**10 114 558**	**7 218 159**	**108 434 952**

Level 1

Level 1 of financial assets includes the value of treasury securities and EIB bonds whose valuation consists in the direct use of market current prices of these instruments originating from active and liquid financial markets.

Level 1 of financial liabilities includes the fair value of bonds issued by the Bank and its subsidiary, mFinance France (Note 28). For the purpose of disclosures the Group applied market price of the issued debt securities.

Level 2

Level 2 includes the fair value of long-term loans received from banks, the fair value of long-term deposits placed by customers and the fair value of the loans received from the EIB (Note 28). In addition, at level 2, the Group has presented subordinated liabilities.

The fair value of financial liabilities included in level 2 with more than 1 year to maturity is based on cash flows discounted using interest rates. In case of the loans received from European Investment Bank, the Bank used EIB yield curve and the value of margin which was agreed upon the last contract for a loan. Based on that assumption, the spread of Bank to market swap curve was estimated. In case of deposits the Bank used the curve based on money market rates, as well as FRA contracts and IRS contracts for appropriate currencies and maturities. For debt securities in issue the Bank used the prices directly from the market for these securities. For the purpose of measurement of subordinated liabilities the Bank used obtained primary market spreads of subordinated bonds issued by the Bank and if required corresponding cross-currency basis swap levels for the respective maturities.

Level 3

Level 3 includes:

(i) the fair value of loans and advances to banks and loans and advances to customers, which is disclosed, as described earlier, based on quotation of median credit spreads for Moody’s ratings;

(ii) the fair value of the mortgage bonds and other debt securities issued by mBank Hipoteczny. For the valuation the Group has applied the technique of estimation of interest flow using swap curve and discounting with the rate amended by credit spread which is obtainable in case of issue depending on currency and maturity of financial instrument;

(iii) liabilities due to banks and to customers with maturity up to one year, for which the Group assumed that their fair value is equal to the carrying value;

(iv) the fair value of liabilities due to banks and to customers with maturity exceeding one year, for which were used valuation methods using at least one significant input data not based on observable market data.

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Positions that are recognised in GL through fair value

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

31.12.2019	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
Financial assets				
Financial assets held for trading and hedging derivatives	**2 866 034**	**1 330 541**	**959 776**	**575 717**
Loans and advances to custumers	172 689	-	-	172 689
Debt securities	1 733 569	1 330 541	-	403 028
Derivative financial instruments, including:	959 776	-	959 776	-
Derivative financial instruments held for trading	1 016 808	-	1 016 808	-
Hedging derivative financial instruments	504 219	-	504 219	-
Offsetting effect	(561 251)	-	(561 251)	-
Non-trading financial assets mandatorily at fair value through profit or loss	**2 267 922**	**825**	**-**	**2 267 097**
Loans and advances to custumers	1 971 532	-	-	1 971 532
Debt securities	133 774	-	-	133 774
Equity securities	162 616	825	-	161 791
Financial assets at fair value through other comprehensive income	**22 773 921**	**18 521 925**	**3 219 627**	**1 032 369**
Debt securities	22 773 921	18 521 925	3 219 627	1 032 369
Total financial assets	**27 907 877**	**19 853 291**	**4 179 403**	**3 875 183**
Financial liabilities				
Derivative financial instruments, including:	948 764	-	941 240	7 524
Derivative financial instruments held for trading	1 061 547	-	1 061 547	-
Hedging derivative financial instruments	19 411	-	11 887	7 524
Offsetting effect	(132 194)	-	(132 194)	-
Total financial liabilities	**948 764**	**-**	**941 240**	**7 524**

Assets Measured at Fair Value Based on Level 3 - changes from 1 January to 31 December 2019	Debt trading securities	Non-trading debt securities mandatorily at fair value through profit or loss	Non-trading equity securities mandatorily at fair value through profit or loss	Debt securities at fair value through other comprehensive income
As at the beginning of the period	**306 763**	**58 130**	**72 005**	**1 266 558**
Gains and losses for the period:	**429**	**75 644**	**75 041**	**(8 352)**
Recognised in profit or loss:	429	75 644	75 041	-
Net trading income	*429*	*320*	*(8)*	-
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	-	*75 324*	75 326	-
Gains or losses on subsidiaries and associates	-	-	*(277)*	-
Recognised in other comprehensive income:	-	-	-	(8 352)
Financial assets at fair value through other comprehensive income	-	-	-	*(8 352)*
Purchases	1 330 096	-	11 055	1 098 460
Redemptions	(233 141)	-	-	(274 629)
Sales	(3 246 823)	-	(10 891)	(1 838 078)
Issues	2 245 704	-	14 581	788 410
As at the end of the period	**403 028**	**133 774**	**161 791**	**1 032 369**

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31.12.2018	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
Financial assets				
Financial assets held for trading and hedging derivatives	**2 134 741**	**778 733**	**1 006 079**	**349 929**
Loans and advances to custumers	43 166	-	-	43 166
Debt securities	1 085 496	778 733	-	306 763
Derivative financial instruments, including:	1 006 079	-	1 006 079	-
Derivative financial instruments held for trading	997 486	-	997 486	-
Hedging derivative financial instruments	372 317	-	372 317	-
Offsetting effect	(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 custumers	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	**29 309 085**	**23 261 328**	**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	-
Hedging derivative financial instruments	10 660	-	10 660	-
Offsetting effect	(99 685)	-	(99 685)	-
Total financial liabilities	**981 117**	**-**	**981 117**	**-**

Assets Measured at Fair Value Based on Level 3 - changes from 1 January to 31 December 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 or losses on 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 2019 and 2018 there were no transfers of financial instruments between the levels of fair value hierarchy.

With regard to financial instruments valuated in repetitive way to the fair value classified as level 1 and 2 in hierarchy of fair value, any cases in which transfer between these levels may occur, are monitored by the Balance Risk Management Department on the basis of internal rules. In case if there is no market price used to a direct valuation for more than 5 working days, the method of valuation is changed, i.e. change from marked-to-market valuation to marked-to-model valuation under the assumption that the valuation model for the respective type of this instrument has been already approved. The return to marked-to-market valuation method takes place after a period of at least 10 working days in which the market price was available on a continuous basis. If there is no market prices for a debt treasury bonds the above terms are respectively 2 and 5 working days.

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Level 1

As at 31 December 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 1 330 541 thousand (see Note 20) and the fair value of government bonds at fair value through other comprehensive income in the amount of PLN 17 537 697 thousand (31 December 2018 respectively: PLN 778 733 thousand and PLN 21 251 235 thousand). Level 1 includes the fair value of corporate bonds in the amount of PLN 984 228 thousand (31 December 2018 – PLN 1 230 590 thousand).

In addition, as at 31 December 2019 level 1 includes the value of the registered privileged shares of Giełda Papierów Wartościowych in the amount of PLN 825 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 includes the fair values of bills issued by NBP in the amount of PLN 3 219 627 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 31 December 2019 and 31 December 2018, level 2 also includes the value of options referencing on the WIG 20 index. For options on WIG 20 index an internal model (based on implied volatility model) using market parameters is applied.

Level 3

Level 3 of the hierarchy presents the fair values of commercial debt securities issued by local banks and companies (bonds and deposit certificates) in the amount of PLN 1 532 889 thousand (31 December 2018: PLN 1 595 063 thousand), including the fair value of a debt instrument measured at fair value through profit or loss, resulting from the reclassification of Visa Inc.'s preference shares.

Level 3 includes also the fair value of local government bonds in the amount of PLN 36 282 thousand (31 December 2018 - PLN 36 388 thousand).

Model valuation for these items assumes a valuation based on the market interest rate yield curve adjusted by the level of credit spread. The credit spread parameter reflects the credit risk of the security issuer and is determined in accordance with the Bank's internal model. This model uses credit risk parameters (e.g. PD, LGD) and information obtained from the market (including implied spreads from transactions). PD and LGD parameters are not observed on active markets and therefore have been determined on the basis of statistical analyzes. Both models - the valuation of debt instruments and the credit spread model were built internally in the Bank by risk units, were approved by the Model Risk Committee and are subject to periodic monitoring and validation carried out by an entity independent of the units responsible for building and maintaining the model.

Impact of change in credit spreads on the fair value of debt securities classified as level 3 is presented in the table below. The amount reflects change in credit risk in relation to purchase date by the Group.

Issuer	Change of fair value resulting from change in credit risk	
	31.12.2019	31.12.2018
Credit institutions	141	631
Non-financial customers	(664)	(2 120)
Total	**(523)**	**(1 489)**

Level 3 as at 31 December 2019 includes the value of loans and advances to customers in the amount of PLN 2 144 221 thousand (31 December 2018 - PLN 2 748 321 thousand).

The Fair Value calculation for loans and advances to customers is based on its discounted estimated future cash flows. Future cash flows are determined taking into account:

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- repayment schedule,
- time value of money, based on risk-free interest rates set in the process of forecasting interest flows,
- uncertainty of cash flows resulting from credit risk throughout the forecasted lifetime of the exposure by modifying contract flows using multi-year credit risk parameters LT PD and LT LGD,
- other factors that would be taken into consideration by the potential exposure buyer (overhead costs and the profit margin expected by market participants) during the process of calibration of the discount rate used in the valuation process.

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

Moreover, level 3 covers mainly the fair value of equity securities amounting to PLN 161 791 thousand (31 December 2018: PLN 72 005 thousand). The equity securities presented at level 3 have been valuated using the market multiples method. The market multiples method, consists of valuating the equity capital of a company by using a relation between the market values of the own equity capital or market values of the total capital invested in comparable companies (goodwill) and selected economic and financial figures.

The table below presents the sensitivity of the fair value measurement to the change of unobservable parameters used in the models for debt financial instruments measured at fair value at level 3.

Portfolio	Fair value 31.12.2019	Sensitivity to change of unobservable parameter		Description
		(-)	(+)	
Commercial debt securities measured at fair value through other comprehensive income	1 032 369	(25 793)	25 793	The unobservable parameter is the credit spread. Sensitivity was calculated assuming a change in the credit spread by 100 bp. As the value of the parameter increases, the Bank expects a loss (-), while a decrease there is expected a profit (+).
Commercial debt securities measured at fair value through profit or loss	403 028	(10 451)	10 451	
Loans and advances to customers held for trading	172 689	(130)	137	The valuation model uses credit risk parameters (PD and LGD). Sensitivity was calculated assuming a change in PD and LGD by +/- 10%. As the value of the parameter increases, the Bank expects a loss (-), while a decrease there is expected a profit (+).
Loans and advances to customers at fair value through profit or loss	1 971 532	(29 063)	28 962	

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

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

<u>Impairment of loans and advances</u>

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 49.7 million or increase by PLN 59.4 million as at 31 December2019, 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 and for off-balance sheet liabilities individually assessed for impairment on the basis of future cash flows due to repayments and recovery from collateral – stage 3. The rules of determining write-downs and provisions for impairment of credit exposures have been described under Note 3.3.6.

<u>Provisions for legal risks</u>

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 Court of Justice of the European Union (CJEU) judgment described in Note 32 "Proceedings before a court, arbitration body or public administration authority". In the 4th quarter of 2019 the Group decided to change the methodology of the measurement of provisions for legal risk regarding individual court cases concerning indexation clauses in mortgage and housing loans in CHF as a result of the observed increase of total number of individual court cases as well as change in verdicts issued by the courts in such legal cases. As at 31 December 2019 the Group measured the provisions for the population of mortgage and housing loans in CHF using "expected value" method allowed by the IAS 37 in which the obligation is estimated by weighting all possible outcomes by their associated probabilities. The amount of provisions for individual cases concerning indexation clauses calculated using the new approach amounted to PLN 417 653 thousand which represented an increase of PLN 387 088 thousand compared to the amount as of 31 December 2018.

The methodology applied by the Bank depends on numerous assumptions, all associated with the significant degree of expert judgement made by the Bank, among which the most important are: an expected population of borrowers who will file a lawsuit against the Bank, the probability of losing the case having final and binding judgement, the distribution of expected verdicts judged by the courts and the loss to be incurred by the Bank in case of a losing the case in court.

The population of borrowers who will file a lawsuit against the Bank has been projected for a period of next 5 years based on the Bank's history of legal cases in the past and assumes a significant increase in inflow of new cases. The Bank assumes that vast majority of the projected cases will be filed within first 3 years. If the assumed number of inflowing cases changed by +/- 20% and all other relevant assumptions remained constant the amount of the provision would change by +/- PLN 48.2 million.

The probability of loss has been calculated using data from the Bank's history of final and binding positive and negative verdicts available as of 31 December 2019. The final rulings to-date in the indexation clauses proceedings are favourable to the Group in the majority of the cases. As the number of final verdicts is not statistically representative (too few binding verdicts have been issued by courts in cases related to mBank) the assumption of probability of loss takes also into account expert judgements by the Bank about the future trends in the court verdicts. If the assumed probability of loss changed by +/- 10% and all other relevant assumptions remained constant the amount of the provision would change by +/- PLN 41.8 million.

The methodology also takes into account the expected level of loss in case of losing the case by the Bank. The projected loss rate was calculated using the probabilities of different verdicts that may be issued. As currently there is still no homogenous line of verdicts taken by the courts in such cases the Bank took into account three possible losing scenarios of outcomes in legal proceedings: (i) the contract is partially invalid; the contract is not invalid, but the indexation mechanism is eliminated, which transforms a loan indexed to CHF into a PLN loan subject to the interest rate of the loan indexed to CHF, (ii) the contract is invalid in whole; the change in the contract resulting from deletion of the exchange rate norm (assuming that the norm defines the main subject matter of the contract) would be too far-reaching and (iii) the contract on a mortgage indexed to the CHF is not invalid and the loan remains a mortgage indexed to CHF; the gap should be filled by interpreting the contract based on a norm referring to the fixing rate of the NBP. Each of this scenarios is associated with a different level of predicted losses for the Bank. The Bank calculated the average level of loss weighted with the probabilities of occurrence of those scenario in case of negative final and binding judgement. The probabilities of those scenarios applied by the Bank has been based on the assessment of the Bank consulted with the external legal advisor. If the assumed weighted average loss changed by +/- 5% and all other relevant assumptions remained constant the amount of the provision would change by +/- PLN 20.9 million.

The method used to calculate the provision is based on parameters that are highly judgmental and with a high range of possible values. It is possible that the provision will have to be adjusted significantly in the future, particularly that important parameters used in calculations are interdependent.

<u>Prepayments of retail loans</u>

CJEU ruled on 11 September 2019 that in case concerning consumer loans paid off prematurely the consumer has the right to a reduction in the total cost of the loan in the event of early repayment of the credit. The interpretation constituted an answer to a prejudicial question asked in a court case in which a few banks have participated including mBank.

The above ruling impacts consumer loans granted on 18 December 2011 or later, in the amount not exceeding 255 550 PLN or its equivalent in other currency and mortgage loans granted on 22 July 2017 or later with no limit of the loan amount, which have been paid off fully or partially.

In 2019 the Group recognised in other operating expense (Note 14) the amount of PLN 25.0 million for potential reimbursements od commissions in relation to early repayments of loans before the date of the verdict. As of 31 December 2019 the provision recorded within other provisions (Note 30) related to those costs amounted to PLN 16.5 million.

In case of loans that were prepaid after the date of the verdict the commissions to be yet returned to clients are recorded as amounts due to the clients amounted to PLN 20.7 million.

Additionally, as a result of the verdict the Group revised its estimates regarding the amounts and timing of the cash flows related to the loans granted before the date of the CJEU verdict which are expected to be repaid before the contractual term. The change of these estimates was recognised as cumulative catch-up in accordance with the IFRS 9 by decreasing interest income by PLN 48.0 million. The amount was recognised within other provisions (Note 30).

The total negative impact of early repayments of retail loans on the Group's 2019 gross profit amounted to PLN 93.7 million, of which PLN 68.7 million reduced net interest income and PLN 25.0 million increased other operating expenses.

The above estimates are burdened with significant uncertainty regarding the number of customers who will request the Bank to refund commissions regarding earlier repayments made by the CJEU verdict as well as the expected rate of loan prepayments in the future.

<u>Fair value of derivatives and other financial instruments</u>

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.

<u>Deferred tax assets</u>

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.

<u>Revenue and expenses from sale of insurance products bundled with loans</u>

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.

<u>Liabilities due to post-employment employee benefits</u>

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.

<u>Leasing classification</u>

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.

Estimates relating to leases, where the Group is a lessee, in areas such as determination of the duration of contracts, determining the interest rate used to discount future cash flows and determination of the depreciation rate of right-of-use assets are presented in note 2.29.

5. Business segments

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

The classification by business segments is based on client groups and product groups defined by homogenous transaction characteristics. The classification is consistent with sales management and the philosophy of delivering complex products to the Bank's clients, including both standard banking products and more sophisticated investment products. The method of presentation of financial results coupled with the business management model ensures a constant focus on creating added value in relations with clients of the Bank and Group companies and should be seen as a primary division, which serves the purpose o 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 LeaseLink Sp. z o.o. as well as the results of retail segments of mLeasing Sp. z o.o., Asekum Sp. z o.o. and mBank Hipoteczny S.A.
- The Corporates and Financial Markets segment, which is divided into two sub-segments:
  - *Corporate and Investment Banking* sub-segment (business line), which targets small, medium and large-sized companies and public sector entities. The key products offered to these customers include transactional banking products and services including current account products, multi-functional internet banking, tailor-made cash management and trade finance services, term deposits, foreign exchange transactions, a comprehensive offer of short-term financing and investment loans, cross-border credit, project finance, structured and mezzanine finance services, investment banking products including foreign exchange options, forward contracts, interest rate derivatives and commodity swaps and options, structured deposit products with embedded options (interest on structured deposit products are directly linked to the performance of certain underlying financial instruments such as foreign exchange options, interest rate options and stock options), debt origination for corporate clients, treasury bills and bonds, non-government debt, medium-term bonds, buy/sell back and sell/buy back transactions and repo transactions, as well as leasing, factoring and brokerage services. The Corporate and Investment Banking sub-segment includes the results of the following subsidiaries: mFaktoring S.A., Garbary Sp. z o.o., Tele-Tech Investment Sp. z o.o. as well as the results of corporate segments of mLeasing Sp. z o. o., Asekum Sp. z o.o. and mBank Hipoteczny S.A.
  - *Financial Markets* sub-segment (business line) consists primarily of treasury, financial markets, and financial institutions operations, manages the liquidity, interest rate and foreign exchange risks of the Bank, its trading and investment portfolios, and conducts market making in PLN denominated cash and derivative instruments. The Bank also maintains an extensive correspondent banking network and also develops relationships with other banks providing products such as current accounts, overdrafts, stand alone and syndicated loans and loans insured by 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.

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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 31 December 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	1 066 640	235 534	2 696 814	3 784	4 002 772
- sales to external clients	1 078 555	731 266	2 192 790	161	4 002 772
- sales to other segments	(11 915)	(495 732)	504 024	3 623	-
Net fee and commission income	513 855	(16 349)	486 732	(19 635)	964 603
Dividend income	-	-	-	4 220	4 220
Trading income	275 909	34 794	141 271	(11 444)	440 530
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	119	-	21 383	47 757	69 259
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates	1 348	36 073	(130)	(2 459)	34 832
Other operating income	91 661	90	75 787	66 949	234 487
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(282 268)	833	(428 769)	(2 133)	(712 337)
Result on provisions for legal risk related to foreign currency loans	-	-	(387 786)	-	(387 786)
Overhead costs	(688 171)	(87 982)	(1 175 363)	(2 141)	(1 953 657)
Amortisation	(102 829)	(13 387)	(262 863)	3 581	(375 498)
Other operating expenses	(72 683)	(957)	(122 532)	(111 550)	(307 722)
Operating profit	**803 581**	**188 649**	**1 044 544**	**(23 071)**	**2 013 703**
Taxes on Group balance sheet items	(174 489)	(36 832)	(240 318)	(7 019)	(458 658)
Gross profit of the segment	**629 092**	**151 817**	**804 226**	**(30 090)**	**1 555 045**
Income tax					(544 793)
Net profit attributable to Owners of mBank S.A.					1 010 350
Net profit attributable to non-controlling interests					(98)

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

31.12.2019	Corporates & Financial Markets		Retail Banking	Other	Total figure for the Group
	Corporate and Investment Banking	Financial Markets			
Assets of the segment	44 805 002	46 845 014	64 989 636	2 080 931	**158 720 583**
Liabilities of the segment	35 685 057	25 498 967	79 052 093	2 331 161	**142 567 278**
Expenditures incurred on fixed assets and intangible assets	251 106	16 324	266 773	2	**534 205**

Business segment reporting on the activities of mBank S.A. Group for the period from 1 January to 31 December 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	922 829	253 535	2 310 513	9 597	3 496 474
- sales to external clients	931 528	671 346	1 886 643	6 957	3 496 474
- sales to other segments	(8 699)	(417 811)	423 870	2 640	-
Net fee and commission income	456 746	(10 050)	538 818	(9 664)	975 850
Dividend income	-	4	-	3 554	3 558
Trading income	252 755	(32 091)	127 263	(591)	347 336
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	(54 142)	-	(112 711)	6 812	(160 041)
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates	181	18 181	-	(3 867)	14 495
Other operating income	83 025	1 613	307 025	13 331	404 994
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(183 907)	161	(343 399)	(428)	(527 573)
Result on provisions for legal risk related to foreign currency loans	-	-	(20 349)	-	(20 349)
Overhead costs	(647 635)	(98 438)	(1 159 946)	(5 321)	(1 911 340)
Amortisation	(81 123)	(10 818)	(159 726)	(925)	(252 592)
Other operating expenses	(49 070)	(2 157)	(98 280)	(20 471)	(169 978)
Operating profit	**699 659**	**119 940**	**1 389 208**	**(7 973)**	**2 200 834**
Taxes on Group balance sheet items	(153 919)	(36 533)	(205 899)	(19 074)	(415 425)
Share in profits (losses) of entities under the equity method	-	-	-	1 240	1 240
Gross profit of the segment	**545 740**	**83 407**	**1 183 309**	**(25 807)**	**1 786 649**
Income tax					(483 945)
Net profit attributable to Owners of mBank S.A.					1 302 786
Net profit attributable to non-controlling interests					(82)

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

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	45 272 136	56 475 056	1 770 843	**145 780 558**
Liabilities of the segment	32 620 034	28 814 237	67 336 104	1 838 976	**130 609 351**
Expenditures incurred on fixed assets and intangible assets	228 759	16 396	270 194	17 001	**532 350**

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Information about geographical areas on the activities of mBank S.A. Group for the period from 1 January to 31 December 2019 and for the period from 1 January to 31 December 2018

	from 1 January to 31 December 2019			from 1 January to 31 December 2018		
	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total
Net interest income	3 746 395	256 377	4 002 772	3 308 372	188 102	3 496 474
Net fee and commission income	948 772	15 831	964 603	953 989	21 861	975 850
Dividend income	4 220	-	4 220	3 558	-	3 558
Trading income	430 589	9 941	440 530	338 557	8 779	347 336
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	69 259	-	69 259	(160 041)	-	(160 041)
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates	34 832	-	34 832	14 495	-	14 495
Other operating income	229 078	5 409	234 487	402 450	2 544	404 994
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(706 028)	(6 309)	(712 337)	(507 719)	(19 854)	(527 573)
Result on provisions for legal risk related to foreign currency loans	(387 786)	-	(387 786)	(20 349)	-	(20 349)
Overhead costs	(1 819 080)	(134 577)	(1 953 657)	(1 779 253)	(132 087)	(1 911 340)
Amortisation	(362 370)	(13 128)	(375 498)	(247 951)	(4 641)	(252 592)
Other operating expenses	(303 212)	(4 510)	(307 722)	(167 590)	(2 388)	(169 978)
Operating profit	**1 884 669**	**129 034**	**2 013 703**	**2 138 518**	**62 316**	**2 200 834**
Taxes on Group balance sheet items	(432 114)	(26 544)	(458 658)	(391 729)	(23 696)	(415 425)
Share in profits (losses) of entities under the equity method	-	-	-	1 240	-	1 240
Gross profit of the segment	**1 452 555**	**102 490**	**1 555 045**	**1 748 029**	**38 620**	**1 786 649**
Income tax			(544 793)			(483 945)
Net profit attributable to Owners of mBank S.A.			1 010 350			1 302 786
Net profit attributable to non-controlling interests			(98)			(82)

Geographical areas on the activities of mBank S.A. Group – the data concerning consolidated statement of financial position

	31.12.2019			31.12.2018		
	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total
Assets of the segment, including:	149 957 094	8 763 489	**158 720 583**	138 370 344	7 410 214	**145 780 558**
- tangible assets	2 188 996	39 492	2 228 488	1 541 714	19 487	1 561 201
- deferred income tax assets	935 335	2 377	937 712	957 159	1 917	959 076
Liabilities of the segment	131 757 088	10 810 190	**142 567 278**	120 383 897	10 225 454	**130 609 351**

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6. Net interest income

	Year ended 31 December	
	2019	2018
Interest income		
Interest income accounted for using the effective interest method	**4 523 483**	**3 868 051**
Interest income of financial assets at amortised cost, including:	4 050 646	3 379 450
- Loans and advances	*3 761 757*	*3 116 363*
- Debt securities	*232 177*	*203 518*
- Cash and short-term placements	*56 204*	*55 687*
- Other	*508*	*3 882*
Interest income on financial assets at fair value through other comprehensive income	472 837	*488 601*
- Debt securities	*472 837*	*488 601*
Income similar to interest on financial assets at fair value through profit or loss, including:	**548 181**	**650 139**
Financial assets held for trading	52 996	73 693
- Loans and advances	*4 434*	*1 324*
- Debt securities	*48 562*	*72 369*
Non-trading financial assets mandatorily at fair value through profit or loss, including:	187 712	*271 239*
- Loans and advances	*187 712*	*271 239*
Interest income on derivatives classified into banking book	181 834	180 409
Interest income on derivatives concluded under the fair value hedge	75 135	84 441
Interest income on derivatives concluded under the cash flow hedge	50 504	40 357
Total interest income	**5 071 664**	**4 518 190**

	Year ended 31 December	
	2019	2018
Interest expenses		
Financial liabilities measured at amortised cost, including:	(1 057 925)	*(1 007 267)*
- Deposits	*(661 228)*	*(576 285)*
- Loans received	*(13 615)*	*(29 243)*
- Issue of debt securities	*(294 266)*	*(318 870)*
- Subordinated liabilities	*(76 167)*	*(75 300)*
- Lease liabilities	*(2 959)*	*n/a*
- Other financial liabilities	*(9 690)*	*(7 569)*
Other	(10 967)	*(14 449)*
Total interest expense	**(1 068 892)**	**(1 021 716)**

Interest income related to impaired financial assets amounted to PLN 139 074 thousand (for the period ended 31 December 2018: PLN 110 512 thousand).

Interest income on financial assets at amortized cost includes interest on leasing activities in the amount of PLN 414 221 thousand (for the period ended 31 December 2018: PLN 348 341 thousand).

Interest income in 2019 was affected by recognition of cumulative effect of change in estimates regarding the amounts and timing of the cash flows related to the loans which are expected to be repaid before the contractual term. The issue was described in detail in Note 4 "Major estimates and judgments made in connection with the application of accounting policy principles".

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Net interest income per client groups is as follows:

	Year ended 31 December	
	2019	**2018**
Interest income		
From banking sector	380 416	421 394
From other customers, including:	4 691 248	4 096 796
- individual clients	2 322 835	1 995 135
- corporate clients	1 733 943	1 461 832
- public sector	634 470	639 829
Total interest income	**5 071 664**	**4 518 190**
Interest expenses		
From banking sector	(57 906)	(62 337)
From other customers, including:	(640 553)	(565 209)
- individual clients	(333 100)	(284 255)
- corporate clients	(266 132)	(241 688)
- public sector	(41 321)	(39 266)
Debt securities in issue	**(294 266)**	**(318 870)**
Subordinated liabilities	**(76 167)**	**(75 300)**
Total interest expense	**(1 068 892)**	**(1 021 716)**

7. Net fee and commission income

	Year ended 31 December	
	2019	**2018**
Fee and commission income		
Payment cards-related fees	435 878	389 950
Credit-related fees and commissions	417 888	370 554
Commissions from bank accounts	210 930	207 941
Commissions from money transfers	145 841	133 297
Commissions for agency service regarding sale of insurance products of external financial entities	100 424	100 639
Fees from brokerage activity and debt securities issue	86 996	104 494
Commissions due to guarantees granted and trade finance commissions	93 017	84 727
Commissions for agency service regarding sale of other products of external financial entities	82 151	103 189
Commissions on trust and fiduciary activities	28 027	26 478
Fees from portfolio management services and other management-related fees	14 161	11 594
Fees from cash services	48 570	54 788
Other	40 759	42 690
Fee and commission income	**1 704 642**	**1 630 341**

In relation to finance leases, income relating to variable lease payments not included in the measurement of the net investment in the lease in 2019 amounted to PLN 3 003 thousand. For operating leases, lease income relating to variable lease payments that do not depend on an index or a rate, amounted to PLN 2 663 thousand.

	Year ended 31 December	
	2019	**2018**
Fee and commission expense		
Payment cards-related fees	(241 198)	(213 566)
Commissions paid to external entities for sale of the Bank's products	(190 636)	(141 527)
Commissions paid for agency service regarding sale of insurance products of external financial entities	(8 635)	(5 147)
Commissions paid of products of external financial entities	(21 520)	(18 987)
Discharged brokerage fees	(28 846)	(26 772)
Cash services	(41 944)	(50 060)
Fees to NBP and KIR	(14 706)	(13 456)
Other discharged fees	(192 554)	(184 976)
Total fee and commision expense	**(740 039)**	**(654 491)**

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8. Dividend income

	Year ended 31 December	
	2019	**2018**
Trading securities	-	4
Financial assets at fair value through profit and loss	4 220	3 554
Total dividend income	**4 220**	**3 558**

9. Net trading income

	Year ended 31 December	
	2019	**2018**
Foreign exchange result	**381 547**	**323 472**
Net exchange differences on translation	347 956	388 092
Net transaction gains/(losses)	33 591	(64 620)
Gains or losses on financial assets and liabilities held for trading	**50 788**	**30 571**
Derivatives, including:	16 903	27 699
- Interest-bearing instruments	*9 013*	*18 732*
- Market risk instruments	*7 890*	*8 967*
Equity instruments	-	(823)
Debt securities	34 026	3 558
Loans and advances	(141)	137
Gains or losses from hedge accounting	**8 195**	**(6 707)**
Net profit on hedged items	(80 277)	(76 367)
Net profit on fair value hedging instruments	90 700	66 268
Ineffective portion of cash flow hedge	(2 228)	3 392
Net trading income	**440 530**	**347 336**

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 equity instruments operations includes the valuation and result on trading in equity securities held for trading.

The Group applies fair value hedge accounting and cash flow hedge accounting. Detailed information on hedge accounting are included in Note 20 "Financial assets held for trading and hedging derivatives".

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

	Year ended 31 December	
	2019	**2018**
Equity instruments	75 382	(217)
Debt securities	75 324	7 028
Loans and advances	(81 447)	(166 852)
Total gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	**69 259**	**(160 041)**

In the item of gains on non-trading equity instruments mandatorily measured at fair value through profit or loss, the Bank 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 75 324 thousand related to the gains on debt securities stems from the revaluation of VISA preference shares (presented as debt securities as they do not match the definition of an equity instrument), out of which PLN 48 369 the Group recognised 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.

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

	Year ended 31 December	
	2019	**2018**
Gains less losses related to sale of debt securities measured at fair value through other comprehensive income	34 995	16 465
Gains less losses related to sale of investments in subsidiaries and associates	(277)	(4 034)
Gains less losses from derecognition, including:	114	2 064
- Financial assets at amortised cost	*114*	*2 064*
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries	**34 832**	**14 495**

Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss by instrument

	Year ended 31 December 2019		Year ended 31 December 2018	
	Gains	**Losses**	**Gains**	**Losses**
Loans and advances	29 069	(28 955)	7 266	(5 202)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	**29 069**	**(28 955)**	**7 266**	**(5 202)**

12. Other operating income

	Year ended 31 December	
	2019	**2018**
Income from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories	131 947	68 363
Income from services provided	10 577	21 980
Net income from operating lease	2 030	2 215
Income due to release of provisions for future commitments	11 162	4 717
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	5 264	448
Income from compensations, penalties and fines received	718	333
Release of impairment provisions for tangible fixed assets and intangible assets	5 657	-
Net revenues from the sale of an organised part of the company mFinanse S.A.	26 600	255 536
Other	40 532	51 402
Total other operating income	**234 487**	**404 994**

Revenues from the sale or liquidation of property, plant and equipment, intangible assets, assets for sale and inventories mainly include revenues of mLeasing Sp. z o.o. from the sale of leasing items and BDH Development Sp. z o.o. obtained from development activities.

Net revenues from the sale of an organised part of the company mFinanse S.A. relate to sales transactions by mBank S.A. 100% shares in Latona S.A. to Phoebe IVS based in Denmark, and then sale by mFinanse S.A. an organized part of the mFinanse S.A. to Latona S.A. in 2018. The organized part of the enterprise was a separate activity under which, on the basis of agency agreements, mFinanse S.A. performed insurance intermediation activities in the field of group insurance contracts as an insurance agent.

The maximum total remuneration for the transaction will amount to approximately PLN 434.9 million. As a result of the transaction, till 31 December 2019 the Group recognised a net profit in the amount of PLN 282.1 million. Cash flows from this transaction in the consolidated statement of cash flows have been presented under "Other investing inflows". Due to the nature of the transaction the recognition of the part of the remuneration in the future will depend on the performance of the business sold. This may result in the recognition of an additional gross profit of up to PLN 119.8 million in the period of approximately 4 years from the end of 2019.

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

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

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Net income from operating lease and right-of-use assets in sublease generated in 2019 and 2018 is presented below.

	Year ended 31 December	
	2019	**2018**
Net income from operating lease and right-of-use assets in sublease, including:		
- Income from operating lease	42 697	48 949
- Income from right-of-use assets in sublease	7 298	*n/a*
- Depreciation cost of fixed assets provided under operating lease	(47 965)	(46 734)
Total net income from operating lease	**2 030**	**2 215**

13. Overhead costs

	Year ended 31 December	
	2019	**2018**
Staff-related expenses	(1 019 340)	(952 291)
Material costs, including:	(639 101)	(744 903)
- costs of administration and real estate services	(254 211)	(366 005)
- IT costs	(163 419)	(164 335)
- marketing costs	(141 802)	(135 282)
- consulting costs	(67 030)	(68 606)
- other material costs	(12 639)	(10 675)
Taxes and fees	(31 226)	(25 971)
Contributions and transfers to the Bank Guarantee Fund	(255 710)	(180 434)
Contributions to the Social Benefits Fund	(8 280)	(7 741)
Total overhead costs	**(1 953 657)**	**(1 911 340)**

In 2019, the item "Material costs" includes costs related to short-term leasing contracts in the amount of PLN 2 690 thousand, costs related to leasing contracts of low-value assets that are not short-term contracts in the amount of PLN 3 011 thousand and costs related to variable elements of leasing liabilities not included in the leasing liability (included in general administrative costs in the amount of PLN 3 130 thousand).

In 2018, the item "Material costs" includes operating lease payment costs of tangible assets (mainly real estate) of PLN 27 997.

Staff-related expenses in 2019 and 2018 are presented below.

	Year ended 31 December	
	2019	**2018**
Wages and salaries	(825 389)	(776 676)
Social security expenses	(136 657)	(126 303)
Employee contributions related to post-employment benefits	(16)	(26)
Remuneration concerning share-based payments, including:	(10 702)	(10 703)
- share-based payments settled in mBank S.A. shares	(9 947)	(10 224)
- cash-settled share-based payments	(755)	(479)
Other staff expenses	(46 576)	(38 583)
Staff-related expenses, total	**(1 019 340)**	**(952 291)**

Cash-settled share-based payments relate to the costs of incentive programmes existing in the Group entities. Detailed information regarding incentive programmes to which share-based payments relate, is included under the Note 41 "Share-based incentive programmes".

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14. Other operating expenses

	Year ended 31 December	
	2019	**2018**
Costs arising from sale or liquidation of fixed assets, intangible assets, assets held for resale and inventories	(115 961)	(42 497)
Provisions for future commitments	(51 647)	(27 166)
Costs arising from provisions created for other receivables (excluding loans and advances)	(1 196)	(1 686)
Donations made	(6 009)	(14 539)
Costs of sale of services	(602)	(391)
Compensation, penalties and fines paid	(4 246)	(2 197)
Costs arising from receivables and liabilities recognised as prescribed, remitted and uncollectible	(9)	(138)
Costs of creating write-offs for impairment of property, plant and equipment and intangible assets resulting from finance lease and rental contracts	(337)	-
Debt collection costs	(41 829)	(36 941)
Other operating costs	(85 886)	(44 423)
Total other operating expenses	**(307 722)**	**(169 978)**

In 2019, in the item "Provisions for future commitments", the Group recognized provisions for the cost of potential commission returns in the amount of PLN 25 048 thousand PLN in connection with early repayment of retail loans. The issue is described in detail in Note 4 "Major estimates and judgments made made in connection with the application of accounting policy principles".

In 2019, the item "Other operating expenses" includes a cost in the amount of PLN 26 283 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 arising from sale or liquidation of fixed assets, intangible assets, assets held for resale and inventories comprise primarily the expenses incurred by mLeasing Sp. z o.o. from the sale of leasing items and BDH Development Sp. z o.o. obtained from development activities.

Costs of services provided concern non-banking services.

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

	Year ended 31 December	
	2019	**2018**
Financial assets at amortised cost, including:	**(670 273)**	**(537 931)**
- Debt securities	8	(52)
Stage 1	*8*	*(52)*
- Loans and advances	(670 281)	(537 879)
Stage 1	*(89 505)*	*(64 034)*
Stage 2	*(37 722)*	*(41 355)*
Stage 3	*(549 106)*	*(441 675)*
POCI	*6 052*	*9 185*
Financial assets at fair value through other comprehensive income	**171**	**95**
- Debt securities	171	95
Stage 1	*927*	*408*
Stage 2	*(756)*	*(313)*
Commitments and guarantees given	**(42 235)**	**10 263**
Stage 1	*(5 104)*	*(753)*
Stage 2	*(5 114)*	*(3 596)*
Stage 3	*(28 227)*	*14 379*
POCI	*(3 790)*	*233*
Net impairment losses on financial assets not measured at fair value through profit or loss	**(712 337)**	**(527 573)**

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16. Income tax expense

	Year ended 31 December	
	2019	2018
Current tax	(532 719)	(767 217)
Deferred income tax (Note 31)	(12 074)	283 272
Total income tax	**(544 793)**	**(483 945)**

Profit before tax	**1 555 045**	**1 786 649**
Tax calculated at Polish current tax rate (19%)	(295 459)	(339 463)
Effect of different tax rates in other countries	(165)	163
Income not subject to tax	4 396	4 915
Costs other than tax deductible costs*)	(252 684)	(149 399)
Other positions affecting income tax	(1 325)	6 816
Inactive tax losses	444	(6 977)
Total tax liability	**(544 793)**	**(483 945)**

Effective tax rate calculation		
Profit (loss) before income tax	1 555 045	1 786 649
Income tax	(544 793)	(483 945)
Effective tax rate	**35.03%**	**27.09%**

* The position includes i.a. impact of banking tax introduced by the Act on Tax on Certain Financial Institutions from 15 January 2016 (Journal of Laws 2016, item 68), provisions established for legal risk related to the portfolio of mortgage and housing loans in CHF and other expenses non-deductible costs according to Article 16 item 1 of Corporate Income Tax Act from 15 February 1992 (Journal of Laws 2019, item 865).

The current tax break down by country is presented below.

	Year ended 31 December	
	2019	2018
Poland	(505 556)	(751 946)
Czech Republic	(27 163)	(15 271)
Total current tax	**(532 719)**	**(767 217)**

Information about deferred income tax is presented under Note 31. The tax on the Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the parent as presented above.

17. Earnings per share

<u>Earnings per share for 12 months</u>

	Year ended 31 December	
	2019	2018
Basic:		
Net profit attributable to Owners of mBank S.A.	1 010 350	1 302 786
Weighted average number of ordinary shares	42 340 263	42 318 253
Net basic profit per share (in PLN per share)	**23.86**	**30.79**
Diluted:		
Net profit attributable to Owners of mBank S.A., applied for calculation of diluted earnings per share	1 010 350	1 302 786
Weighted average number of ordinary shares	42 340 263	42 318 253
Adjustments for:		
- share options	18 266	25 522
Weighted average number of ordinary shares for calculation of diluted earnings per share	42 358 529	42 343 775
Diluted earnings per share (in PLN per share)	**23.85**	**30.77**

According to IAS 33, the Bank prepares a calculation of the diluted earnings per share taking into account contingently issuable shares as part of the incentive programmes described in the Note 41. The calculations did not include those elements of the incentive programmes, which were antidilutive for the presented reporting periods that could potentially dilute basic earnings per share in the future.

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The basic earnings per share are computed as the quotient of the Bank stockholders' share of the profit and the weighted average number of ordinary shares during the year.

The diluted earnings per share are calculated as ratio of net profits attributable to Bank's shareholder and the weighted average number of ordinary shares as if all possible ordinary shares causing the dilution were replaced with shares. The Bank has one category of potential ordinary shares causing the dilution: share options. The number of diluting shares is computed as the number of shares that would be issued if all share options were executed at the market price, determined as the average annual closing price of the Bank's shares.

18. Other comprehensive income

Disclosure of tax effects relating to each component of other comprehensive income	Year ended 31 December 2019			Year ended 31 December 2018		
	Before-tax amount	Tax (expense) benefit	Net amount	Before-tax amount	Tax (expense) benefit	Net amount
Items that may be reclassified subsequently to the the income statement	**(25 269)**	**(10 857)**	**(36 126)**	**141 211**	**(29 297)**	**111 914**
Exchange differences on translation of foreign operations	32	-	32	60	-	60
Cash flow hedges	43 825	(8 326)	35 499	109 681	(20 840)	88 841
Debt instruments at fair value through other comprehensive income	(69 126)	(2 531)	(71 657)	31 470	(8 457)	23 013
Items that will not be reclassified to the income statement	**(2 483)**	**481**	**(2 002)**	**(3 135)**	**587**	**(2 548)**
Actuarial gains and losses relating to post-employment benefits	(2 483)	481	(2 002)	(3 135)	587	(2 548)
Total comprehensive income (net)	**(27 752)**	**(10 376)**	**(38 128)**	**138 076**	**(28 710)**	**109 366**

The table below presents detailed information concerning net other comprehensive income for the years 2019 and 2018.

	Year ended 31 December	
	2019	2018
Items that may be reclassified subsequently to the the income statement, including:	**(36 126)**	**111 914**
Exchange differences on translating foreign operations	**32**	**60**
Gains or losses on echange differences on translation of foreign operations included in other comprehensive income	32	60
Unrealised gains (positive differences) arising during the year (net)	*1 870*	*117*
Unrealised losses (negative differences) arising during the year (net)	*(1 838)*	*(57)*
Cash flows hedges [effective part]	**35 499**	**88 841**
Gain or losses included in other comprehensive income	75 289	121 530
Unrealized gains arising during the year (net)	*79 415*	*121 530*
Unrealized losses arising during the year (net)	*(4 126)*	-
Reclassification to the income statement (net)	(39 790)	(32 689)
Valuation of debt instruments at fair value through other comprehensive income (net)	**(71 657)**	***23 013***
Gains or losses on valuation of debt instruments included in other comprehensive income	(43 311)	*36 350*
Unrealised gains on debt instruments arising during the year (net)	*53 769*	*62 966*
Unrealised losses on debt instruments arising during the year (net)	*(97 080)*	*(26 616)*
Reclassification adjustments of gains (losses) on debt instruments to the income statement (net)	(28 346)	(13 337)
Items that will not be reclassified to profit or loss	**(2 002)**	**(2 548)**
Actuarial gains and losses relating to post-employment benefits	(2 002)	(2 548)
Actuarial gains	*29*	-
Actuarial losses	*(2 031)*	*(2 548)*
Total comprehensive income (net)	**(38 128)**	**109 366**

In 2019, the decrease in the value of unrealized gains on debt instruments compared to 2018 results from the realization of the result on debt securities maturing in 2019.

In 2018 unrealized gains on debt instruments arising during the year in the amount of PLN 62 966 thousand relate mainly to positive valuation of debt securities of the banking book, caused by a decrease in interest rates in the last quarter of 2018, resulting from interest rate drops in global markets.

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19. Cash and balances with central bank

	31.12.2019	31.12.2018
Cash on hand	1 271 472	1 724 452
Cash balances at central banks	6 625 538	7 474 812
Total cash and cash balances with central banks	**7 897 010**	**9 199 264**

On the basis of the Act on the National Bank of Poland of 29 August 1997, mBank holds a mandatory reserve deposit. The arithmetic mean of daily balances of the mandatory reserve that the mBank is obliged to maintain during a given period in the current account with NBP amounted to:

- PLN 3 562 715 thousand for the period from 31 December 2019 to 30 January 2020,
- PLN 3 129 048 thousand for the period from 31 December 2018 to 30 January 2019.

As at 31 December 2019, the mandatory reserve in Central Bank bore 0.50% interest (31 December 2018: 0.50%).

20. Financial assets and liabilities held for trading and hedging derivatives

Financial assets held for trading and hedging derivatives

	31.12.2019	31.12.2018
Derivatives	**959 776**	**1 006 079**
- Derivatives held for trading classified into banking book	138 882	81 480
- Derivatives held for trading classified into trading book	877 926	916 006
- Derivatives designated as fair value hedges	230 937	175 649
- Derivatives designated as cash flow hedges	273 282	196 668
- Offsetting effect	(561 251)	(363 724)
Debt securities	**1 733 569**	**1 085 496**
- General governments	1 330 541	778 733
pledged securities	*162 038*	*538 345*
- Credit institutions	170 953	166 305
- Other financial corporations	122 429	72 626
- Non-financial corporations	109 646	67 832
Loans and advances to customers	**172 689**	**43 166**
- Corporate customers	172 689	43 166
Total financial assets held for trading and hedging derivatives	**2 866 034**	**2 134 741**

Trading securities include securities used to secure sell/buy back transactions with customers, the market value of which as at 31 December 2019 amounted to PLN 162 038 thousand (31 December 2018: PLN 538 345 thousand).

Financial liabilities held for trading and hedging derivatives

	31.12.2019	31.12.2018
Derivatives	948 764	981 117
- Derivatives held for trading classified into banking book	104 161	74 986
- Derivatives held for trading classified into trading book	957 386	995 156
- Derivatives designated as fair value hedges	6 451	10 660
- Derivatives designated as cash flow hedges	12 960	-
- Offsetting effect	(132 194)	(99 685)
Financial liabilities held for trading and hedging derivatives	**948 764**	**981 117**

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 and cash flow hedge accounting. 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.

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The fair values of derivatives held by the Bank is presented in the table below.

31.12.2019	Contract amount		Fair value	
	Purchase	Disposal	Assets	Liabilities
Derivatives held for trading				
- Currency forwards	16 797 817	17 079 476	44 518	184 798
- Currency swaps	12 503 301	12 342 221	133 030	51 519
- Cross-currency interest rate swaps	11 659 765	11 697 787	36 749	51 859
- OTC currency options bought and sold	4 018 320	4 324 731	30 626	56 647
Total OTC derivatives	**44 979 203**	**45 444 215**	**244 923**	**344 823**
- Currency futures	282 677	283 586	-	-
Total foreign exchange derivatives	**45 261 880**	**45 727 801**	**244 923**	**344 823**
Interest rate derivatives				
- Interest rate swap, OIS	213 857 628	213 857 629	658 860	607 837
- Forward rate agreements	7 150 000	5 725 850	42	24
- OTC interest rate options	422 692	414 647	108	230
Total interest rate derivatives	**221 430 320**	**219 998 126**	**659 010**	**608 091**
Market risk transactions	**2 611 910**	**2 860 643**	**112 875**	**108 633**
Total derivative assets / liabilities held for trading	**269 304 110**	**268 586 570**	**1 016 808**	**1 061 547**
Hedging derivatives				
Derivatives designated as fair value hedges	12 505 040	12 505 040	230 937	6 451
- Interest rate swaps	12 505 040	12 505 040	230 937	6 451
Derivatives designated as cash flow hedges	16 642 550	16 643 930	273 282	12 960
- Interest rate swaps	15 365 000	15 365 000	273 282	5 436
- Cross-currency interest rate swaps	1 277 550	1 278 930	-	7 524
Total hedging derivatives	**29 147 590**	**29 148 970**	**504 219**	**19 411**
Offsetting effect			**(561 251)**	**(132 194)**
Total	**298 451 700**	**297 735 540**	**959 776**	**948 764**
Short-term (up to 1 year)	100 535 135	99 691 990	243 638	597 022
Long-term (over 1 year)	197 916 565	198 043 550	716 138	351 742

31.12.2018	Contract amount		Fair value	
	Purchase	Disposal	Assets	Liabilities
Derivatives held for trading				
- Currency forwards	16 612 859	16 730 475	48 959	83 547
- Currency swaps	12 618 508	12 664 389	43 967	39 092
- Cross-currency interest rate swaps	14 303 665	14 385 388	19 317	76 435
- OTC currency options bought and sold	2 682 292	2 653 710	28 815	36 688
Total OTC derivatives	**46 217 324**	**46 433 962**	**141 058**	**235 762**
- Currency futures	214 746	214 838	(2 028)	-
Total foreign exchange derivatives	**46 432 070**	**46 648 800**	**139 030**	**235 762**
Interest rate derivatives				
- Interest rate swap, OIS	180 292 858	180 292 858	695 672	663 013
- Forward rate agreements	3 950 000	4 160 000	94	62
- OTC interest rate options	442 582	627 381	430	602
Total interest rate derivatives	**184 685 440**	**185 080 239**	**696 196**	**663 677**
Market risk transactions	**1 616 088**	**2 669 503**	**162 260**	**170 703**
Total derivative assets / liabilities held for trading	**232 733 598**	**234 398 542**	**997 486**	**1 070 142**
Hedging derivatives				
Derivatives designated as fair value hedges	13 615 516	13 615 516	175 649	10 660
- Interest rate swaps	13 615 516	13 615 516	175 649	10 660
Derivatives designated as cash flow hedges	11 530 000	11 530 000	196 668	-
- Interest rate swaps	11 530 000	11 530 000	196 668	-
Total hedging derivatives	**25 145 516**	**25 145 516**	**372 317**	**10 660**
Offsetting effect			**(363 724)**	**(99 685)**
Total	**257 879 114**	**259 544 058**	**1 006 079**	**981 117**
Short-term (up to 1 year)	80 901 241	81 921 038	88 402	320 223
Long-term (over 1 year)	176 977 873	177 623 020	917 677	660 894

Except of valuation of derivatives, the offsetting effect includes PLN 4 503 thousand of placed collaterals and PLN 364 947 thousand of collaterals received in connection with the derivative transactions subject to compensation (31 December 2018: PLN 7 210 thousand and PLN 246 348 thousand respectively).

In the both reporting periods, market risk transactions comprise the fair values of: stock index options, shares and other equity securities, futures for commodities, swap contracts for commodities.

As at 31 December 2019 and 31 December 2018, the Bank did not hold any financial assets and financial liabilities designated upon initial recognition as at fair value through the income statement.

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Credit quality of financial assets held for trading and derivatives according to internal rating system

Sub-portfolio	31.12.2019		31.12.2018	
	Derivatives	Loans and advances to customers	Derivatives	Loans and advances to customers
1	801 848	-	718 194	-
2	286 591	85 408	313 999	-
3	316 716	38 423	256 684	43 166
4	39 797	48 858	60 931	-
5	11 136	-	10 158	-
6	121	-	-	-
7	1 183	-	-	-
8	63 388	-	9 556	-
default	247	-	281	-
Offsetting effect	(561 251)		(363 724)	
Total	**959 776**	**172 689**	**1 006 079**	**43 166**

Rating	31.12.2019	31.12.2018
	Debt securities	Debt securities
1.0 – 1.2	1 330 541	748 294
1.4 – 1.6	21 854	-
1.8 – 2.0	91 569	83 232
2.2 – 2.8	151 336	176 169
3.0 – 3.8	138 269	47 362
Total	**1 733 569**	**1 055 057**

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 2.13.

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,
- part of the fixed interest rate mortgage portfolio granted by mBank's foreign branch in the Czech Republic. 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,
- part of the fixed interest rate mortgage portfolio, denominated in CZK, granted by mBank's foreign branch in the Czech Republic.

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, with the exception of interest income and costs of the interest element of the valuation of hedging instruments, which are presented in the item Interest income / expense on derivatives concluded under the fair value hedge.

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Hedged items – fair value hedge

31.12.2019	The carrying amount of the hedged item	The accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item	The line item in the statement of financial position that includes the hedged item	The change in value of the hedged item used as the basis for recognizing hedge ineffectiveness for the period
Fixed interest rate mortgage portfolio denominated in CZK	23 981	(136)	Financial assets at amortised cost – Loans and advances to customers	(136)
Fixed interest rate Eurobonds issued by mFF	(5 097 329)	(44 953)	Financial liabilities measured at amortised cost – Debt securities issued	2 251
Fixed rate bonds issued by mBank	(3 361 997)	(33 373)	Financial liabilities measured at amortised cost – Debt securities issued	(15 068)
Fixed interest rate loans received by mBank from European Investment Bank	(2 128 603)	(25 753)	Financial liabilities measured at amortised cost – Amounts due to customers - Loans and advances received	(21 590)
Fixed interest rate mortgage bonds issued by mBH	(2 567 861)	(97 283)	Financial liabilities measured at amortised cost – Debt securities issued	(45 734)
TOTAL				**(80 277)**

31.12.2018	The carrying amount of the hedged item	The accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item	The line item in the statement of financial position that includes the hedged item	The change in value of the hedged item used as the basis for recognizing hedge ineffectiveness for the period
Fixed interest rate Eurobonds issued by mFF	(7 302 746)	(47 204)	Financial liabilities measured at amortised cost – Debt securities issued	(6 227)
Fixed rate bonds issued by mBank	(2 857 724)	(18 305)	Financial liabilities measured at amortised cost – Debt securities issued	(18 305)
Fixed interest rate loans received by mBank from European Investment Bank	(1 537 999)	(4 163)	Financial liabilities measured at amortised cost – Amounts due to customers - Loans and advances received	(18 095)
Fixed interest rate mortgage bonds issued by mBH	(2 491 064)	(51 549)	Financial liabilities measured at amortised cost – Debt securities issued	(33 740)
TOTAL				**(76 367)**

Nominal values of hedging derivatives - fair value hedging

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
31.12.2019	-	-	2 129 250	7 219 211	3 156 579	**12 505 040**
31.12.2018	-	-	2 150 000	8 330 308	3 135 208	**13 615 516**

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

the period	from 01.01.2019 to 31.12.2019	from 01.01.2018 to 31.12.2018
Interest income on derivatives concluded under the fair value hedge accounting (Note 6)	75 135	84 441
Net profit on hedged items (Note 9)	(80 277)	(76 367)
Net profit on fair value hedging instruments (Note 9)	90 700	66 268
The total results of fair value hedge accounting recognised in the income statement	**85 558**	**74 342**

Cash flow hedge accounting

- cash flow hedge accounting of the part of loans at a variable interest rate indexed to the market rate portfolio, granted by the Bank

The Group applies cash flow hedge accounting of the part of loans at a variable interest rate indexed to the market rate portfolio, granted by the Bank. An Interest Rate Swap is the hedging instrument changing the variable interest rate to a fixed interest rate. The interest rate risk is the hedged risk within applied by the Group cash flow hedge accounting. The ineffective portion of the gains or losses on the hedging instrument is presented in Note 9 in the position "Other net trading income and result on hedge accounting". Portion of the gains or losses on the hedging instrument that is an effective hedge, is presented in the statement of comprehensive income as "Cash flow hedges (net)".

The period from January 2020 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.

	Nominal value of hedged items		The change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period		The balances in the cash flow hedge reserve for continuing hedges	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Loans and advances to customers - loans at a variable interest rate indexed to the market rate portfolio	15 365 000	11 530 000	161 352	111 872	122 150	83 643

The nominal values of hedging derivatives - cash flow hedges

31.12.2019	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
INTEREST RATE RISK						
Interest rate swaps (IRS) hedging cash flows arising from granted loans with a variable interest rate denominated in PLN						
Nominal value (PLN '000)	-	200 000	3 590 000	11 375 000	200 000	**15 365 000**
The average rate of fixed leg	-	1.865%	1.967%	2.095%	1.928%	

31.12.2018	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
INTEREST RATE RISK						
Interest rate swaps (IRS) hedging cash flows arising from granted loans with a variable interest rate denominated in PLN						
Nominal value (PLN '000)	150 000	750 000	300 000	10 330 000	-	**11 530 000**
The average rate of fixed leg	1.965%	1.822%	2.013%	2.189%	-	

The fair value equal to book value of derivatives hedging was presented above in this Note.

Below is given the timetable presenting the periods in which the cash flows from loans secured under the cash flow hedge accounting were expected by the Group and their impact on the profit and loss account.

	up to 3 months	period from 3 months to 1 year	period from 1 year to 5 years
2019-12-31	65 461	161 170	439 290
2018-12-31	47 130	136 956	401 142

- cash flow hedges in relation to mortgage loans and mortgage bonds issued by mBank Hipoteczny

The Group began applying hedge accounting in relation to mortgage loans and mortgage bonds issued by mBank Hipoteczny in November 2019. The purpose of the hedging strategy is to eliminate the risk of volatility of cash flows generated by mortgage loans in PLN due to changes in reference interest rates and mortgage bonds denominated in a convertible currency due to exchange rate changes using currency interest rate swaps (CIRS).

As part of hedge accounting, the Group designates a hedged item consisting of:

- parts of the portfolio of housing loans for retail customers entered in the collateral register for mortgage covered bonds, denominated in PLN with an interest rate indexed to 3M WIBOR, the loan margin is excluded from collateral;
- mortgage bonds issued by the Bank in EUR with a fixed interest rate.

As hedging instruments, the Group uses CIRS derivative transactions in which, as a party to the transaction, it pays variable interest flows in PLN increased by a margin, and receives fixed interest rates in EUR and the denominations are exchanged at the beginning and at the end of the transaction. As transactions concluded by a mortgage bank, CIRS transactions are subject to entry in the register of covered bond collateral. In addition, if the bank's bankruptcy is announced by the court, it will not be immediately terminated, it will last until the end of the original maturity on the conditions specified on the date of the transaction (they will not be extended beyond the original maturity).

In accordance with the adopted methodology, the Group hedges the interest rate risk and currency risk within one economic relationship between the concluded CIRS transactions and part of the loan portfolio in PLN and mortgage bonds financing them in EUR. For the purposes of cash flow hedge accounting, the Group simultaneously establishes two hedging relationships:

- by decomposing the part of the actual CIRS transaction securing the portfolio of loans in PLN with a variable interest rate (hedging against interest rate risk) and
- by decomposing the actual portion of the CIRS transaction securing the liability in EUR (protection against currency risk).

For the purpose of calculating changes in the fair value of future cash flows of items being hedged, the Group uses the "hypothetical derivative" method, which assumes the possibility of reflecting the hedged item and the characteristics of the risk being hedged in the form of a derivative. The valuation principles are analogous to the principles for the valuation of interest rate derivatives

Hedged items – cash flow hedges

31.12.2019	Nominal value of hedged items	Position in the financial statement	Hange in the fair value the hedged items since designation
Loans in PLN with a variable interest rate	1 278 930	Loans and advances to customers	5 227
Mortgage bonds issued in a convertible currency at a fixed rate	1 277 550	Liabilities due to debt securities issued	

Hedging items – cash flow hedges

31.12.2019	Nominal value of hedging items	Position in the financial statement	Hange in the fair value the hedging items since designation
CIRS fixed leg EUR	1 277 550	Other components of equity	(5 094)
CIRS variable leg PLN	1 278 930		

The nominal values of hedging derivatives - cash flow hedges

31.12.2019	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
INTEREST RATE RISK						
Interest rate swaps (IRS) hedging cash flows arising from granted loans with a variable interest rate denominated in PLN						
Nominal value (PLN '000)	-	-	-	-	1 278 930	**1 278 930**
The average rate of fixed leg	-	-	-	-	2,4199%	**2,4199%**
CURRENCY RISK						
Foreign exchange swap (CIRS) hedging cash flows arising from issued mortgage bonds						
Nominal value (PLN ‘000)	-	-	-	-	1 277 550	**1 277 550**
The average rate of fixed leg	-	-	-	-	0,242%	**0,242%**

The fair value equal to book value of derivatives hedging was presented above in this note.

In the case of established relationships, the period in which cash flows are expected and when they should be expected to influence the results is the period from November 2019 to September 2025.

Efficiency tests include the valuation of hedging transactions after deducting accrued interest and exchange differences on the nominal value of hedging transactions. Hedge effectiveness is verified by applying prospective and retrospective effectiveness tests. The tests are performed on a monthly basis.

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The main sources of hedge ineffectiveness can be:

- taking into account the CVA / DVA correction only on the hedging instrument side,
- minimal differences in the construction method and basic parameters of hedging transactions and hedged items.

Changes in the fair value of a derivative hedging instrument designated as a cash flow hedge are recognized directly in other comprehensive income in the portion that forms the effective portion of the hedge. The ineffective portion of the hedge is recognized in the income statement in the position "Gains or losses from hedge accounting" or "Foreign exchange result". In addition, amounts charged directly to other comprehensive income are transferred to the profit and loss account respectively of the item "Net interest income" and "Foreign exchange result" in the same period or periods in which the inflow of the hedged transaction is referred to the profit and loss account and precipitate.

The following note presents other comprehensive income due to cash flow hedges for the period from 1 January to 31 December 2019 and for the period from 1 January to 31 December 2018

the period	from 01.01.2019 to 31.12.2019	from 01.01.2018 to 31.12.2018
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	92 949	150 038
Profits / (Losses) recognized in other comprehensive income in the period	(49 124)	(40 357)
- *net interest income*	*(50 504)*	*(40 357)*
- *foreign exchange result*	*1 380*	-
Accumulated other gross comprehensive income at the end of the reporting period	**147 088**	**103 263**
Deferred income tax on accumulated other comprehensive income at the end of the reporting period	(27 946)	(19 620)
Accumulated other net comprehensive income at the end of the reporting period	**119 142**	**83 643**
Impact on other comprehensive income in the reporting period (gross)	43 825	109 681
Deferred tax on cash flow hedges	(8 326)	(20 840)
Impact on other comprehensive income in the reporting period (net)	**35 499**	**88 841**

the period	from 01.01.2019 to 31.12.2019	from 01.01.2018 to 31.12.2018
Gains/losses recognised in comprehensive income (gross) during the reporting period, including:		
Unrealised gains/losses included in other comprehensive income (gross)	43 825	109 681
Results of cash flow hedge accounting recognised in the income statement	46 896	43 749
- amount included as interest income in income statement during the reporting period	*50 504*	*40 357*
- ineffective portion of hedge recognised included in other net trading income in income statement	*(826)*	*3 392*
- foreign exchange result	*(1 380)*	-
- day one gain (loss)	*(1 402)*	-
Impact on other comprehensive income in the reporting period (gross)	**90 721**	**153 430**

Impact of the IBOR reform

In connection with the amendments to the standards IFRS 9, IAS 39 and IFRS 7, Interest Rate Benchmark Reform, described in the Note 2.29, the Group took advantage of the possibility of earlier adoption of these changes in 2019 and it did not verify effectiveness of hedging relationships in hedge accounting. The amendments provide temporary reliefs which enable the Bank's hedge accounting to be continued during the period of uncertainty, before the replacement of an existing interest rate benchmark with an alternative risk free interest rate.

As a result of an ongoing reform of the interest rate reference benchmark and its replacement with a risk free alternative interest rate, the Bank has established a project to manage the transition for any of its contracts that could be affected. The table below indicates the nominal amount and weighted average maturity of derivatives in hedging relationships that will be affected by IBOR reform, analyzed by interest rate basis. The derivative hedging instruments provide a close approximation to the extent of the risk exposure the Bank manages through hedging relationships.

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31.12.2019	Nominal amount	Average maturity (years)
Interest Rate swaps		
LIBOR CHF (3 months)	3 654 877	6.3
EURIBOR (3 months)	8 721 408	6.0
EURIBOR (6 months)	106 037	7.0
WIBOR (1 months)	2 000 000	3.5
WIBOR (3 months)	12 965 000	4.4
WIBOR (6 months)	400 000	2.7
PRIBOR (3 months)	22 718	5.0
Interest Rate swaps, total	**27 870 040**	
Cross Currency swaps		
LIBOR EUR (3 months)	1 277 550	5.5
Cross Currency swaps, total	**1 277 550**	
Total	**29 147 590**	

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

	31.12.2019	31.12.2018
Equity instruments	**162 616**	**72 775**
- Other financial corporations	106 250	12 934
- Non-financial corporations	56 366	59 841
Debt securities	**133 774**	**58 130**
- Other financial corporations	133 774	58 130
Loans and advances to customers	**1 971 532**	**2 705 155**
- Individual customers	1 685 799	2 370 872
- Corporate customers	279 062	321 380
- Public sector customers	6 671	12 903
Total non-trading financial assets mandatorily at fair value through profit or loss	**2 267 922**	**2 836 060**
Short-term (up to 1 year) gross	1 382 155	1 705 855
Long-term (over 1 year) gross	885 767	1 130 205

Credit quality of non-trading financial assets mandatorily at fair value through profit or loss according to internal rating system

Rating	31.12.2019	31.12.2018
	Debt securities	Dept securities
1.8 – 2.0	133 774	58 130
Total (Book value)	**133 774**	**58 130**

Sub-portfolio	31.12.2019	31.12.2018
	Loans and advances to customers	Loans and advances to customers
1	94 707	113 769
2	358 725	541 462
3	333 443	490 355
4	520 878	779 991
5	302 544	358 643
6	35 206	43 171
7	141 973	176 974
default	184 056	200 790
Total (Book value)	**1 971 532**	**2 705 155**

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22. Financial assets at fair value through other comprehensive income

31.12.2019	Carrying amount	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Debt securities	**22 773 921**	**22 737 162**	**41 121**	**-**	**-**	**(3 242)**	**(1 120)**	**-**	**-**
- Central banks	3 219 627	3 219 627	-	-	-	-	-	-	-
- General governments, including:	17 573 979	17 574 048	-	-	-	(69)	-	-	-
pledged securities	*1 232 295*	*1 232 295*	-	-	-	-	-	-	-
- Credit institutions	263 460	264 583	-	-	-	(1 123)	-	-	-
- Other financial institutions	1 162 968	1 163 964	-	-	-	(996)	-	-	-
- Non-financial corporations	553 887	514 940	41 121	-	-	(1 054)	(1 120)	-	-
Total financial assets at fair value through other comprehensive income	**22 773 921**	**22 737 162**	**41 121**	**-**	**-**	**(3 242)**	**(1 120)**	**-**	**-**

Short-term (up to 1 year) gross	4 031 311
Long-term (over 1 year) gross	18 746 972

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:	21 287 623	21 287 701	-	-	-	(78)	-	-	-
pledged securities	*2 207 051*	*2 207 051*	-	-	-	-	-	-	-
- Credit institutions	361 980	363 632	-	-	-	(1 652)	-	-	-
- Other financial institutions	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

As at 31 December 2019, the carrying values of debt securities with fixed interest rates amounted to PLN 11 974 479 thousand and debt securities with variable interest rates PLN 11 803 804 thousand (31 December 2018, respectively: PLN 13 140 147 thousand and PLN 11 202 672 thousand).

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

In accordance with the Act of 10 June 2016 on the Bank Guarantee Fund, with further amendments (BFG), Deposit Guarantee Scheme and Resolution, as at 31 December 2019 the Group held government bonds and bills included in the statement of financial position in the amount of PLN 634 764 thousand with a nominal value of PLN 625 660 thousand, which were pledged as collateral for the BFG and were deposited in a separate account at the National Depository of Securities (31 December 2018, respectively: PLN 547 895 thousand and PLN 541 169 thousand).

In addition the Bank held government bonds, which were securing the payment commitment to the BFG guarantee fund and forced restructuring fund in the amount of PLN 56 244 thousand (31 December 2018: PLN 58 603 thousand).

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Movements in expected credit losses allowance on financial assets at fair value through other comprehensive income

Change from 1 January to 31 December 2019	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Changes in credit risk	As at the end of the period
Debt securities	**(4 535)**	**-**	**-**	**-**	**(963)**	**2 518**	**(1 382)**	**(4 362)**
Stage 1	(4 171)	(214)	72	-	(963)	2 367	(333)	(3 242)
Stage 2	(364)	214	(72)	-	-	151	(1 049)	(1 120)
Expected credit losses allowance, total	**(4 535)**	**-**	**-**	**-**	**(963)**	**2 518**	**(1 382)**	**(4 362)**

Change from 1 January to 31 December 2018	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Changes in credit risk	As at the end of the period
Debt securities	**(4 655)**	**-**	**-**	**-**	**(757)**	**1 838**	**(961)**	**(4 535)**
Stage 1	(4 655)	-	51	-	(757)	1 838	(648)	(4 171)
Stage 2	-	-	(51)	-	-	-	(313)	(364)
Expected credit losses allowance, total	**(4 655)**	**-**	**-**	**-**	**(757)**	**1 838**	**(961)**	**(4 535)**

Explanation of changes in the financial instruments gross carrying amount impacting the changes on expected credit losses allowance

Change from 1 January to 31 December 2019	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Other movements	As at the end of the period
Debt securities	**24 342 819**	**-**	**-**	**-**	**15 882 431**	**(18 387 362)**	**940 395**	**22 778 283**
Stage 1	24 321 098	12 952	(40 218)	-	15 882 431	(18 378 592)	939 491	22 737 162
Stage 2	21 721	(12 952)	40 218	-	-	(8 770)	904	41 121
Financial assets at fair value through other comprehensive income, gross	**24 342 819**	**-**	**-**	**-**	**15 882 431**	**(18 387 362)**	**940 395**	**22 778 283**

Change from 1 January to 31 December 2018	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Other movements	As at the end of the period
Debt securities	**23 495 687**	**-**	**-**	**-**	**17 796 819**	**(17 882 894)**	**933 207**	**24 342 819**
Stage 1	23 495 687	-	(21 472)	-	17 796 819	(17 882 894)	932 958	24 321 098
Stage 2	-	-	21 472	-	-	-	249	21 721
Financial assets at fair value through other comprehensive income, gross	**23 495 687**	**-**	**-**	**-**	**17 796 819**	**(17 882 894)**	**933 207**	**24 342 819**

Credit quality of financial assets at fair value through other comprehensive income according to internal rating system

31.12.2019	Stage 1	Stage 2	Stage 3	POCI	Total
Debt securities at fair value through other comprehensive income					
1.0 - 1.2	21 517 703	-	-	-	21 517 703
1.4 - 1.6	27 709	-	-	-	27 709
1.8 - 2.0	496 788	-	-	-	496 788
2.2 - 2.8	256 391	-	-	-	256 391
3.0 - 3.8	438 571	-	-	-	438 571
4.0 - 5.0	-	41 121	-	-	41 121
Gross carrying amount	**22 737 162**	**41 121**	**-**	**-**	**22 778 283**
Accumulated impairment	(3 242)	(1 120)	-	-	(4 362)
Total carrying amount	**22 733 920**	**40 001**	**-**	**-**	**22 773 921**

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31.12.2018	Stage 1	Stage 2	Stage 3	POCI	Total
Debt securities at fair value through other comprehensive income					
1.0 - 1.2	22 662 959	-	-	-	22 662 959
1.8 - 2.0	547 751	-	-	-	547 751
2.2 - 2.8	578 615	-	-	-	578 615
3.0 - 3.8	431 396	21 721	-	-	453 117
4.0 - 5.0	60 887	-	-	-	60 887
Unrated	39 490	-	-	-	39 490
Gross carrying amount	**24 321 098**	**21 721**	**-**	**-**	**24 342 819**
Accumulated impairment	(4 171)	(364)	-	-	(4 535)
Total carrying amount	**24 316 927**	**21 357**	**-**	**-**	**24 338 284**

23. Financial assets at amortised cost

31.12.2019	Carrying amount	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Debt securities	**11 234 873**	**11 234 952**	**-**	**-**	**-**	**(79)**	**-**	**-**	**-**
- General governments, including:	9 975 484	9 975 484	-	-	-	-	-	-	-
pledged securities	*1 799 235*	*1 799 235*	-	-	-	-	-	-	-
- Non-financial corporations	1 259 389	1 259 468	-	-	-	(79)	-	-	-
Loans and advances to banks	**4 341 758**	**4 342 890**	**-**	**-**	**-**	**(1 132)**	**-**	**-**	**-**
Loans and advances to customers	**103 203 254**	**94 130 201**	**7 920 046**	**4 105 697**	**237 588**	**(313 118)**	**(258 035)**	**(2 603 391)**	**(15 734)**
Individual customers	56 999 856	52 456 328	4 076 251	2 039 606	102 706	(189 868)	(198 492)	(1 284 124)	(2 551)
Corporate customers	45 819 083	41 290 212	3 843 795	2 065 043	134 882	(122 923)	(59 543)	(1 319 200)	(13 183)
Public sector customers	384 315	383 661	-	1 048	-	(327)	-	(67)	-
Total financial assets at amortised cost	**118 779 885**	**109 708 043**	**7 920 046**	**4 105 697**	**237 588**	**(314 329)**	**(258 035)**	**(2 603 391)**	**(15 734)**

Short-term (up to 1 year) gross	42 975 941
Long-term (over 1 year) gross	78 995 433

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	-	-	-	-	-	-	-
pledged securities	*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 collateral for the loans received from the European Investment Bank.

In addition the Group held government bonds, which were securing the payment commitment to the BFG guarantee fund and forced restructuring fund in the amount of PLN 155 531 thousand (31 December 2018: PLN 70 312 thousand).

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Loans and advances to banks

	31.12.2019	31.12.2018
Current accounts	336 178	417 968
Placements with other banks (up to 3 months)	46 200	265 443
Included in cash equivalents (Note 40)	**382 378**	**683 411**
Loans and advances	150 251	138 483
Reverse repo or buy/sell back	3 362 331	1 217 595
Other receivables	447 930	1 217 595
Total (gross) loans and advances to banks	**4 342 890**	**2 547 864**
Provisions created for loans and advances to banks (negative amount)	**(1 132)**	**(1 518)**
Total (net) loans and advances to banks	**4 341 758**	**2 546 346**
Short-term (up to 1 year) gross	4 324 618	2 331 361
Long-term (over 1 year) gross	18 272	216 503

The item "Other receivables" includes cash collaterals in the amount of PLN 390 464 thousand, placed by the Group under the derivative transactions (Note 34) (31 December 2018 – PLN 372 352 thousand).

As at 31 December 2019, the variable rate loans to banks amounted to PLN 130 968 thousand (31 December 2018 – PLN 109 591 thousand) and the fixed rate loans to banks amounted to PLN 19 283 thousand (31 December 2018 – PLN 28 892 thousand).

As at 31 December 2019 and 31 December 2018 the term placements with other banks were fixed rated. An average interest rate for placements in other banks and loans granted to other banks amounted to 1.70% (2018 - 1.66%).

The following table presents receivables from Polish and foreign banks:

31.12.2019	Loans and advances to Polish banks	Loans and advances to foreign banks
Gross carrying amount	233 294	4 109 596
Accumulated impairment	(58)	(1 074)
Loans and advances to banks, net	**233 236**	**4 108 522**

31.12.2018	Loans and advances to Polish banks	Loans and advances to foreign banks
Gross carrying amount	398 161	2 149 703
Accumulated impairment	(102)	(1 416)
Loans and advances to banks, net	**398 059**	**2 148 287**

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Loans and advances to customers

Loans and advances to customers 31.12.2019	Gross carrying amount	including:		
		Individual customers	Corporate customers	Public sector customers
Current accounts	13 455 553	7 493 468	5 958 926	3 159
Term loans, including:	78 051 279	50 819 397	26 850 332	381 550
- housing and mortgage loans to natural persons	*38 979 040*	*38 979 040*		
Reverse repo or buy/sell back	13 398	-	13 398	-
Finance leases	11 631 675	-	11 631 675	-
Other loans and advances	2 629 690	-	2 629 690	-
Other receivables	611 937	362 026	249 911	-
Total gross carrying amount	**106 393 532**	**58 674 891**	**47 333 932**	**384 709**

Loans and advances to customers 31.12.2019	Accumulated impairment	including		
		Individual customers	Corporate customers	Public sector customers
Current accounts	(966 201)	(664 889)	(301 312)	-
Term loans, including:	(1 901 009)	(1 010 146)	(890 469)	(394)
- housing and mortgage loans to natural persons	*(414 932)*	*(414 932)*		
Finance leases	(289 832)	-	(289 832)	-
Other loans and advances	(33 236)	-	(33 236)	-
Total accumulated impairment	**(3 190 278)**	**(1 675 035)**	**(1 514 849)**	**(394)**

Total gross carrying amount	**106 393 532**	**58 674 891**	**47 333 932**	**384 709**
Total accumulated impairment	(3 190 278)	(1 675 035)	(1 514 849)	(394)
Total carrying amount	**103 203 254**	**56 999 856**	**45 819 083**	**384 315**

Short-term (up to 1 year) gross	36 875 519
Long-term (over 1 year) gross	69 518 013

Loans and advances to customers 31.12.2018	Gross carrying amount	including:		
		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 natural persons	*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	including		
		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 natural persons	*(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

As at 31 December 2019, gross amount of variable interest rate loans amounted to PLN 104 907 634 thousand and fixed interest rate loans amounted to PLN 1 485 898 thousand (31 December 2018 – PLN 93 800 372 thousand and PLN 1 259 607 thousand). The average interest rate for loans granted to customers (excluding reverse repo) amounted to 3.55% (31 December 2018 - 3.44%).

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

As at 31 December 2019, the above note includes receivables in the amount of PLN 49 898 thousand from the National Depository of Securities CCP in connection with the Brokerage Office activity (31 December 2018 - PLN 174 563 thousand).

In addition, the item "other" includes cash collaterals in the amount of PLN 27 234 thousand placed by the Bank under derivatives transactions (Note 34) (31 December 2018 - PLN 15 844 thousand).

Loans and advances include receivables under finance leases.

	31.12.2019	31.12.2018
Gross investment in finance leases, receivable:	**12 548 843**	**11 361 707**
- not later than 1 year	4 477 115	4 095 825
- later than 1 year and not later than 2 years	3 028 537	2 756 293
- later than 2 year and not later than 3 years	2 447 779	1 909 696
- later than 3 year and not later than 4 years	1 281 767	1 311 850
- later than 4 year and not later than 5 years	665 683	669 222
- later than 5 years	647 962	618 821
Unearned future finance income on finance leases (negative amount)	(917 168)	(806 147)
Net investment in finance leases	**11 631 675**	**10 555 560**
Net investment in finance leases, receivable:	**11 631 675**	**10 555 560**
- not later than 1 year	4 108 257	3 783 358
- later than 1 year and not later than 2 years	2 793 006	2 552 601
- later than 2 year and not later than 3 years	2 296 320	1 789 443
- later than 3 year and not later than 4 years	1 213 184	1 231 100
- later than 4 year and not later than 5 years	630 089	639 834
- later than 5 years	590 819	559 224
Net investment in finance leases	**11 631 675**	**10 555 560**
Impairment provisions for finance leases receivable	**(289 832)**	**(243 170)**
Net carrying amount of finance leases receivable	**11 341 843**	**10 312 390**
Unguaranteed residual value accruing to the lessor	**1 325 027**	**1 292 750**

The currency structure of housing and mortgage loans

	31.12.2019	31.12.2018
Net housing and mortgage loans to natural persons (in PLN '000), including:	**38 564 108**	**34 243 507**
- PLN	18 624 049	13 358 719
- CHF	13 561 831	14 409 167
- EUR	3 120 555	3 171 106
- CZK	3 024 539	3 053 157
- USD	206 635	227 414
- Other currency	26 499	23 944
Net housing and mortgage loans to natural persons in original currencies (main currencies in '000)		
- PLN	18 624 049	13 358 719
- CHF	3 458 504	3 775 394
- EUR	732 783	737 467
- CZK	18 046 175	18 249 594
- USD	54 411	60 487

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Credit quality of financial assets at amortised cost according to internal rating system

31.12.2019	Stage 1	Stage 2	Stage 3	POCI	Total
Debt securities at amortised cost					
1.0 - 1.2	11 234 952	-	-	-	11 234 952
Gross carrying amount	**11 234 952**	**-**	**-**	**-**	**11 234 952**
Accumulated impairment	(79)	-	-	-	(79)
Total carrying amount	**11 234 873**	**-**	**-**	**-**	**11 234 873**
Loans and advances to banks at amortised cost					
1	4 015 073	-	-	-	4 015 073
2	180 326	-	-	-	180 326
3	5 146	-	-	-	5 146
4	66 160	-	-	-	66 160
5	5 336	-	-	-	5 336
8	63 855	-	-	-	63 855
other	6 994	-	-	-	6 994
Gross carrying amount	**4 342 890**	**-**	**-**	**-**	**4 342 890**
Accumulated impairment	(1 132)	-	-	-	(1 132)
Total carrying amount	**4 341 758**	**-**	**-**	**-**	**4 341 758**
Loans and advances to customers at amortised cost					
1	13 510 433	170 361	-	-	13 680 794
2	32 498 006	1 461 030	-	4 382	33 963 418
3	12 736 011	541 592	-	1 081	13 278 684
4	25 434 263	1 717 653	-	75 811	27 227 727
5	5 661 994	1 683 335	-	2 531	7 347 860
6	381 476	527 024	-	371	908 871
7	768 670	1 767 932	-	15 331	2 551 933
8	776 116	7 730	-	-	783 846
other	2 363 232	43 389	-	-	2 406 621
default	-	-	4 105 697	138 081	4 243 778
Gross carrying amount	**94 130 201**	**7 920 046**	**4 105 697**	**237 588**	**106 393 532**
Accumulated impairment	(313 118)	(258 035)	(2 603 391)	(15 734)	(3 190 278)
Total carrying amount	**93 817 083**	**7 662 011**	**1 502 306**	**221 854**	**103 203 254**

31.12.2018	Stage 1	Stage 2	Stage 3	POCI	Total
Debt securities at amortised cost					
1.0 - 1.2	9 000 626	-	-	-	9 000 626
Gross carrying amount	**9 000 626**	**-**	**-**	**-**	**9 000 626**
Accumulated impairment	(87)	-	-	-	(87)
Total carrying amount	**9 000 539**	**-**	**-**	**-**	**9 000 539**
Loans and advances to banks at amortised cost					
1	893 874	-	-	-	893 874
2	325 879	-	-	-	325 879
3	5 231	-	-	-	5 231
4	59 152	-	-	-	59 152
5	3 697	-	-	-	3 697
8	1 257 281	-	-	-	1 257 281
other	2 750	-	-	-	2 750
Gross carrying amount	**2 547 864**	**-**	**-**	**-**	**2 547 864**
Accumulated impairment	(1 518)	-	-	-	(1 518)
Total carrying amount	**2 546 346**	**-**	**-**	**-**	**2 546 346**

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Loans and advances to customers at amortised cost

1	11 534 632	201 345	-	-	11 735 977
2	27 589 499	2 082 781	-	2 661	29 674 941
3	13 029 134	728 754	-	1 072	13 758 960
4	20 626 287	1 775 307	-	4 809	22 406 403
5	4 766 727	1 753 110	-	4 435	6 524 272
6	244 921	332 892	-	322	578 135
7	543 371	1 780 967	-	12 973	2 337 311
8	1 644 959	88	-	-	1 645 047
other	2 180 138	59 301	-	-	2 239 439
default	-	-	3 976 749	182 745	4 159 494
Gross carrying amount	**82 159 668**	**8 714 545**	**3 976 749**	**209 017**	**95 059 979**
Accumulated impairment	(214 875)	(220 963)	(2 599 882)	(6 827)	(3 042 547)
Total carrying amount	**81 944 793**	**8 493 582**	**1 376 867**	**202 190**	**92 017 432**

Movements in expected credit losses allowance

Change from 1 January to 31 December 2019	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Changes in credit risk	Write-offs	Other movements	As at the end of the period
Debt securities	**(87)**	**-**	**-**	**-**	**-**	**-**	**8**	**-**	**-**	**(79)**
Stage 1	(87)	-	-	-	-	-	8	-	-	(79)
Loans and advances to banks	**(1 518)**	**-**	**-**	**-**	**(1 560)**	**1 529**	**417**	**-**	**-**	**(1 132)**
Stage 1	(1 518)	-	-	-	(1 560)	1 529	417	-	-	(1 132)
Loans and advances to customers	**(3 042 547)**	**-**	**-**	**-**	**(265 758)**	**144 356**	**(623 937)**	**597 253**	**355**	**(3 190 278)**
Stage 1	(214 875)	(382 332)	102 610	4 397	(119 016)	50 598	245 500	-	-	(313 118)
Stage 2	(220 963)	333 478	(130 698)	128 900	(21 970)	21 901	(368 616)	-	(67)	(258 035)
Stage 3	(2 599 882)	48 854	28 088	(133 297)	(124 522)	76 222	(488 828)	589 552	422	(2 603 391)
POCI	(6 827)	-	-	-	(250)	(4 365)	(11 993)	7 701	-	(15 734)
Expected credit losses allowance, total	**(3 044 152)**	**-**	**-**	**-**	**(267 318)**	**145 885**	**(623 512)**	**597 253**	**355**	**(3 191 489)**

Movements in expected credit losses resulting from changes in models are described in the Note 3.3.6.2.2.

Change from 1 January to 31 December 2018	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Changes in credit risk	Write-offs	Other movements	As at the end of the period
Debt securities	**(35)**	**-**	**-**	**-**	**(23)**	**-**	**(29)**	**-**	**-**	**(87)**
Stage 1	(35)	-	-	-	(23)	-	(29)	-	-	(87)
Loans and advances to banks	**(1 536)**	**-**	**-**	**-**	**(606)**	**880**	**(494)**	**238**	**-**	**(1 518)**
Stage 1	(1 309)	-	-	-	(606)	880	(483)	-	-	(1 518)
Stage 3	(227)	-	-	-	-	-	(11)	238	-	-
Loans and advances to customers	**(3 078 070)**	**-**	**-**	**-**	**(188 648)**	**137 779**	**(560 901)**	**648 915**	**(1 622)**	**(3 042 547)**
Stage 1	(149 633)	(149 649)	42 082	3 743	(96 559)	36 778	98 591	-	(228)	(214 875)
Stage 2	(174 334)	137 521	(73 792)	62 750	(16 648)	9 850	(166 154)	-	(156)	(220 963)
Stage 3	(2 754 103)	12 128	31 710	(64 187)	(82 226)	90 215	(481 096)	648 915	(1 238)	(2 599 882)
POCI	-	-	-	(2 306)	6 785	936	(12 242)	-	-	(6 827)
Expected credit losses allowance, total	**(3 079 641)**	**-**	**-**	**-**	**(189 277)**	**138 659**	**(561 424)**	**649 153**	**(1 622)**	**(3 044 152)**

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Explanation of changes in the gross carrying amount impacting the changes on expected credit losses allowancee

Change from 1 January to 31 December 2019	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Write-offs	Other movements	As at the end of the period
Debt securities	**9 000 626**	**-**	**-**	**-**	**1 952 008**	**(486 122)**	**-**	**768 440**	**11 234 952**
Stage 1	9 000 626	-	-	-	1 952 008	(486 122)	-	768 440	11 234 952
Loans and advances to banks	**2 547 864**	**-**	**-**	**-**	**3 517 663**	**(1 696 413)**	**-**	**(26 224)**	**4 342 890**
Stage 1	2 547 864	-	-	-	3 517 663	(1 696 413)	-	(26 224)	4 342 890
Loans and advances to customers	**95 059 979**	**-**	**-**	**-**	**34 350 790**	**(18 991 377)**	**(597 253)**	**(2 829 098)**	**106 393 532**
Stage 1	82 159 668	3 406 464	(3 116 956)	(626 902)	32 103 237	(16 817 502)	-	(2 458 865)	94 130 201
Stage 2	8 714 545	(3 253 951)	3 189 531	(450 634)	1 916 470	(1 861 076)	-	(300 104)	7 920 046
Stage 3	3 976 749	(152 513)	(72 575)	992 776	318 861	(302 412)	(589 552)	(50 989)	4 105 697
POCI	209 017	-	-	84 760	12 222	(10 387)	(7 701)	(19 140)	237 588
Financial assets at amortised cost, gross	**106 608 469**	**-**	**-**	**-**	**39 820 461**	**(21 173 912)**	**(597 253)**	**(2 086 882)**	**121 971 374**

Change from 1 January to 31 December 2018	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Write-offs	Other movements	As at the end of the period
Debt securities	**8 520 207**	**-**	**-**	**-**	**2 036 547**	**(1 480 189)**	**-**	**-**	**9 000 626**
Stage 1	8 520 207	-	-	-	2 036 547	(1 480 189)	-	-	9 000 626
Loans and advances to banks	**1 708 759**	**-**	**-**	**-**	**1 790 086**	**(964 901)**	**(238)**	**14 158**	**2 547 864**
Stage 1	1 708 532	-	-	-	1 790 086	(964 901)	-	14 147	2 547 864
Stage 3	227	-	-	-	-	-	(238)	11	-
Loans and advances to customers	**83 624 960**	**-**	**-**	**-**	**26 053 153**	**(12 413 576)**	**(648 917)**	**(1 555 641)**	**95 059 979**
Stage 1	70 925 605	1 710 111	(2 068 766)	(276 865)	24 060 991	(10 721 825)	-	(1 469 583)	82 159 668
Stage 2	8 339 503	(1 654 938)	2 171 992	(274 141)	1 491 510	(1 287 334)	-	(72 047)	8 714 545
Stage 3	4 153 483	(55 173)	(103 226)	543 889	395 366	(271 463)	(648 917)	(37 210)	3 976 749
POCI	206 369	-	-	7 117	105 286	(132 954)	-	23 199	209 017
Financial assets at amortised cost, gross	**93 853 926**	**-**	**-**	**-**	**29 879 786**	**(14 858 666)**	**(649 155)**	**(1 541 483)**	**106 608 469**

Financial effect of collaterals

31.12.2019	Gross amount	Accumulated impairment	Accumulated impairment without cash flow from collaterals	Financial effect of collaterals
Balace sheet data				
Loans and advances to banks	4 342 890	(1 132)	(1 146)	14
Loans and advances to customers	106 393 532	(3 190 278)	(4 060 928)	870 650
Individual customers	58 674 891	(1 675 035)	(1 855 688)	180 653
- housing and mortgage loans to natural persons	*38 979 040*	*(414 932)*	*(570 703)*	*155 771*
Corporate customers	47 333 932	(1 514 849)	(2 204 846)	689 997
Public sector customers	384 709	(394)	(394)	-
Total balance sheet data	**110 736 422**	**(3 191 410)**	**(4 062 074)**	**870 664**
Off-balance sheet data				
Loan commitments and other commitments	29 134 935	(63 864)	(66 500)	2 636
Guarantees, banker's acceptances, documentary and commercial letters of credit	8 938 427	(89 568)	(93 446)	3 878
Total off-balance sheet data	**38 073 362**	**(153 432)**	**(159 946)**	**6 514**

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31.12.2018	Gross amount	Accumulated impairment	Accumulated impairment without cash flow from collaterals	Financial effect of collaterals
Balace sheet data				
Loans and advances to banks	2 547 864	(1 518)	(1 531)	13
Loans and advances to customers	95 059 979	(3 042 547)	(3 694 415)	651 868
Individual customers	50 554 503	(1 630 171)	(1 821 699)	191 528
- housing and mortgage loans to natural persons	*34 696 807*	*(453 300)*	*(582 009)*	*128 709*
Corporate customers	43 868 553	(1 411 736)	(1 872 036)	460 300
Public sector customers	636 923	(640)	(680)	40
Total balance sheet data	**97 607 843**	**(3 044 065)**	**(3 695 946)**	**651 881**
Off-balance sheet data				
Loan commitments and other commitments	27 864 392	(57 914)	(59 752)	1 838
Guarantees, banker's acceptances, documentary and commercial letters of credit	8 541 433	(51 495)	(55 163)	3 668
Total off-balance sheet data	**36 405 825**	**(109 409)**	**(114 915)**	**5 506**

24. Non-current assets held for sale

On 7 November 2019, as part of implementing the mBank Group plan to withdraw from development activity and focus on the main activity in the financial industry, mBank S.A. signed a conditional agreement for the sale of shares in the company BDH Development Sp. z o.o. (BDH) to Archicom Polska S.A. The conclusion of the final agreement on the sale of shares will take place after all the conditions precedent are met in the form of the sale by BDH of shares held in CSK Sp. z o. o. (condition met), registration by the registry court of the reduction in BDH's share capital related to the redemption of shares, and the President of the Office for Competition and Consumer Protection's consent to the concentration consisting in the acquisition by Archicom Polska S.A. control over BDH. The parties undertook to sign a promised agreement transferring the value of BDH shares no later than 31 December 2020.

In connection with the above agreement, in accordance with the accounting principles described in Note 2.19, as at 31 December 2019, the Group classified BDH as non-current assets held for sale.

The financial data regarding assets and liabilities held for sale are presented below.

ASSETS	31.12.2019
Other assets	10 651
TOTAL ASSETS	**10 651**

LIABILITIES	31.12.2019
Financial liabilities measured at amortised cost, including:	96
Amounts due to banks	*96*
Other liabilities	1 219
TOTAL LIABILITIES	**1 315**

25. Intangible assets

	31.12.2019	31.12.2018
Goodwill	27 760	3 532
Patents, licences and similar assets, including:	696 491	440 636
- computer software	576 535	367 822
Other intangible assets	1 199	1 968
Intangible assets under development	229 990	330 039
Total intangible assets	**955 440**	**776 175**

In 2019 and 2018, the Group performed impairment tests of intangible assets under development and goodwill. As a result of the tests, impairment has been not stated.

In 2019 the increase in goodwill results from acquisition of LeaseLink Sp. z o.o., described in the Note 43.

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Movements in intangible assets

Movements in intangible assets from 1 January to 31 December 2019	Development costs	Patents, licences and other similar assets	including: computer software	Other intangible assets	Intangible assets under development	Goodwill	Total intangible assets
Gross value of intangible assets as at the beginning of the period	**39**	**1 329 439**	**1 018 641**	**20 435**	**330 039**	**4 728**	**1 684 680**
Increase (due to):	**-**	**384 255**	**288 857**	**3 172**	**285 886**	**24 228**	**697 541**
- purchase	-	34 661	4 718	-	238 082	24 228	296 971
- transfer from intangible assets under development	-	346 232	282 426	-	-	-	346 232
- development costs	-	-	-	-	25 830	-	25 830
- other increases	-	3 362	1 713	3 172	21 974	-	28 508
Decrease (due to):	**(39)**	**(103 703)**	**(33 429)**	**-**	**(385 598)**	**-**	**(489 340)**
- liquidation	-	(103 004)	(32 731)	-	-	-	(103 004)
- transfer to intangible assets given to use	-	-	-	-	(346 232)	-	(346 232)
- other decreases	(39)	(699)	(698)	-	(39 366)	-	(40 104)
Gross value of intangible assets as at the end of the period	**-**	**1 609 991**	**1 274 069**	**23 607**	**230 327**	**28 956**	**1 892 881**
Accumulated amortization as at the beginning of the period	**(39)**	**(888 803)**	**(650 819)**	**(18 467)**	**-**	**-**	**(907 309)**
Amortization for the period (due to):	**39**	**(24 697)**	**(46 715)**	**(3 941)**	**-**	**-**	**(28 599)**
- amortization	-	(127 480)	(80 013)	(2 715)	-	-	(130 195)
- other increases	-	-	-	(1 226)	-	-	(1 226)
- liquidation	-	102 106	32 622	-	-	-	102 106
- other decreases	39	677	676	-	-	-	716
Accumulated amortization as at the end of the period	**-**	**(913 500)**	**(697 534)**	**(22 408)**	**-**	**-**	**(935 908)**
Impairment losses as at the beginning of the period	**-**	**-**	**-**	**-**	**-**	**(1 196)**	**(1 196)**
- increase	-	-	-	-	(337)	-	(337)
Impairment losses as at the end of the period	**-**	**-**	**-**	**-**	**(337)**	**(1 196)**	**(1 533)**
Net value of intangible assets as at the end of the period	**-**	**696 491**	**576 535**	**1 199**	**229 990**	**27 760**	**955 440**

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Movements in intangible assets from 1 January to 31 December 2018	Development costs	Patents, licences and other similar assets		Other intangible assets	Intangible assets under development	Goodwill	Total intangible assets
			including: computer software				
Gross value of intangible assets as at the beginning of the period	**39**	**1 232 207**	**857 666**	**21 863**	**324 672**	**4 728**	**1 583 509**
Increase (due to):	**-**	**201 242**	**165 210**	**53**	**244 410**	**-**	**445 705**
- purchase	-	20 365	12 456	15	188 003	-	208 383
- transfer from intangible assets under development	-	178 028	152 669	38	-	-	178 066
- development costs	-	-	-	-	22 727	-	22 727
- other increases	-	2 849	85	-	33 680	-	36 529
Decrease (due to):	-	(104 010)	(4 235)	(1 481)	(239 043)	-	(344 534)
- sale	-	(4 099)	(3 116)	(700)	(684)	-	(5 483)
- liquidation	-	(99 598)	(1 119)	-	(1)	-	(99 599)
- transfer to intangible assets given to use	-	-	-	-	(178 066)	-	(178 066)
- other decreases	-	(313)	-	(781)	(60 292)	-	(61 386)
Gross value of intangible assets as at the end of the period	**39**	**1 329 439**	**1 018 641**	**20 435**	**330 039**	**4 728**	**1 684 680**
Accumulated amortization as at the beginning of the period	**(39)**	**(852 919)**	**(592 902)**	**(18 713)**	**-**	**-**	**(871 671)**
Amortization for the period (due to):	**-**	**(35 884)**	**(57 917)**	**246**	**-**	**-**	**(35 638)**
- amortization	-	(132 250)	(61 161)	(998)	-	-	(133 248)
- other increases	-	(636)	(56)	-	-	-	(636)
- sale	-	2 718	2 709	700	-	-	3 418
- liquidation	-	94 284	591	-	-	-	94 284
- other decreases	-	-	-	544	-	-	544
Accumulated amortization as at the end of the period	**(39)**	**(888 803)**	**(650 819)**	**(18 467)**	**-**	**-**	**(907 309)**
Impairment losses as at the beginning of the period	**-**	**-**	**-**	**-**	**-**	**(1 196)**	**(1 196)**
Impairment losses as at the end of the period	**-**	**-**	**-**	**-**	**-**	**(1 196)**	**(1 196)**
Net value of intangible assets as at the end of the period	**-**	**440 636**	**367 822**	**1 968**	**330 039**	**3 532**	**776 175**

26. Tangible assets

	31.12.2019	31.12.2018
Tangible assets, including:	**698 634**	**668 460**
- land	1 033	1 033
- buildings and structures	163 524	160 804
- equipment	188 496	177 868
- vehicles	238 850	219 275
- other fixed assets	106 731	109 480
Fixed assets under construction	**75 416**	**116 566**
The right to use, including:	**488 347**	***n/a***
- real estate	437 295	*n/a*
- the right of perpetual of usufruct of land	48 358	*n/a*
- cars	1 561	*n/a*
- other	1 133	*n/a*
Total tangible assets	**1 262 397**	**785 026**

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Movements in tangible assets

Movements in tangible assetsfrom 1 January to 31 December 2019	Land	Buildings and structures	Equipment	Vehicles	Other tengible assets	Tangible assets under construction	Total
Gross value of intangible assets as at the beginning of the period	**1 033**	**321 532**	**766 305**	**333 804**	**409 582**	**116 566**	**1 948 822**
Increase (due to)	**-**	**11 341**	**97 689**	**136 241**	**29 911**	**84 219**	**359 401**
- purchase	-	13	37 864	135 601	7 470	60 989	241 937
- transfer from tangible assets under construction	-	11 328	59 117	-	22 247	-	92 692
- other increases	-	-	708	640	194	23 230	24 772
Decrease (due to):	**-**	**(1 689)**	**(221 031)**	**(154 448)**	**(49 892)**	**(125 369)**	**(552 429)**
- sale	-	(241)	(36 311)	(128 961)	(4 659)	-	(170 172)
- liquidation	-	(1 064)	(122 884)	(1 200)	(10 537)	-	(135 685)
- transfer to tangible assets	-	-	-	-	-	(92 692)	(92 692)
- other decreases	-	(384)	(61 836)	(24 287)	(34 696)	(32 677)	(153 880)
Gross value of tangible assets as at the end of the period	**1 033**	**331 184**	**642 963**	**315 597**	**389 601**	**75 416**	**1 755 794**
Accumulated depreciation as at the beginning of the period	**-**	**(111 458)**	**(580 237)**	**(114 529)**	**(300 102)**	**-**	**(1 106 326)**
Depreciation for the period (due to):	**-**	**(6 932)**	**125 770**	**37 782**	**17 232**	**-**	**173 852**
- depreciation charge	-	(7 973)	(85 904)	(43 951)	(29 117)	-	(166 946)
- other increases	-	-	(126)	(78)	(6)	-	(210)
- sale	-	239	27 841	64 086	4 632	-	96 798
- liquidation	-	778	122 307	841	9 937	-	133 863
- other decreases	-	24	61 652	16 884	31 786	-	110 347
Accumulated depreciation as at the end of the period	**-**	**(118 390)**	**(454 467)**	**(76 747)**	**(282 870)**	**-**	**(932 474)**
Impairment losses as at the beginning of the period	**-**	**(49 270)**	**(8 200)**	**-**	**-**	**-**	**(57 470)**
- decrease	-	-	8 200	-	-	-	8 200
Impairment losses as at the end of the period	**-**	**(49 270)**	**-**	**-**	**-**	**-**	**(49 270)**
Net value of tangible assets as at the end of the period	**1 033**	**163 524**	**188 496**	**238 850**	**106 731**	**75 416**	**774 050**

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Movements in tangible assetsfrom 1 January to 31 December 2018	Land	Buildings and structures	Equipment	Vehicles	Other tangible assets	Tangible assets under construction	Total
Gross value of intangible assets as at the beginning of the period	**1 038**	**331 062**	**715 308**	**338 785**	**430 954**	**135 646**	**1 952 793**
Increase (due to):	**-**	**10 513**	**96 051**	**88 654**	**67 617**	**136 896**	**399 731**
- purchase	-	433	41 605	88 634	4 837	105 079	240 588
- transfer from tangible assets under construction	-	6 258	49 715	-	61 325	-	117 298
- other increases	-	3 822	4 731	20	1 455	31 817	41 845
Decrease (due to):	**(5)**	**(20 043)**	**(45 054)**	**(93 635)**	**(88 989)**	**(155 976)**	**(403 702)**
- sale	(5)	(19 941)	(12 494)	(84 218)	(4 141)	-	(120 799)
- liquidation	-	(102)	(31 833)	(799)	(84 820)	(17)	(117 571)
- transfer to tangible assets	-	-	-	-	-	(117 298)	(117 298)
- other decreases	-	-	(727)	(8 618)	(28)	(38 661)	(48 034)
Gross value of tangible assets as at the end of the period	**1 033**	**321 532**	**766 305**	**333 804**	**409 582**	**116 566**	**1 948 822**
Accumulated depreciation as at the beginning of the period	**-**	**(109 377)**	**(545 534)**	**(113 821)**	**(357 717)**	**-**	**(1 126 449)**
Depreciation for the period (due to):	**-**	**(2 081)**	**(34 703)**	**(708)**	**57 615**	**-**	**20 123**
- depreciation charge	-	(6 948)	(75 010)	(54 725)	(29 395)	-	(166 078)
- other increases	-	-	(147)	-	(458)	-	(605)
- sale	-	4 832	8 766	48 121	3 155	-	64 874
- liquidation	-	35	31 587	537	84 313	-	116 472
- other decreases	-	-	101	5 359	-	-	5 460
Accumulated depreciation as at the end of the period	**-**	**(111 458)**	**(580 237)**	**(114 529)**	**(300 102)**	**-**	**(1 106 326)**
Impairment losses as at the beginning of the period	**-**	**(59 139)**	**(8 200)**	**-**	**(131)**	**(136)**	**(67 606)**
- decrease	-	9 869	-	-	131	136	10 136
Impairment losses as at the end of the period	**-**	**(49 270)**	**(8 200)**	**-**	**-**	**-**	**(57 470)**
Net value of tangible assets as at the end of the period	**1 033**	**160 804**	**177 868**	**219 275**	**109 480**	**116 566**	**785 026**

The recoverable value of impaired tangible assets is the net selling price determined on the basis of market prices for similar assets.

	31.12.2019	31.12.2018
Minimum lease payments under non-cancellable operating lease		
Up to 1 year	33 205	35 437
Over 1 year up to 2 years	19 060	18 717
Over 2 years up to 3 years	9 455	8 620
Over 3 years up to 4 years	3 186	2 037
Over 4 years up to 5 years	93	236
Total	**64 999**	**65 047**

The Group presents depreciation of tangible assets leased under operating lease and sublease agreements as net income from operating lease (Note 12).

As part of its activities as a lessor, the mBank Group presents within tangible assets those assets which are leased to third parties under operating lease agreements. The table below presents future minimum lease payments under non-cancellable operating lease agreements with the Group as a lessor.

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Movements in right to use

Movements in rights of use from 1 January to 31 December 2019	Real estate	Right-of-use of land	Vehicles	Other	Total
Gross value of rights of use as at the beginning of the period	**512 164**	**49 046**	**794**	**371**	**562 375**
Increase (due to):	**61 225**	**-**	**1 281**	**1 559**	**64 065**
- new contract	9 935	-	1 281	-	11 216
- modification of contract	49 495	-	-	1 559	51 054
- other increases	1 795	-	-	-	1 795
Decrease (due to):	**(9 490)**	**-**	**-**	**-**	**(9 490)**
- termination of contract	(1 253)	-	-	-	(1 253)
- modification of contract	(7 914)	-	-	-	(7 914)
- other decreases	(323)	-	-	-	(323)
Gross value of rights of use as at the end of the period	**563 899**	**49 046**	**2 075**	**1 930**	**616 950**
Accumulated depreciation as at the beginning of the period	**-**	**-**	**-**	**-**	**-**
Depreciation for the period (due to)	**(126 604)**	**(688)**	**(514)**	**(797)**	**(128 603)**
- depreciation charge	(124 324)	(688)	(514)	(797)	(126 323)
- other increases	(3 306)	-	-	-	(3 306)
- modification of contract	613	-	-	-	613
- termination of contract	294	-	-	-	294
- other decreases	119	-	-	-	119
Accumulated depreciation as at the end of the period	**(126 604)**	**(688)**	**(514)**	**(797)**	**(128 603)**
Net value of rights of use as at the end of the period	**437 295**	**48 358**	**1 561**	**1 133**	**488 347**

27. Other assets

	31.12.2019	31.12.2018
Other assets		
- debtors, including:	303 061	456 157
- settlements of payment cards	*110 148*	*145 953*
- receivables from KDPW under the compensation scheme	*12 825*	*11 745*
- interbank balances	18 003	20 432
- settlements of securities transactions	15 518	11 346
- other accruals	161 988	187 196
- accrued income	65 489	69 666
- inventories	314 958	343 215
- other	77 932	90 267
Total other assets	**956 949**	**1 178 279**
Short-term (up to 1 year)	893 406	1 053 791
Long-term (over 1 year)	63 543	124 488

In 2019 and in 2018, the item "settlements of securities transactions” is connected in its entirety with the Brokerage Office activity.

As at 31 December 2019, the value of inventories primarily results from the business of the companie mLeasing. As at 31 December 2018, the value of inventories also resulted from the business of the companie BDH Development, which was recognized in non-current assets (disposal groups) classified as held for sale at the end of 2019, which is described in detail in Note 24.

Throughout the year 2019 and 2018, the Group did not capitalize borrowing costs.

As at 31 December 2019, the above note includes financial assets in amount of PLN 336 582 thousand (31 December 2018: PLN 487 935 thousand).

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Other financial assets included in the note above

	31.12.2019	31.12.2018
Gross other financial assets, including:	**352 794**	**504 365**
- Not past due	342 746	493 982
- Past due from 1 to 90 days	3 304	5 702
- Past due over 90 days	6 744	4 681
- Provisions for impaired assets (negative amount)	(16 212)	(16 430)
Net other financial assets	**336 582**	**487 935**

Movements of impairment allowance for other assets

	31.12.2019	31.12.2018
As at the beginning of the period	**(16 430)**	**(14 562)**
Change in the period (due to)	**218**	**(1 868)**
- increase of provisions	(1 664)	(2 353)
- release of provisions	-	371
- write-offs	1 878	132
- foreign exchange differences	4	(18)
As at the end of the period	**(16 212)**	**(16 430)**

28. Financial liabilities measured at amortised cost

Amounts due to banks and customers

31.12.2019	Amount due to banks	Amount due to customers	including:		
			Individual customers	Corporate customers	Public sector customers
Deposits	**528 448**	**112 424 332**	**77 525 267**	**34 083 016**	**816 049**
Current accounts	424 200	88 073 656	62 639 670	24 823 049	610 937
Term deposits	-	24 175 269	14 885 597	9 084 560	205 112
Repo transactions	104 248	175 407	-	175 407	-
Loans and advances received	**189 901**	**2 980 294**	**-**	**2 980 294**	**-**
Other financial liabilities	**448 522**	**1 256 512**	**139 105**	**1 074 601**	**42 806**
Liabilities in respect of cash collaterals	301 021	423 059	43 854	377 593	1 612
Leasing liabilities	-	496 912	-	456 052	40 860
Other liabilities	147 501	336 541	95 251	240 956	334
Deposits and other financial liabilities, total	**1 166 871**	**116 661 138**	**77 664 372**	**38 137 911**	**858 855**

Short-term (up to 1 year)	816 830	112 608 069
Long-term (over 1 year)	350 041	4 053 069

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31.12.2018	Amount due to banks	Amount due to customers	including:		
			Individual customers	Corporate customers	Public sector customers
Deposits	**1 851 562**	**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	830 982	713 081	-	713 081	-
Loans and advances received	**747 381**	**3 457 264**	**-**	**3 457 264**	**-**
Other financial liabilities	**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
Deposits and other financial liabilities, total	**3 108 826**	**102 009 062**	**65 923 565**	**35 346 303**	**739 194**

Short-term (up to 1 year)	2 920 767	97 735 387
Long-term (over 1 year)	188 059	4 273 675

As at 31 December 2018, the fixed interest rate term deposits accepted from other banks amounted to PLN 156 391 thousand.

As at 31 December 2019 and 31 December 2018 loans and advances received from other banks were variable interest rate loans.

The average interest rate for loans and deposits received from other banks in 2019 amounted to 1.30% (31 December 2018 - 1.09%).

mBank S.A. did not provide collateral related to loans from other banks. The Group did not note any violations of contractual terms related to liabilities in respect of loans received.

As at 31 December 2019, the majority of the deposits of retail and corporate customers bore fixed interest rates. The average interest rate for amounts due to customers (excluding repo transactions) amounted to 0.61% (31 December 2018: 0.67%).

As at 31 December 2019, the balance of loans and advances received includes the loan received from European Investment Bank in the amount of PLN 2 980 294 thousand (31 December 2018: PLN 3 457 264 thousand). The loan was collateralized with treasury bonds, which have been presented as pledged assets under Note 22 and Note 34.

Leasing liabilities

Leasing liabilities by maturity dates are presented below.

	31.12.2019
Leasing liabilities by maturity dates (undiscounted)	
Up to 3 months	31 718
3 – 12 months	91 137
1 – 5 years	243 730
Over 5 years	169 208
Total	**535 793**

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Debt securities issued

31.12.2019 Debt securities in issue by category	Nominal value (currency of issue)	Carrying value of the liability according to the maturity date				Total carrying value of the liability
		Up to 3 months	3-12 months	1-5 years	Over 5 years	
Bonds, including:		**707 456**	**2 439 775**	**6 431 890**	**-**	**9 579 121**
- PLN	1 162 200	701 476	299 424	162 545	-	1 163 445
- EUR	1 500 000	-	2 140 351	4 282 473	-	6 422 824
- CHF	505 109	5 980	-	1 986 872	-	1 992 852
Mortgage bonds (public), including:		**-**	**911 455**	**3 776 152**	**3 168 415**	**7 856 022**
- PLN	3 700 800	-	569 282	3 072 759	161 725	3 803 766
- EUR	946 900	-	342 173	703 393	3 006 690	4 052 256
Total		**707 456**	**3 351 230**	**10 208 042**	**3 168 415**	**17 435 143**

31.12.2018 Debt securities in issue by category	Nominal value (currency of issue)	Carrying value of the liability according to the maturity date				Total carrying value of the liability
		Up to 3 months	3-12 months	1-5 years	Over 5 years	
Bonds, including:		**631 768**	**2 698 551**	**7 977 091**	**-**	**11 307 410**
- PLN	1 192 600	631 768	510 907	50 224	-	1 192 899
- EUR	2 000 000	-	2 187 644	6 467 128	-	8 654 772
- CHF	379 957	-	-	1 459 739	-	1 459 739
Mortgage bonds (public), including:		**-**	**295 222**	**4 247 848**	**2 199 103**	**6 742 173**
- PLN	3 679 100	-	80 061	3 294 353	309 697	3 684 111
- EUR	696 900	-	215 161	953 495	1 889 406	3 058 062
Total		**631 768**	**2 993 773**	**12 224 939**	**2 199 103**	**18 049 583**

Detailed information on the issue of mortgage bonds is provided below in this note.

The Group did not note any violations of contractual terms related to liabilities in respect of issued debt securities.

Movements in debt securities in issue

Change from 1 January to 31 December	2019	2018
As at the beginning of the period	**18 049 583**	**14 322 852**
Additions (issue)	5 060 106	7 859 225
Disposals (redemption)	(5 669 688)	(4 594 996)
Exchange differences	(42 207)	309 692
Other changes	37 349	152 810
Debt securities in issue as at the end of the period	**17 435 143**	**18 049 583**

Issues in 2019

- On 5 April 2019, under the new Euro Medium Term Note Program (EMTN Program), mBank issued unsecured bonds with a nominal value of CHF 125 000 thousand (equivalent of PLN 477 775 thousand at the average NBP exchange rate of April 5, 2019), with maturity on 4 October 2024.

- In 2019, mBank Hipoteczny S.A. (mBH) made the following issues of debt securities:
  - issue of mortgage bonds in the amount of PLN 100 000 thousand EUR from the Polish issuance program of mortgage bonds;
  - issue of mortgage bonds in the amount of EUR 300 000 thousand from the international issuance program of mortgage bonds (equivalent to PLN 1 283 640 thousand according to the average exchange rate of the National Bank of Poland as at 12 November 2019);
  - issue of long-term bonds with a nominal value of PLN 165 000 thousand;
  - issue of short-term bonds with a nominal value of PLN 300 000 thousand.

- In 2019 the company mLeasing Sp. z o.o. (mLeasing) made the issues of short-term bonds in the amount of PLN 2 649 600 thousand.

Redemption in 2019

- In 2019, mBH made the following redeems of issued debt securities:
  - redemption in according to the terms of the issue of mortgage covered bonds in the amount of PLN 80 000 thousand issued in 2013;
  - redemption accordance with the terms of issuing mortgage covered bonds in the amount of EUR 50 000 thousand issued in 2014;
  - redemption accordance with the terms of the issue of mortgage covered bonds in the amount of PLN 80 000 thousand issued in 2014;
  - redemption of short-term bonds with a nominal value of PLN 500 000 thousand issued in 2018.
- In 2018, the company mFinance France (mFF) the following redeems of issued debt securities:
  - Bonds with a nominal value of EUR 500 000 thousand issued on 24 March 2014.
- In 2019 the company mLeasing made a redeems of short-term bonds in the amount of PLN 2 532 200 thousand.

Issues in 2018

- New debt securities issue program (EMTN)

On 11 April 2018, the Management Board of mBank SA adopted a resolution regarding a consent to establish a new programme for the issuance of debt instruments (Euro Medium Term Note Program) directly by the Bank, in many tranches and currencies, with various interest structures and due dates, up to the total amount of EUR 3 000 000 thousand ("New EMTN Programme"). The amount of EUR 3 000 000 thousand is the equivalent of PLN 12 573 300 thousand according to the average exchange rate of the National Bank of Poland of 11 April 2018.

The new EMTN Programme will be established by the way of update of the existing debt instruments programme of mFinance France S.A. (mFF). The update does not affect the existence of the instruments already issued by mFF nor the validity of the guarantee granted by the Bank with regard to those instruments.

Under the New EMTN Programme, the Bank made two issues:

- on 7 June 2018, the Bank issued bonds with a total value of CHF 180 000 thousand (equivalent of PLN 660 906 thousand at the average exchange rate of the National Bank of Poland as of 7 June 2018), maturing on 7 June 2022,
- on 5 September 2018, the Bank issued bonds with a total value of EUR 500 000 thousand (equivalent of PLN 2 159 150 thousand at the average exchange rate of the National Bank of Poland as of 5 September 2018), maturing on 5 September 2022.

- In 2018 mBH made the following issues of debt securities:
  - the first issue of mortgage bonds in the amount of EUR 300 000 thousand from the international issuance program of mortgage bonds (equivalent to PLN 1 271 760 thousand according to the average exchange rate of the National Bank of Poland as at 26 April 2018);
  - issue of covered bonds in the amount of PLN 310 000 thousand from the Polish program of issuing mortgage bonds;
  - issue of short-term bonds with a nominal value of PLN 622 000 thousand and long-term bonds with a nominal value of PLN 250 000 thousand.
- In 2018 the company mLeasing made the issues of short-term bonds in the amount of PLN 2 657 900 thousand).

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Redemption in 2018

- In 2018, the company mFinance France (mFF) the following redeems of issued debt securities:
  - Bonds with a nominal value of CHF 500 000 thousand issued on 8 October 2013,
  - Bonds with a nominal value of CZK 200 000 thousand issued on 6 December 2013.
- In 2018 mBH made the following redeems of issued debt securities:
  - redemption in according to the terms of the issue of mortgage covered bonds in the amount of EUR 27 500 thousand issued in 2014,
  - redemption according to the terms of issue of mortgage covered bonds in the amount of EUR 50 000 thousand issued in 2013,
  - redemption according to the terms of issue of issuing mortgage covered bonds in the amount of PLN 200 000 PLN issued in 2012,
  - redemption of short-term bonds with a nominal value of PLN 322 000 thousand issued in 2018,
  - redemption of short-term bonds with a nominal value of PLN 500 700 thousand issued in 2017.
- In 2018 the company mLeasing made a redeems of short-term bonds in the amount of PLN 2 630 300 thousand)

According to the act on covered bonds and mortgage banks, from the funds raised through the issue of covered bonds Bank may refinance the loans secured by mortgages and other bank debts acquired from granted loans secured by a mortgage: refinancing with reference to individual loan or an individual claim cannot exceed the amount referring to 60% of the mortgage lending value, and in the case of residential property 80% of the mortgage lending value.

The Bank maintain for mortgage covered bonds a surplus created from the funds forming the substitute collateral, equal to or higher than the aggregate nominal value of interest on the outstanding mortgage covered bonds, due over the next 6 months (hereinafter referred to as the "Surplus"). Such surplus funds may not serve as a basis for issuing covered bonds.

The sum of nominal amounts of the Bank's claims from loans secured with a mortgage and the substitute collateral, entered in the register of collaterals of covered bonds, constituting the basis for issuing mortgage covered bonds, cannot be lower than 110% of the total amount of nominal values of the outstanding mortgage covered bonds, and the sum of nominal amounts of claims of the Bank secured by mortgages, constituting the basis for issuing mortgage covered bonds, cannot be lower than 85% of the total amount of nominal values of the outstanding mortgage covered bonds.

The tables below show data related to the issuance of mortgage bonds.

	31.12.2019	31.12.2018
	Mortgage bond register	Mortgage bond register
1. Nominal value of covered bonds listed on the market	8 225 129	7 170 670
2. The nominal value of receivables entered in the collateral register of covered bonds underlying the issue of covered bonds (value on not matured capital)	10 232 614	9 349 392
3. Cash in Bank, as a treasury bonds, entered in the collateral register of covered bonds additionaly underlying the issue of covered bonds (Substitute collateral)	118 409	119 500
4. Level of collateral the covered bonds by receivables (2/1)	124.41%	130.38%
5. Total covered bonds collateral level (2+3) / 1	125.85%	132.05%
6. The value of receivables as collateral issue of mortgage covered bonds to the part which not exceeding 60% of the mortgage lending value of real estate for commercial real estate	3 301 729	3 502 082
7. The value of receivables as collateral issue of mortgage covered bonds to the part which not exceeding 80% of the mortgage lending value of real estate for residential property	6 098 962	4 927 634

	31.12.2019	31.12.2018
	Mortgage bond register	Mortgage bond register
1. Cash invested in treasury bonds	200 000	200 000
2. Interests from covered bonds on the market which will be paid in the next 6 months (Surplus)	81 591	80 500
3. Permissible value of Substitute collateral (1-2)	118 409	119 500

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Transactions regarding Bank's bonds included in subordinated liabilities have been described under these Note below.

Subordinated liabilities

31.12.2019	Nominal value	Currency	Terms of interest rate (%)	Effective interest rate (%)	Redemption date	As at the end of the period
- Commerzbank AG	250 000	CHF	3M LIBOR + 2.75%	2.02	21.03.2028	980 771
- Investors not associated with mBank S.A.	550 000	PLN	6M WIBOR + 1.8%	3.59	10.10.2028 [1)]	554 418
- Investors not associated with mBank S.A.	200 000	PLN	6M WIBOR + 1.95%	3.74	10.10.2030 [1)]	201 674
- Investors not associated with mBank S.A.	750 000	PLN	6M WIBOR + 2.1%	3.89	17.01.2025	763 354
						2 500 217

31.12.2018	Nominal value	Currency	Terms of interest rate (%)	Effective interest rate (%)	Redemption date	As at the end of the period
- Commerzbank AG	250 000	CHF	3M LIBOR + 2.75%	2.01	21.03.2028	954 684
- Investors not associated with mBank S.A.	550 000	PLN	6M WIBOR + 1.8%	3.59	10.10.2028 [1)]	554 469
- Investors not associated with mBank S.A.	200 000	PLN	6M WIBOR + 1.95%	3.74	10.10.2030 [1)]	201 693
- Investors not associated with mBank S.A.	750 000	PLN	6M WIBOR + 2.1%	3.91	17.01.2025	763 317
						2 474 163

1) The issue conditions assume the possibility of early redemption of bonds with a nominal value of PLN 550 000 thousand on 10 October 2023, and bonds with a nominal value of PLN 200 000 thousand on 10 October 2025.

Movements in subordinated liabilities

Change from 1 January to 31 December	2019	2018
As at the beginning of the period	**2 474 163**	**2 158 143**
- additions (issue)	-	1 655 125
- disposals (redemption)	-	(1 405 125)
- exchange differences	26 175	65 850
- other changes	(121)	170
Subordinated liabilities as at the end of the period	**2 500 217**	**2 474 163**
Short-term (up to 1 year)	19 892	20 012
Long-term (over 1 year)	2 480 325	2 454 151

The effective interest rate specified in the tables above means the interest rate at the inception day of the last interest period.

On 21 March 2018, the Bank early redeemed two series of perpetual subordinated bonds in the total nominal amount of CHF 250 000 thousand (equivalent of PLN 905 125 thousand according to the average exchange rate of the National Bank of Poland as of 21 March 2018). The bonds were entirely covered by Commerzbank AG. As at the repurchase date the bonds were redeemed. The Bank has made the early redemption as the funds obtained from these bonds were no longer included in Tier 2 capital, according to art. 490 of CRR Regulation.

Additionally, on 21 March 2018, the Bank drew a subordinated loan in the amount of CHF 250 000 thousand (equivalent of PLN 905 125 thousand according to the average exchange rate of the National Bank of Poland as of 21 March 2018) based on a subordinated loan agreement signed with Commerzbank on 27 November 2017. Under the terms of the Agreement, the disbursement of the loan as well as the repurchase of subordinated bonds occurred by way of netting of the related claims.

On 29 March 2018, the Polish Financial Supervision Authority gave a consent for qualifying funds from subordinated loan in the amount of CHF 250 000 thousand as instrument in the Bank's Tier 2 capital. The amount of CHF 250 000 thousand according to the average exchange rate of the National Bank of Poland of 29 March 2018 is the equivalent of PLN 893 200 thousand.

On 9 October 2018, mBank S.A. issued two series of subordinated bonds with a total nominal value of PLN 750 000 thousand. 1 100 pieces of 10-year subordinated bonds with a nominal value of PLN 500 thousand each were issued, with maturity on 10 October 2028, and 400 pieces of 12-year subordinated bonds with a nominal value of PLN 500 thousand each, with maturity on 10 October 2030.

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The Bank applied to the Polish Financial Supervision Authority for permission to be included in the supplementary capital of the Bank, in accordance with art. 127 par. 3 point 2 letter b) of the Banking Law Act, a monetary liability in the amount of PLN 750 000 thousand PLN obtained by the Bank for the above-mentioned subordinated bond issue. The Bank obtained such consent on 28 November 2018.

On 20 December 2018, after obtaining the relevant consent of the Polish Financial Supervision Authority (KNF), the Bank made an earlier redemption of subordinated bonds issued on 3 December 2013, with a total nominal value of PLN 500 000 thousand.

According to the decision dated 8 January 2015 mBank obtained permission of the KNF to include in Tier 2 capital the amount of PLN 750 000 thousand constituting subordinated liability from the bonds issue dated 17 December 2014 on total nominal value of PLN 750 000 thousand with redemption date on 17 January 2025 on terms that meet the requirements arising from the CRR Regulation.

In 2019 and 2018, the Group did not note any delays in repayments of interest instalments and was not in default of any other contractual provisions related to its subordinated liabilities.

29. Other liabilities

	31.12.2019	31.12.2018
Other liabilities, including		
- tax liabilities	234 298	198 379
- interbank settlements	848 300	776 259
- creditors, including:	968 567	1 478 745
- settlements of payment cards	*167 642*	*586 308*
- liabilities to pay to BFG	*175 632*	*105 021*
- accrued expenses	213 929	236 863
- deferred income	401 479	426 325
- provisions for post-employment employee benefits	25 116	21 827
- provisions for holiday equivalents	30 870	28 842
- provisions for other liabilities to employees	186 103	178 419
- other	44 120	29 613
Total other liabilities	**2 952 782**	**3 375 272**

As at 31 December 2019, the presented note includes financial liabilities of PLN 2 030 796 thousand (as at 31 December 2018: PLN 2 491 867 thousand). Cash flows resulting from those financial liabilities are presented under the Note 3.8.1. The other components of presented liabilities, except for part of provisions for post-employment benefits that were calculated on actuarial basis, are short-term liabilities.

Movements in provisions for post-employment employee benefits

Period from 1 January to 31 December 2019	Pension and disability provisions	Provisions for death severance	Provisions for the Social Benefit Fund	Total
Provisions for post-employment employee benefits				
Provisions as at the beginning of the period	**11 106**	**4 714**	**6 007**	**21 827**
Change in the period, due to:	**1 203**	**525**	**1 561**	**3 289**
Provision created	717	128	269	1 114
Interest expense	289	134	169	592
Actuarial gains and losses recognised in other comprehensive income (Note 18), due to:	608	266	1 609	2 483
- Change in financing assumptions	*905*	*421*	*1 286*	*2 612*
- Change in demographic assumptions	*194*	*93*	*65*	*352*
- Other changes	*(491)*	*(248)*	*258*	*(481)*
Benefits paid	(411)	(3)	(486)	(900)
Provisions as at the end of the period	**12 309**	**5 239**	**7 568**	**25 116**
Short-term (up to 1 year)	1 572	312	84	1 968
Long-term (over 1 year)	10 737	4 927	7 484	23 148

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Period from 1 January to 31 December 2018	Pension and disability provisions	Provisions for death severance	Provisions for the Social Benefit Fund	Total
Provisions for post-employment employee benefits				
Provisions as at the beginning of the period	**9 362**	**4 103**	**4 783**	**18 248**
Change in the period, due to:	**1 744**	**611**	**1 224**	**3 579**
Provision created	686	161	213	1 060
Interest expense	290	127	150	567
Actuarial gains and losses recognised in other comprehensive income (Note 18), due to:	1 420	332	1 383	3 135
- Change in financing assumptions	*350*	*152*	*477*	*979*
- Change in demographic assumptions	*123*	*(17)*	*25*	*131*
- Other changes	*947*	*197*	*881*	*2 025*
Reduction / elimination of the plan	(230)	-	-	(230)
Benefits paid	(422)	(9)	(522)	(953)
Provisions as at the end of the period	**11 106**	**4 714**	**6 007**	**21 827**
Short-term (up to 1 year)	9 063	305	76	9 444
Long-term (over 1 year)	2 044	4 408	5 931	12 383

The discount rate is one of the key assumptions used in the actuarial valuation of provisions for post-employment benefits. If the discount rate used in the calculation of these provisions as at 31 December 2019 was decreased by 0.5 p.p., the value of the provisions would increase by PLN 1 777 thousand, and in the case of an increase of the discount rate by 0.5 p.p. the value of the provisions would fall by PLN 1 573 thousand.

30. Provisions

	31.12.2019	31.12.2018
Provisions for legal proceedings, including:	484 760	106 321
- provisions for individual cases concerning indexation clauses in mortgage and housing loans in CHF	*417 653*	*30 565*
- provisions for other legal proceedings relating to loans in foreign currencies	*61 103*	*67 258*
- provisions for remaining legal proceedings	*6 004*	*8 498*
Commitments and guarantees given	153 432	109 409
Other provisions	101 104	42 553
Provisions, total	**739 296**	**258 283**

Estimated dates of granted contingent liabilities realisation are presented in Note 34.

The estimated cash flow due to created provisions for legal proceedings and other provisions is expected to crystalise over 1 year.

The description regarding individual cases concerning indexation clauses in mortgage and housing loans in CHF is presented in Note 32.

The methodology of the measurement of provisions for legal risk regarding individual court cases concerning indexation clauses in mortgage and housing loans in CHF is presented in Note 4.

The item Other provisions includes provisions recognized related to the judgment of the CJEU regarding reimbursement of commissions in case of earlier loan repayments, which is described in detail in Note 4.

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Movements in the provisions

Change from 1 January to 31 December	2019			
	provisions for individual cases concerning indexation clauses in mortgage and housing loans in CHF	provisions for other legal proceedings relating to loans in foreign currencies	provisions for remaining legal proceedings	other provisions
Provisions as at the beginning of the period	**30 565**	**67 258**	**8 498**	**42 553**
Change in the period, due to:	**387 088**	**(6 155)**	**(2 494)**	**58 551**
- increase of provisions	387 855	3 776	2 114	136 179
- release of provisions	(339)	(3 506)	(2 894)	(5 947)
- utilization	(428)	(6 425)	(1 714)	(71 985)
- reclassification to non-current assets held for sale	-	-	-	302
- foreign exchange differences	-	-	-	2
Provisions as at the end of the period	**417 653**	**61 103**	**6 004**	**101 104**

Change from 1 January to 31 December	2018			
	provisions for individual cases concerning indexation clauses in mortgage and housing loans in CHF	provisions for other legal proceedings relating to loans in foreign currencies	provisions for remaining legal proceedings	other provisions
Provisions as at the beginning of the period	**14 696**	**72 701**	**7 885**	**19 978**
Change in the period, due to:	**15 869**	**(5 443)**	**613**	**22 575**
- increase of provisions	19 544	3 431	613	27 890
- release of provisions	-	(2 626)	-	(649)
- write-offs	(3 714)	(6 248)	-	(4 700)
- foreign exchange differences	39	-	-	34
Provisions as at the end of the period	**30 565**	**67 258**	**8 498**	**42 553**

Movements in provisions for loan commitments, guarantees and other financial facilities and other commitments

Change from 1 January to 31 December 2019	As at the beginning of the period	Transfer to stage 1	Transfer to stage 2	Transfer to stage 3	Increases due to granting and takeover	Decresed results of derecognised from balance sheet	Changes in credit risk (net)	As at the end of the priod
Loan commitments	**57 914**	**-**	**-**	**-**	**36 450**	**(43 974)**	**13 474**	**63 864**
Stage 1	32 575	32 226	(4 616)	(112)	22 736	(13 204)	(33 897)	35 708
Stage 2	18 247	(32 226)	4 688	(145)	10 844	(11 234)	33 465	23 639
Stage 3	6 231	-	(72)	257	1 695	(19 479)	13 504	2 136
POCI	861	-	-	-	1 175	(57)	402	2 381
Guarantees and other financial facilities	**51 495**	**-**	**-**	**-**	**60 502**	**(28 484)**	**6 055**	**89 568**
Stage 1	2 784	1 484	(674)	(3)	13 852	(7 847)	(4 815)	4 781
Stage 2	4 994	(1 484)	674	(189)	2 773	(1 755)	(300)	4 713
Stage 3	47 154	-	-	192	43 877	(20 477)	8 938	79 684
POCI	(3 437)	-	-	-	-	1 595	2 232	390
Other commitments	**-**	**-**	**-**	**-**	**109**	**(109)**	**-**	**-**
Stage 1	-	-	-	-	109	(109)	-	-
Provisions on off-balance sheet commitments and financial guarantees	**109 409**	**-**	**-**	**-**	**97 061**	**(72 567)**	**19 529**	**153 432**

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Change from 1 January to 31 December 2018	As at the beginning of the period	Transfer to stage 1	Transfer to stage 2	Transfer to stage 3	Increases due to granting and takeover	Decresed results of derecognised from balance sheet	Changes in credit risk (net)	As at the end of the priod
Loan commitments	**47 466**	**-**	**-**	**-**	**24 477**	**(16 989)**	**2 960**	**57 914**
Stage 1	29 409	17 523	(2 846)	(4)	18 637	(9 198)	(20 946)	32 575
Stage 2	17 626	(17 523)	2 846	(11)	3 972	(6 353)	17 690	18 247
Stage 3	431	-	-	15	1 014	(1 438)	6 209	6 231
POCI	-	-	-	-	854	-	7	861
Guarantees and other financial facilities	**72 426**	**-**	**-**	**-**	**11 156**	**(14 588)**	**(17 499)**	**51 495**
Stage 1	5 130	322	(324)	(3)	4 994	(6 792)	(543)	2 784
Stage 2	1 806	(322)	419	-	1 860	(1 050)	2 281	4 994
Stage 3	65 490	-	(95)	3	5 313	(6 745)	(16 812)	47 154
POCI	-	-	-	-	(1 011)	(1)	(2 425)	(3 437)
Other commitments	**147**	**-**	**-**	**-**	**-**	**(152)**	**5**	**-**
Stage 1	147	-	-	-	-	(152)	5	-
Provisions on off-balance sheet commitments and financial guarantees	**120 039**	**-**	**-**	**-**	**35 633**	**(31 729)**	**(14 534)**	**109 409**

31. Deferred income tax assets and liabilities

Assets and liabilities for deferred income tax are calculated for all temporary differences in accordance with the balance sheet method, using an income tax rate, which will be in force in the year when the tax obligation arises (2018 and 2017: 19%).

Assets and liabilities for deferred income tax are not recognised as short term assets and liabilities.

Changes in assets and liabilities for deferred income tax are presented below.

Deferred income tax assets	As at 01.01.2019	Recognised in the income statement	Recognised in other comprehensive income	Other changes	As at 31.12.2019
Interest accured	137 086	10 247	-	-	147 333
Valuation of derivative financial instruments	1 274	(1 030)	745	-	989
Valuation of securities	38 845	11 788	(375)	-	50 258
Provisions for impairment of loans and advances	471 615	14 467	-	1 364	487 446
Provisions for employee benefits	43 662	1 401	485	16	45 564
Other provisions	60 003	13 389	-	-	73 392
Prepayments/accruals	67 913	(32 845)	-	148	35 216
Tax losses carried forward	-	2 123	-	2 308	4 431
Differences between carrying and tax value of lease	449 658	8 418	-	-	458 076
Difference between tax and book value of tangible and intangible assets*		91 601	-	-	91 601
Other negative temporary differences	73 981	4 623	-	880	79 484
Total deferred income tax assets	**1 344 037**	**124 182**	**855**	**4 716**	**1 473 790**

* the item includes the impact of IFRS 16 on deferred tax

Deferred income tax liabilities	As at 01.01.2019	Recognised in the income statement	Recognised in other comprehensive income	Other changes	As at 31.12.2019
Interest accured	(76 721)	(13 066)	-	(2)	(89 789)
Valuation of derivative financial instruments	(57 506)	(20 145)	(9 032)	-	(86 683)
Valuation of investment securities	(110 804)	(20 428)	(2 194)	-	(133 426)
Interest and fees received in advance	(6 962)	(9 451)	(5)	-	(16 418)
Difference between tax and book value of tangible and intangible assets*	(42 795)	(79 211)	-	-	(122 006)
Prepayments regarding amortization of applied investment relief	(18 657)	-	-	-	(18 657)
Other positive temporary differences**	(71 599)	6 045	-	(3 627)	(69 181)
Total deferred income tax liabilities	**(385 044)**	**(136 256)**	**(11 231)**	**(3 629)**	**(536 160)**

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Deferred income tax assets	As at 01.01.2018	Impact of the implementation of IFRS 9 on 1 January 2018	Restated opening balance	Recognised in the income statement	Recognised in other comprehensive income	Other changes	As at 31.12.2018
Interest accured	114 653	-	114 653	22 433	-	-	137 086
Valuation of derivative financial instruments	2 639	-	2 639	(1 365)	-	-	1 274
Valuation of securities	32 282	-	32 282	6 324	239	-	38 845
Provisions for impairment of loans and advances	279 631	109 632	389 263	82 352	-	-	471 615
Provisions for employee benefits	39 221	-	39 221	3 842	599	-	43 662
Other provisions	33 164	-	33 164	26 839	-	-	60 003
Prepayments/accruals	32 790	-	32 790	35 123	-	-	67 913
Tax losses carried forward	78	-	78	(78)	-	-	-
Differences between carrying and tax value of lease	350 124	-	350 124	99 534	-	-	449 658
Other negative temporary differences	76 096	-	76 096	(2 637)	134	388	73 981
Total deferred income tax assets	**960 678**	**109 632**	**1 070 310**	**272 367**	**972**	**388**	**1 344 037**

Deferred income tax liabilities	As at 01.01.2018	Impact of the implementation of IFRS 9 on 1 January 2018	Restated opening balance	Recognised in the income statement	Recognised in other comprehensive income	Other changes	As at 31.12.2018
Interest accured	(77 950)	-	(77 950)	1 229	-	-	(76 721)
Valuation of derivative financial instruments	(26 124)	-	(26 124)	(10 542)	(20 840)	-	(57 506)
Valuation of investment securities	(116 192)	9 582	(106 610)	2 218	(6 412)	-	(110 804)
Interest and fees received in advance	(1 538)	-	(1 538)	(5 424)	-	-	(6 962)
Difference between tax and book value of tangible and intangible assets	(45 749)	-	(45 749)	2 954	-	-	(42 795)
Prepayments regarding amortization of applied investment relief	(18 657)	-	(18 657)	-	-	-	(18 657)
Other positive temporary differences	(45 299)	(49 825)	(95 124)	20 470	-	3 055	(71 599)
Total deferred income tax liabilities	**(331 509)**	**(40 243)**	**(371 752)**	**10 905**	**(27 252)**	**3 055**	**(385 044)**

	31.12.2019	31.12.2018
Interest accured	(2 819)	23 662
Valuation of derivative financial instruments	(21 175)	(11 907)
Valuation of securities	(8 640)	8 542
Provisions for impairment of loans and advances	14 467	82 352
Provisions for employee benefits	1 401	3 842
Other provisions	13 389	26 839
Prepayments/accruals	(32 845)	35 123
Interest and fees received in advance	(9 451)	(5 424)
Difference between tax and book value of tangible and intangible assets	12 390	2 954
Differences between carrying and tax value of lease	8 418	99 534
Deferred tax losses carried forward	2 123	(78)
Other temporary differences	10 668	17 833
Total deferred income tax included in the profit and loss account (Note 16)	**(12 074)**	**283 272**

The item "Other positive temporary differences" includes the impact of the creation of deferred tax provision in the amount of PLN 18 774 thousand at the end of 2019 (PLN 22 529 thousand at the end of 2018) resulting from the implementation of IFRS 9 in respect of recognized in previous years tax-deductible costs from the provision for incurred undocumented credit risk. According to art. 12 para. 4 of the Act of 27 October 2017 on amendments to the Personal Income Tax Act, the Corporate Income Tax Act and the Act on Flat Rate Income Tax on Certain Revenue Earned by Natural Persons, in the event that the Bank included IBNR to the tax-deductible costs before January 1, 2018, after the entry into force of the amendment the Bank is obliged to recognize income up to the amount previously recognized as tax cost. The Bank recognizes revenues on this account pro rata for a period of 7 consecutive tax years.

The Group evaluated the recoverability of deferred tax assets. Following the rules of IAS 12 paragraph 28 and 29 the Group recognised deferred tax assets to the extent that it is probable that the Group will have sufficient taxable profits in the future periods or tax planning opportunities are available that will create taxable profit in future periods.

A level of deferred tax asset for the year 2019 and 2018 does not include tax losses of the foreign branch in Slovakia on the amount, respectively: EUR 1 986 thousand (equivalent of PLN 8 457 thousand according to the average exchange rate of the National Bank as of Poland of 31 December 2019) and EUR 1 693 thousand (equivalent of PLN 7 279 thousand according to the average exchange rate of the National Bank of Poland as of 31 December 2018). Potential including of the tax losses into deferred tax asset in years to come will depend upon an assessment of the corporate income tax base level in a future (including the periods scheduled for settlement of tax losses). Right to tax losses’ settlement expires between 2020 and 2023 year.

Due to the improbability of occurrence of taxable income enabling to use tax losses incurred in Garbary Sp. z o.o. and BDH Development Sp. z o.o. the Group does not include those losses in the deferred tax asset calculation. The total amount of unused tax losses not included in the calculation of deferred tax assets amounted to PLN 53 645 thousand at the end of 31 December 2019 and PLN 59 115 thousand at the end of 31 December 2018. Right to tax losses’ settlement expires between 2020 and 2024 year.

The Group recognizes deferred tax liabilities or assets related to temporary differences arising from investments in subsidiaries and associates except that the implementation of the temporary differences is controlled by the Group and it is probable that in the foreseeable future, these differences will not be reversed. At the end of 2019 the Group did not include settlements on temporary differences in the total amount of PLN 1 449 790 thousand incurred due to investments in subsidiaries and affiliated companies in deferred tax calculation and PLN 1 443 977 thousand at the end of 2018.

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

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 31 December 2019 amounted to PLN 484 760 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. Dróżdż i Spółka Spółka jawna (hereinafter Interbrok) called the Bank for amicable settlement for the total amount of PLN 386 086 thousand via the District Court in Warsaw. Nine compensation lawsuits were filed against the Bank. Eight of the nine lawsuits were filed by former clients of Interbrok for the total amount of PLN 800 thousand with the proviso that the claims may be extended up to the total amount of PLN 5 950 thousand. The plaintiffs alleged that the Bank had aided in Interbrok’s illegal activities, which caused damage to them. With regard to seven of the afore-mentioned cases, legal proceedings against the Bank were dismissed and the cases were finally concluded. In the eighth case, a plaintiff withdrew their suit waiving the claim and the Regional Court dismissed the action. As far as the ninth suit is concerned, the amount in dispute is PLN 275 423 thousand, including statutory interest and costs of proceedings. According to the claims brought in the suit, this amount comprises the receivables, acquired by the plaintiff by way of assignment, due to the parties aggrieved by Interbrok on account of a reduction (as a result of Interbrok’s bankruptcy) of the receivables by a return of the deposits paid by the aggrieved for making investments on the forex market. The plaintiff claims the Bank’s liability on the grounds of the Bank’s aid in committing the illicit act of Interbrok, consisting in unlicensed brokerage operations. On 7 November 2017, the Regional Court in Warsaw dismissed the action in its entirety. The ruling is not final. The plaintiff appealed.

2. A lawsuit filed by LPP S.A.

   On 17 May 2018, mBank S.A. received a lawsuit filed by LPP S.A. with its registered office in Gdańsk seeking damages amounting to PLN 96 307 thousand 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.

   mBank S.A. has submitted its statement of defense and requested that the action be dismissed. 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. A lawsuit filed by Polski Koncenr Naftowy ORLEN S.A.

   On 7 February 2020, mBank S.A. received a lawsuit filed by Polski Koncern Naftowy ORLEN S.A. (Orlen) with its registered office in Płock seeking damages amounting to PLN 635 681 thousand on account of interchange fee. In the lawsuit, Orlen petitioned the court for awarding the damages jointly from mBank S.A. and other domestic bank and also from Master Card Europe and VISA Europe Management Services.

   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, i.e. a collusion restricting competition in the market of acquiring services connected with settling clients' liabilities towards the plaintiff on account of card payments for goods and services purchased by clients on the territory of Poland.

   At present, mBank S.A. is preparing its statement of defence

4. 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.

   As at 17 October 2012, the group of class members consisted of 1,247 individuals. 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. 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. 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. The case is pending.

   As of 31 December 2019 the total value of claims in this class actions amounted to PLN 5.2 million.

5. 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.

   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.

   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. 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 31 December 2019 the total value of claims in this class actions amounted to PLN 377 million.

6. Individual court proceedings concerning indexation clauses

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 31 December 2019, 3 715 (30 September 2019: 3 371 proceedings) individual court proceedings were initiated against the Bank by its customers in connection with CHF loan agreements with the total value of claims amounting to PLN 443.2 million (30 September 2019: PLN 366.6 million). The value of provisions for all individual court proceedings related to CHF loan agreements amounted to PLN 478.8 million as at 31 December 2019.

Out of the individual proceedings, 2 902 (30 September 2019: 2 478 proceedings) proceedings with the total value of claims amounting to PLN 430.1 million (30 September 2019: PLN 352.5 million) related to indexation clauses in CHF loan agreements and include claims for declaring ineffectiveness or invalidity in part (i.e. to the extent that the agreement contains contractual provisions related to indexation) or invalidity in whole of the loan agreements. The final rulings to-date in the indexation clauses proceedings are favourable to the Bank in the majority of the cases.

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 31 December 2019 amounted to PLN 13.6 billion (i.e. CHF 3.5 billion) compared to PLN 14.4 billion (i.e. CHF 3.8 billion) as at the end of 2018. Additionally the volume of the portfolio of loans granted in CHF that were already fully repaid as of 31 December 2019 amounted to PLN 6.3 billion.

The Group's approach to the measurement of provisions for legal risk associated with this portfolio of loans has been described in the Note 4 "Major estimates and judgments made in connection with the application of accounting policy principles"".

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.

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.

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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 the 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. On 5 December 2019, the PFSA Office sent to the Bank a reply to the letter containing the acceptance of some of the Bank's activities aimed at implementing post-audit recommendations and clarifications of other expectations that are being implemented. The Bank will notify the PFSA about completion and implementation of recommendations.

33. Off-balance sheet liabilities

Off-balance sheet liabilities of the Group comprise:

- Loan commitments

The amounts and deadlines by which the Group will be obliged to realise its off-balance sheet liabilities by granting loans or other monetary services are presented in the table below.

- Guarantees and other financial facilities
- Other commitments

Loan commitments, guarantees and other financial facilities and other commitments

31.12.2019	Nominal amount of off-balance sheet commitments and financial guarantees under IFRS 9 impairment				Provisions on off-balance sheet commitments and financial guarantees under IFRS 9 impairment			
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Loan commitments	27 971 352	1 146 727	14 041	2 815	35 708	23 639	2 136	2 381
Guarantees and other financial facilities	7 785 545	963 174	186 466	3 242	4 781	4 713	79 684	390

31.12.2018	Nominal amount of off-balance sheet commitments and financial guarantees under IFRS 9 impairment				Provisions on off-balance sheet commitments and financial guarantees under IFRS 9 impairment			
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Loan commitments	26 868 906	935 840	21 609	961	32 575	18 247	6 231	861
Guarantees and other financial facilities	7 543 787	872 767	119 779	5 100	2 784	4 994	47 154	(3 437)
Other commitments	37 076	-	-	-	-	-	-	-

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The following table presents the Group's off-balance sheet commitments granted and received as well as nominal value of open positions of derivative transactions of the Bank as at 31 December 2019 and as at 31 December 2018.

Guarantees are presented in the table below based on the earliest contractual maturity date.

31.12.2019	Up to 1 year	1-5 years	More than 5 years	Total
1. Contingent liabilities granted and received	**32 479 904**	**6 033 390**	**3 554 723**	**42 068 017**
Commitments granted	**30 083 806**	**4 876 925**	**3 112 631**	**38 073 362**
1. Financing	24 635 711	2 824 772	1 674 452	**29 134 935**
a) Loan commitments	24 635 711	2 824 772	1 674 452	**29 134 935**
2. Guarantees and other financial facilities	5 448 095	2 052 153	1 438 179	**8 938 427**
a) Guarantees and standby letters of credit	**30 083 806**	**4 876 925**	**3 112 631**	**38 073 362**
Commitments received	**2 396 098**	**1 156 465**	**442 092**	**3 994 655**
- Financial commitments received	392 130	-	-	**392 130**
- Guarantees received	2 003 968	1 156 465	442 092	**3 602 525**
2. Derivative financial instruments (nominal value of contracts)	**200 227 125**	**350 824 493**	**45 135 622**	**596 187 240**
Interest rate derivatives	133 642 008	323 965 761	39 560 757	**497 168 526**
Currency derivatives	62 798 352	25 661 914	5 085 895	**93 546 161**
Market risk derivatives	3 786 765	1 196 818	488 970	**5 472 553**
Total off-balance sheet items	**232 707 029**	**356 857 883**	**48 690 345**	**638 255 257**

31.12.2018	Up to 1 year	1-5 years	More than 5 years	Total
1. Contingent liabilities granted and received	**32 900 774**	**4 049 191**	**3 091 452**	**40 041 417**
Commitments granted	**31 399 043**	**2 307 751**	**2 754 629**	**36 461 423**
1. Financing	24 303 130	1 972 322	1 607 462	**27 882 914**
a) Loan commitments	24 253 840	1 967 925	1 605 551	**27 827 316**
c) Capital commitments	49 290	4 397	1 911	**55 598**
2. Guarantees and other financial facilities	7 058 837	335 429	1 147 167	**8 541 433**
a) Guarantees of issues underwritten	7 058 837	335 429	1 147 167	**8 541 433**
3. Other commitments	37 076	-	-	**37 076**
Commitments received	**1 501 731**	**1 741 440**	**336 823**	**3 579 994**
- Financial commitments received	-	381 660	-	**381 660**
- Guarantees received	1 501 731	1 359 780	336 823	**3 198 334**
2. Derivative financial instruments (nominal value of contracts)	**162 822 205**	**312 067 363**	**42 533 604**	**517 423 172**
Interest rate derivatives	90 331 695	291 197 062	38 527 954	**420 056 711**
Currency derivatives	70 254 654	20 338 566	2 487 650	**93 080 870**
Market risk derivatives	2 235 856	531 735	1 518 000	**4 285 591**
Total off-balance sheet items	**195 722 979**	**316 116 554**	**45 625 056**	**557 464 589**

The nominal values of derivatives are presented in Note 20.

As at 31 December 2019, apart from financial commitments granted by the Bank, the largest impact on the amount of financial commitments granted had commitments granted by mFaktoring and mBank Hipoteczny respectively in amount of PLN 1 944 564 thousand and PLN 449 612 thousand (31 December 2018 respectively: PLN 1 644 421 thousand and PLN 1 515 637 thousand).

On 5 July 2019, mBank S.A. concluded a lease agreement for space in the Mennica Legacy Tower building, located at 21 Pereca Street in Warsaw, to which the Bank's Warsaw headquarters will be moved. The subject of the lease will be released in two phases. The space release in the first phase will take place on 1 October 2020, while the second phase will be released on 1 February 2021. The lease agreement has been concluded for a fixed period of 124 months from the date of the start of the first phase of the lease.

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34. Pledged assets

Assets may be pledged as collateral for repo/sell/buy back transactions, derivatives contract with other banks. Collateral may be also placed due to stock market derivatives such as futures, options and participation in stock market.

Collateral may be placed in different form (e.g. cash, securities and pledged assets).

Similarly, customers establish collateral on their assets to secure the transaction with the Group. If securities are subject to collateral (in buy/sell back transaction) they can be re-pledged in the opposite transaction (sell/buy back).

Moreover the Group accepts collaterals in the form of properties (esp. real estates) related to credit type transactions like mortgage loans, credit lines, banking guarantees.

The tables below present the breakdown of the measures possible to pledge by the main items of the statement of financial position of mBank Group. Treasury securities are the main component of the Group's liquidity collateral for the purpose of pledge.

31.12.2019	Assets			Collateral received in kind of securities related with buy/sell back transactions			Assets available for pledge (3+6)
	Total assets	Pledged assets	Eligible for pledge assets	Received	Reused	Available for pledge	
	1	2	3	4	5	6	7
Debt securities (Note 20, 21, 22 and 23) including:	**35 876 137**	**3 193 568**	**31 141 370**	**3 362 331**	**-**	**3 362 331**	**34 503 701**
- NBP bills	3 219 627	-	3 219 627	-	-	-	3 219 627
- Government bonds	28 880 004	3 193 568	25 686 436	3 362 331	-	3 362 331	29 048 767
- Other non-treasury securities	3 776 506	-	2 235 307	-	-	-	2 235 307
Cash collaterals (due to derivatives transactions) (Note 23)	417 698	417 698	-	-	-	-	-
Loans and advances to customers	105 347 475	10 311 838	-	-	-	-	-
Property collateral	-	-	-	-	-	-	-
Other assets	17 079 273	-	-	-	-	-	-
Total	**158 720 583**	**13 923 104**	**31 141 370**	**3 362 331**	**-**	**3 362 331**	**34 503 701**

31.12.2018	Assets			Collateral received in kind of securities related with buy/sell back transactions			Assets available for pledge (3+6)
	Total assets	Pledged assets	Eligible for pledge assets	Received	Reused	Available for pledge	
	1	2	3	4	5	6	7
Debt securities (Note 20, 21,22 and 23) including:	**25 393 341**	**2 745 396**	**22 369 638**	**1 480 632**	**599**	**1 480 033**	**23 849 671**
- NBP bills	589 901	-	589 901	-	-	-	589 901
- Government bonds	22 035 917	2 745 396	19 290 521	1 480 632	599	1 480 033	20 770 554
- Other non-treasury securities	2 767 523	-	2 489 216	-	-	-	2 489 216
Cash collaterals (due to derivatives transactions) (Note 23)	388 196	388 196	-	-	-	-	-
Loans and advances to customers	94 765 753	9 399 293	-	-	-	-	-
Property collateral	-	-	-	-	-	-	-
Other assets	25 202 829	-	-	-	-	-	-
Total	**145 750 119**	**12 532 885**	**22 369 638**	**1 480 632**	**599**	**1 480 033**	**23 849 671**

mBank Hipoteczny S.A. secures issued mortgage and public bonds with receivables obtained from loans and advances. As at 31 December 2019, the net carrying value of loans registered in the mortgage and public bonds register, presented above as pledged assets amounted to PLN 10 311 838 thousand (31 December 2018: PLN 9 399 293 thousand).

The value of treasury securities presented as pledged assets, except for collaterals due to sell/buy back transactions, includes collateral of liabilities due to the loan received from the EIB, collateral for the guaranteed deposits fund under the Bank Guarantee Fund (BFG) and collateral for the payment commitment to the BFG guarantee fund and forced restructuring fund.

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35. Registered share capital

The total number of ordinary shares as at 31 December 2019 was 42 350 367 shares (31 December 2018: 42 336 982) at PLN 4 nominal value each. All issued shares were fully paid up.

REGISTERED SHARE CAPITAL (THE STRUCTURE) AS AT 31 DECEMBER 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	-	-	13 385	53 540	fully paid in cash	2019
Total number of shares			**42 350 367**			
Total registered share capital				**169 401 468**		
Nominal value per share (PLN)		**4**				

* As at the end of the reporting period

In 2019, the National Depository of Securities (KDPW) has registered 13 385 shares of mBank, which were issued as part of the conditional increase in the share capital of the Bank by issuance of shares with no subscription rights for the existing shareholders in order to enable beneficiaries of the incentive programmes to take up shares in mBank. As a result of the above registration, in 2019 the mBank's share capital increased by PLN 53 540.

Commerzbank AG is a shareholder holding over 5% of the share capital and votes at the General Meeting and as at 31 December 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.

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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 25 October 2019 mBank S.A. was notified by Nationale-Nederlanden Powszechne 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 Powszechne 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.

36. Share premium

Share premium is formed from the share premium obtained from the issue of shares reduced by the direct costs incurred with that issue. This capital is intended to cover all losses that may result from the business activity of the Bank.

The increase of share premium in 2019 and 2018 results from the issue of shares under incentive programmes described under Note 41.

37. Retained earnings

Retained earnings include: other supplementary capital, other reserve capital, general banking risk reserve, profit (loss) from the previous years and profit for the current year.

Other supplementary capital, other reserve capital and general banking risk reserve are created from profit for the current year and their aim is described in the by-laws or in other regulations of the law.

	31.12.2019	31.12.2018
Other supplementary capital	9 826 282	9 826 282
Other reserve capital	98 316	93 448
General banking risk reserve	1 153 753	1 153 753
Profit from the previous year	306 074	(996 686)
Profit for the current year	1 010 350	1 302 786
Total retained earnings	**12 394 775**	**11 379 583**

According to the Polish legislation, each Bank is required to allocate 8% of its net profit to a statutory undistributable other supplementary capital until this supplementary capital reaches 1/3 of the share capital.

In addition, the Group transfers some of its net profit to the general banking risk reserve to cover unexpected risks and future losses. The general banking risk reserve can be distributed only on consent of shareholders at a general meeting.

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38. Other components of equity

	31.12.2019	31.12.2018
Exchange differences on translating foreign operations	**(5 435)**	**(5 467)**
Unrealized gains (foreign exchange gains)	1 133	2 971
Unrealized losses (foreign exchange losses)	(6 568)	(8 438)
Valuation of debt securities at fair value through other comprehensive income	**74 321**	**145 978**
Unrealized gains on debt instruments	117 938	189 614
Unrealized losses on debt instruments	(7 778)	(10 328)
Deferred income tax	(35 839)	(33 308)
Cash flow hedges	**119 142**	**83 643**
Unrealized gains	150 802	103 263
Unrealized losses	(3 714)	-
Deferred income tax	(27 946)	(19 620)
Actuarial gains and losses relating to post-employment benefits	**(11 318)**	**(9 316)**
Actuarial gains	29	-
Actuarial (losses)	(14 003)	(11 491)
Deferred income tax	2 656	2 175
Total other components of equity	**176 710**	**214 838**

In 2019, the decrease in the value of unrealized gains on debt instruments compared to 2018 results from the realization of the result on debt securities maturing in 2019.

In 2018, unrealized gains on equity instruments relate mainly to positive valuation of debt securities of the banking book, caused by a decrease in interest rates in the last quarter of 2018, resulting from interest rate drops in global markets.

39. Dividend per share

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 thousand was allocated in the amount of PLN 248 158 thousand for covering losses from previous years. The remaining part of the profit in the amount of PLN 1 069 327 thousand was left undivided.

40. Explanatory notes to the statement of cash flow

Cash and cash equivalents

For the purpose of the statement of cash flows, the balance of cash and cash equivalents comprises the following balances with maturities shorter than three months.

	31.12.2019	31.12.2018
Cash and balances with the Central Bank (Note 19)	7 897 010	9 199 264
Loans and advances to banks (Note 23)	382 378	683 411
Trading securities issued by General governments (Note 20)	1 330 541	748 294
Total cash and cash equivalents	**9 609 929**	**10 630 969**

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Supplementary information to the cash flow statement

Explanation of differences between the change in the balances resulting from the balance sheet and the change disclosed in the cash flows from operating activities

	Year ended 31 December	
	2019	**2018**
Loans and advances to banks - change in the balance of the statement of financial position	**(1 795 412)**	**(839 123)**
The difference between the interest accrued and paid in cash in the period	(25 996)	(14 527)
Exclusion of a change in the balance of cash and cash equivalents	(301 033)	(523 465)
Total change in loans and advances to banks	**(2 122 441)**	**(1 377 115)**
Financial assets held for trading and hedging derivatives - change in the balance of the statement of financial position	**(763 646)**	**250 360**
The difference between the interest accrued and paid in cash in the period	93 922	116 868
Valuation included in other comprehensive income (gross)	43 825	109 681
Exclusion of a change in the balance of cash and cash equivalents	582 247	(484 221)
Total change in financial assets held for trading and hedging derivatives	**(43 652)**	**(7 312)**
Loans and advances to customers - change in the balance of the statement of financial position	**(10 452 199)**	**(10 131 435)**
The difference between the interest accrued and paid in cash in the period	(83 149)	(149 270)
Total change in loans and advances to customers	**(10 535 348)**	**(10 280 705)**
Financial assets at fair value through other comprehensive income - change in the balance of the statement of financial position	**1 564 363**	**(800 714)**
Valuation included in other comprehensive income	(69 126)	(15 068)
The difference between the interest accrued and paid in cash in the period	(367 943)	(496 127)
Total change in financial assets at fair value through other comprehensive income	**1 127 294**	**(1 311 909)**
Debt securities measured at amortised cost - change in the balance of the statement of financial position	**(2 234 334)**	**(480 367)**
The difference between the interest accrued and paid in cash in the period	-	203 518
Total change in debt securities measured at amortised cost	**(2 234 334)**	**(276 849)**
Non-trading financial assets mandatorily at fair value through profit or loss - change in the balance of the statement of financial position	**(165 485)**	**(43 280)**
Acquisition of shares in subsidiaries not included in the consolidation	11 055	39 907
Disposals of shares in subsidiaries not included in the consolidation	-	(100)
Change the valuation	-	3 065
Change non-trading financial assets mandatorily at fair value through profit or loss	**(154 430)**	**(408)**
Other assets (including non-current assets held for sale) - change in the balance of the statement of financial position	**210 679**	**(407 266)**
Balances unrealised in cash recognised in income statement	5 715	17 135
Total change in other assets	**216 394**	**(390 131)**
Amounts due to other banks - change in the balance of the statement of financial position	**(1 941 955)**	**(1 994 525)**
The difference between the interest accrued and paid in cash in the reporting period	(14 842)	(14 183)
Exclusion of change in cash flows from financing activity	557 100	2 644 697
Total change in amounts due to other banks	**(1 399 697)**	**635 989**
Amounts due to customers - change in the balance of the statement of financial position	**14 652 076**	**10 389 417**
The difference between the interest accrued and paid in cash in the reporting period	(419 101)	341 171
Exclusion of change in cash flows from financing activity	641 383	734 364
Total change in amounts due to customers	**14 874 358**	**11 464 952**
Debt securities in issue - change in the balance of the statement of financial position	**(614 440)**	**3 726 731**
The difference between the interest accrued and paid in cash in the reporting period	(14 974)	(75 357)
Exclusion of change in cash flows from financing activity	404 989	(3 370 561)
Total change in debt securities in issue	**(224 425)**	**280 813**
Changes in other liabilities (including liabilities held for sale) and provisions - change in the balance of the statement of financial position	**58 523**	**793 337**
Valuation of incentive programmes recognised in income statement (Note 13)	10 702	10 703
Exclusion of tax liabilities of certain financial institutions	(39 871)	(396)
Actuarial gains and losses relating to post-employment benefits recognised in other comprehensive income (Note 18)	(2 483)	(3 135)
Total change in other liabilities	**26 871**	**800 509**

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Interest received and paid introduced in operating activities

	Year ended 31 December	
	2019	**2018**
Interest income, including:		
Loans and advances to banks	82 200	70 214
Loans and advances to customers	4 032 501	3 536 391
Debt securities	1 029 120	962 394
Interest income on derivatives classified into banking book	101 751	82 630
Interest income on derivatives concluded under hedge accounting	107 602	98 261
Other interest income	5 058	5 686
Total interest income	**5 358 232**	**4 755 576**

	Year ended 31 December	
	2019	**2018**
Interest expense, including:		
Settlements with banks due to deposits received	(17 781)	(11 114)
Settlements with customers due to deposits received	(725 432)	(951 393)
Security deposit received in relation with the guarantee granted to secure underwriting of securities	(329 380)	(243 513)
Other interest expense	(23 679)	(6 882)
Total interest expense	**(1 096 272)**	**(1 212 902)**

Cash flows from investing activities

In 2019 and in 2018, cash flows from investing activities mainly relate to the settlements regarding the purchase of intangible and tangible assets. In addition, cash flows from investing activities in 2018 concern the settlement of transactions and the sale of an organized part of the mFinanse S.A. (Note 12).

Cash flows from financing activities

Cash flows from financing activities mainly relate to the settlements regarding the issue of debt securities and to the settlements of long-term loans received from other banks (Note 28) and the European Investment Bank (Note 28). Moreover, cash flows from financing activities includes the settlements relates to subordinated liabilities.

	As at 31.12.2018	Cash flows	Change not connected with cash fows	As at 31.12.2019
Loans and advances to banks (Note 28)	747 381	(567 863)	10 383	189 901
Loans and advances to other customers (Note 28)	3 457 264	(519 145)	42 175	2 980 294
Leasing liabilities (Note 28)	-	(122 539)	619 451	496 912
Liabilities due to security deposits received in relation with the granted guarantees (Note 28)	18 049 583	(404 989)	(209 451)	17 435 143
Subordinated liabilities (Note 28)	2 474 163	(76 627)	102 681	2 500 217
Total liabilities from financing activities	**24 728 391**	**(1 691 163)**	**564 378**	**23 601 606**

	As at 31.12.2017	Cash flows	Change not connected with cash fows	As at 31.12.2018
Loans and advances to banks (Note 28)	3 394 340	(2 780 372)	133 413	747 381
Loans and advances to other customers (Note 28)	4 142 944	(858 648)	172 968	3 457 264
Liabilities due to security deposits received in relation with the granted guarantees (Note 28)	14 322 852	3 288 851	437 880	18 049 583
Subordinated liabilities (Note 28)	2 158 143	179 712	136 308	2 474 163
Total liabilities from financing activities	**24 018 279**	**(170 457)**	**880 569**	**24 728 391**

In the change not related to cash flows were included exchange differences and accrued interest.

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41. Share-based incentive programmes

2014 Incentive Programme for the Management Board Members of the Bank

On 31 March 2014 the Supervisory Board in accordance with the recommendation of Remuneration Committee of the Supervisory Board adopted a Regulation of the Incentive Programme in mBank S.A., which replaced the Regulation of the Incentive Programme in mBank S.A. dated at 7 December 2012.

Under the program the Management Board Members have the right to bonus, including non-cash bonus paid in Bank's shares, including phantom shares.

The net ROE of mBank Group and the monthly remuneration of the member of the Board as at 31 December form the basis for acquisition by Members of the Management Board of the right to bonus and for calculation of the amount of bonus for a given financial year. Equivalent of 50% of the base amount calculated based on ROE constitutes the so-called first part of the bonus. In regard to the remaining 50% of the base amount, the Remuneration Committee of the Supervisory Board can grant the second part of the bonus if it decides that a given Member of the Management Board achieved the annual/multi-year business and development objective. The decision of granting the second part of the bonus is the sole responsibility of Remuneration Committee of the Supervisory Board, which according to its own judgement and decision confirm MBO achievement taking into account the situation on financial markets in the last/previous financial period.

The sum of the first and the second part of bonus is the base bonus of the member of the Board for a given financial period. 40% of the base bonus constitutes non-deferred bonus and is paid in the year of determination of base bonus as follows: 50% in form of cash payment and 50% in Bank's shares or bonds with pre-emptive rights to acquire shares or phantom shares.

60% of the base bonus is deferred bonus and is paid in three equal tranches in the next three following years after the year of determining the base bonus as follows: 50% of each of the deferred tranches in form of cash payment and 50% of each of the deferred tranches in form of non-cash payment in Bank's shares or bonds with pre-emptive rights to acquire shares or phantom shares.

The Supervisory Board on the basis of recommendation of Remuneration Committee can make a decision to suspend in whole or reduce the amount of deferred tranche due to the later assessment of the performance of the Member of the Management Board over a period of time longer than one financial year (i.e. for the period of at least 3 years), which takes into account the business cycle of the Bank as well as the risk related to the bank's operations, but only when the acts or omissions of the Member of the Management Board had a direct and adverse impact on the Bank's financial result and market position within the assessment period and when at least one of the elements included in the assessment card is not fulfilled.

Remuneration Committee of the Supervisory Board can make a decision on suspending in whole or decreasing the non-deferred and deferred bonus amount for a given financial year, including deferred tranches not paid out yet, in the situation referred to in Article 142 (1) of the Banking Law Act. Suspending in whole or decreasing the non-deferred and deferred bonus, as well as any deferred tranche by the Remuneration Committee of the Supervisory Board can also apply to the non-deferred and deferred bonus, including deferred tranche not paid out yet after expiry or termination of the management contract.

The table below presents the number of share options related to the 2014 incentive programme for Management Board Members of the Bank.

	31.12.2019		31.12.2018	
	Number of options	Weighted average exercise price (in PLN)	Number of options	Weighted average exercise price (in PLN)
Outstanding at the beginning of the period	**12 229**	**-**	**15 542**	**-**
Granted during the period	-	-	8 021	-
Forfeited during the period	-	-	-	-
Exercised during the period*	6 019	4	11 334	4
Expired during the period	-	-	-	-
Outstanding at the end of the period	**6 210**	**-**	**12 229**	**-**
Exercisable at the end of the period	**-**	**-**	**-**	**-**

*In 2019, the weighted average price of the shares was PLN 388.23 (in 2018 PLN 430.59).

Cash Part of the Bonus

50% of the base amount constitutes bonus cash payment. It is recognised as a liability to employees and charged to the income statement in the correspondence to liability to employees.

Share-Based Payments Settled in mBank S.A. Shares

50% of the base amount constitutes bonus payment settled in mBank S.A. shares. The cost of payments settled in shares is recognised in the income statement in the correspondence with other reserve capital.

This is equity-settled share-based program.

On 2 March 2015 the Supervisory Board extended the duration of the program from 31 December 2018 until 31 December 2021 in accordance with the recommendation of the Supervisory Board Remuneration Committee.

Employee programme for key management staff of mBank Group of 2014

On 31 March 2014, the Supervisory Board of the mBank adopted on the basis of recommendation of Remuneration Committee a resolution amending the rules of the employee programme, which replaced the incentive programme for key management staff of mBank Group from 2013, whereas in regard to the persons who acquired bonds with pre-emptive rights to acquire shares of the Bank or were granted right to acquire bonds in Tranches III, IV, V and VI the programme was to be carried out under the previous principles.

On March 2, 2015, the Supervisory Board of the mBank extended the duration of the program from December 31, 2019 to December 31, 2022 in accordance with the recommendation of the Remuneration Committee.

The aim of the programme is to ensure growth in the value of the Company's shares by linking the interest of the key management staff of mBank Group with the interest of the Company and its shareholders and implementing in mBank Group variable components of remuneration of the persons holding managerial positions at mBank Group.

The bonds granted under the III, IV, V and VI Tranches were purchased by entitled persons, and the rights to subscribe for shares under the conditional capital increase resulting from the bonds were exercised.

The last settlements of the above-mentioned Tranches were realized in 2017.

Beginning with Tranche VII the right to purchase bonds granted to the entitled person will be divided into four parts, which may be realized respectively: I part – non-deferred bonds representing 50% of the 60% of the amount of discretionary bonus granted for a given financial year in the year of granting the right, and then another three equal parts – deferred bonds constituting 50% of the 40% of the amount of discretionary bonus granted for a given financial year on the lapse of 12, 24 and 36 months from the date of granting the rights, in accordance with the internal regulations adopted in mBank Group specifying rules of variable remuneration of the employees having a material impact on the risk profile at mBank Group.

The Bank's Management Board/Supervisory Board of the Company, where the Programme is carried out may take a decision on suspending the Programme in whole or decreasing the number of bonds or the number of bonds deferred in a given tranche for the entitled person in case of occurrence of the situations, referred to in Article 142 (1) of the Banking Law Act, occurrence of balance sheet loss or loss of liquidity, meeting the conditions set forth in the agreements with the program participants, forming the basis for provision of work or other services for the Bank and subsidiaries.

Cash Part of the Bonus

The bonus in the amount of 50% of the base amount for the year is cash payment. It is recognised as a liability to employees and charged to the income statement in the correspondence to the liability to employees.

Share-Based Payments settled in mBank S.A. shares

The bonus in the amount of 50% of the base amount constitutes a payment settled in mBank S.A. shares.

The cost of payments settled in shares is recognised in the income statement in the correspondence with other reserve capital.

This is equity-settled share-based program.

Under this program, starting from Tranche VII, a bonus was granted for the years 2014-2017. The last settlements fall on 2021.

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The table below presents change in the number and weighted average exercise prices of share options related to the 2014 incentive programme for key managers of mBank Group.

	31.12.2019		31.12.2018	
	Number of options	Weighted average exercise price (in PLN)	Number of options	Weighted average exercise price (in PLN)
Outstanding at the beginning of the period	**13 293**	**-**	**15 396**	**-**
Granted during the period	-	-	11 423	-
Forfeited during the period	342	-	-	-
Exercised during the period*	7 366	4	13 526	4
Expired during the period	-	-	-	-
Outstanding at the end of the period	**5 585**	**-**	**13 293**	**-**
Exercisable at the end of the period	**-**	**-**	**-**	**-**

*In 2019, the weighted average price of the shares was PLN 388.23 (in 2018 PLN 430.59).

2018 incentive programme for the Management Board Members and key staff of mBank Group – mBank Risk Takers

On 7 June 2018, the Supervisory Board, acting in line with the recommendation of the Remuneration Committee of the Supervisory Board and the decision of the Annual General Meeting of mBank S.A. of 9 May 2018, adopted the mBank S.A. Incentive Programme Rules.

The Programme replaced the existing programmes, that is the employee programme introduced by the resolution of the Extraordinary General Meeting of mBank S.A. of 27 October 2008, as amended, and the programme for the Management Board Members, introduced by the resolution of the Annual General Meeting of mBank S.A. of 14 March 2008, as amended. At the same time, the rights arising from bonds acquired under the replaced programmes will be exercised under the rules of those programmes.

The new programme will be implemented from 1 January 2018 to 31 December 2028. Eligible persons under the programme include persons holding positions identified as having a material impact on the bank's risk profile pursuant to the Risk Takers Identification Policy, referred to as Risk Takers I or Risk Takers II, excluding Risk Takers II – Members of the Management Board of mBank Hipoteczny S.A., which applies a different incentive programme.

"Risk Taker I" means a Member of the Management Board of the bank. "Risk Taker II" means a person holding a position identified as having a material impact on the bank's risk profile pursuant to the Risk Takers Identification Policy, including a person holding a position of a Management Board Member in an mBank Group subsidiary.

On the terms and conditions stipulated in the Rules and the Risk Takers Remuneration Policy, Risk Takers will be able to acquire warrants free of charge, and, by way of exercising the rights arising from the warrants, to acquire shares.

Bonus for Risk Takers I

The Supervisory Board determines the bonus amount for a given calendar year for each Management Board Member individually, based on the assessment of MBO achievement with respect to the period of at least 3 years, with the proviso that the bonus amount depends on the bonus pool. The bonus pool is a total of base amounts calculated for each Management Board Member. The base amount is calculated a a multiple of the base salary, which depends on the Economic Profit (EP); EP is calculated for the period of 3 years pursuant to the rules specified in the Risk Takers Remuneration Policy.

The bonus consists of the non-deferred part (40% of the bonus) and the deferred part (60% of the bonus).

Both, the deferred part and the non-deferred part, are divided into equal portions: 50% paid in cash and 50% paid in subscription warrants. The non-deferred part in cash is paid in the year when the bonus is granted. The other half of the non-deferred part (50%) is paid in the form of subscription warrants, not earlier than after the lapse of 12 months from the date of the Annual General Meeting of mBank S.A.

The deferred part, both the cash portion and the subscription warrant portion, is paid in 5 equal annual tranches. In each tranche, the cash portion is paid once the consolidated financial statements of mBank Group for the previous calendar year have been approved, and the subscription warrant portion is paid not earlier than after the lapse of 12 months from the date on which the consolidated financial statements are approved.

Bonus for Risk Takers II

The bonus amount for a given calendar year is determined by the bank's Management Board for Risk Takers II (the bank's employees) or by a subsidiary's Supervisory Board for Risk Takers II (Members of the Management Board of an mBank Group subsidiary) on the basis of: assessment of MbO achievement for the period of the last three calendar years, the Economic Profit of mBank Group and the result of a business line/subsidiary/organisational unit.

The bonus consists of the non-deferred part (60% of the bonus) and the deferred part (40% of the bonus).

Both, the deferred part and the non-deferred part are divided into equal portions: 50% paid in cash and 50% paid in subscription warrants.

The non-deferred part in cash is paid in the year when the bonus is granted. The other half of the non-deferred part (50%) is paid in the form of subscription warrants, not earlier than after the lapse of 12 months from the date of the Annual General Meeting of mBank S.A.

The deferred part, both the cash portion and the subscription warrant portion, is paid in 3 equal annual tranches. In each tranche, the cash portion is paid once the consolidated financial statements of mBank Group for the previous calendar year have been approved, and the subscription warrant portion is paid not earlier than after the lapse of 12 months from the date on which the consolidated financial statements are approved.

In the case when the bonus amount determined for a Risk Taker II (the bank's employee) for a given calendar year does not exceed PLN 200 000, the total amount of the bonus may be, based on a relevant decision of the bank's Management Board, paid in cash in a non-deferred form.

The deferred bonus part for Risk Takers I and Risk Takers II is assessed in terms of its determination and payment. The Supervisory Board of mBank (with respect to Risk Takers I), the Management Board of mBank (with respect to Risk Takers II – the bank's employees) or the Supervisory Board of an mBank Group subsidiary (with respect to Risk Takers II – Members of the subsidiary's Management Board) may decide to withhold the full amount or to reduce the amount of a deferred tranche if it concludes that in a time horizon longer than one financial year, i.e. a period of at least 3 years, the Risk Taker had a direct and negative impact on the financial result or the market position of the bank/subsidiary/group, violated the rules and standards adopted in mBank Group or directly contributed to significant financial losses, where at least one of the scorecard components has not been met or any of the premises stipulated in Article 142 (2) of the Banking Law Act has occurred.

If the circumstances referred to above occur at the stage of determining the Risk Taker bonus amount, the Supervisory Board of mBank/the Supervisory Board of the subsidiary/the Management Board of mBank may decide not to grant a bonus for a given calendar year or to reduce it.

Moreover, a Risk Taker I or Risk Taker II may be obliged, under the rules and within the time limit determined by the decision of the Supervisory Board of mBank/the Supervisory Board of the subsidiary/the Management Board of mBank, to return the bonus granted and paid for a given calendar year (i.e. the non-deferred part and all deferred parts) if he/she has violated rules and standards adopted in mBank Group, has materially violated the generally applicable law or has directly contributed to significant financial losses being the consequence of his/her deliberate adverse actions to the detriment of mBank Group/the subsidiary or has contributed to financial sanctions being imposed on the bank/subsidiary by supervisory bodies under a final and non-appealable decision.

The decision determining the occurrence of the said events may be taken by the end of the calendar year when the last tranche of the deferred part of the bonus granted for the year in which the event occurred is paid.

In the case of a resolution of the General Meeting of mBank S.A. on payment of dividend for a given year, a Risk Taker I and a Risk Taker II to whom the bonus has been granted within the deferred or non-deferred part is entitled to a cash equivalent, regardless of the bonus, pursuant to the rules specified in the Risk Takers Remuneration Policy, in connection with the deferral of the portion paid in subscription warrants.

The bonus paid under the said programme was first granted to Risk Takers I and Risk Takers II in 2019 for 2018.

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The table below presents change in the number and weighted average exercise prices of share options related to the 2018 incentive programme for Management Board Members of the Bank and for key managers of mBank Group.

	31.12.2019
	Number of options
Outstanding at the beginning of the period	**-**
Granted during the period	17 870
Forfeited during the period	803
Exercised during the period	-
Expired during the period	-
Outstanding at the end of the period	**17 067**
Exercisable at the end of the period	**-**

Summary of the Impact of the Programmes on the Group's statement of financial position and income statement

Share-Based Payments Settled in Shares

The table below presents changes in other reserve capital generated by the above mentioned incentive programmes for share-based payments settled in mBank S.A. shares.

	31.12.2019	31.12.2018
Incentive programs		
As at the beginning of the period	**22 452**	**22 638**
- value of services provided by the employees	9 947	10 224
- settlement of exercised options	(5 079)	(10 410)
As at the end of the period	**27 320**	**22 452**

Cash Payments

The cost of the cash part of the programmes is presented in Note 13 "Overhead costs".

42. Transactions with related entities

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

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

The Group provides standard financial services to the Bank's key management personnel, Members of the Supervisory Board of the Bank and close members of their families, which comprise i.e.: maintaining bank accounts, taking deposits, granting loans or other financial services. In the Bank's opinion, these transactions are concluded on market terms and conditions.

Pursuant the Banking Law, the extension of a loan, cash advance, bank guarantee or other guarantee to the Members of the Management Board and Supervisory Board of the Bank, persons holding managerial positions at the Bank as well as at entities related financially or organisationally therewith, is governed by the by-Laws adopted by the Supervisory Board of mBank S.A.

The by-Laws set out detailed rules and debt limits for loans, cash advances, bank guarantees, and other guarantees in relation to aforementioned persons and entities, which are consistent with the Bank's internal regulations defining the competences of granting credit decisions concerning retail and corporate clients of the Bank. A decision to grant a loan, cash advances, bank guarantee or other guarantee to a Member of the Management Board and Supervisory Board of the Bank, person holding managerial position at the Bank or an entity related financially or organisationally therewith in excess of the limits set by the Banking Law is taken by the resolution of the Management Board and by the resolution of the Supervisory Board.

The terms and conditions of such loans, cash advances, bank guarantees or other guarantees, including in particular those related to interest rates as well as fees and commissions, cannot be more advantageous than the terms and conditions offered by the Bank to its retail or corporate clients, respectively.

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The table below presents the values of transactions between the Bank and companies of mBank Group and: Members of the Supervisory Board and the Management Board of mBank, key executive management of mBank, Members of the Supervisory Board and the Management Board of Commerzbank and other related persons and entities, as well as Commerzbank AG Group entities. The amounts of transactions include assets, liabilities and related costs and income as at 31 December 2019 and 31 December 2018 and for the respective periods then ended are as follows:

31.12.2019	Members of Supervisory Board, Management Board and key management personnel of mBank as well as Supervisory Board and Management Board of Commerzbank AG		Other related companies and persons *		mBank's subsidiaries		Commerzbank AG		Other companies of the Commerzbank AG Group	
As at the end of the period	**31.12.2019**	**31.12.2018**	**31.12.2019**	**31.12.2018**	**31.12.2019**	**31.12.2018**	**31.12.2019**	**31.12.2018**	**31.12.2019**	**31.12.2018**
Statement of Financial Position										
Assets	2 040	3 247	2 058	1 583	160 187	-	528 688	555 810	19	7 587
Liabilities	23 422	14 909	1 484	1 955	31 518	24 895	2 059 006	2 188 337	709 071	968 311
Income Statement										
Interest income	53	90	70	49	8 154	12 147	59 928	100 581	698	535
Interest expense	(158)	(77)	(3)	(2)	(89)	(817)	(26 238)	(70 586)	(4 612)	(6 216)
Fee and commission income	46	93	11	7	538	968	4 353	3 771	49	84
Fee and commission expense	-	-	-	-	(1 249)	-	(1 030)	(4 828)	-	-
Other operating inccome	-	-	-	-	5 987	9 231	1 468	1 458	-	-
Overhead costs, amortisation and other operating expenses	-	-	-	-	(28)	(98)	(7 076)	(8 647)	-	-
Contingent liabilities granted and received										
Liabilities granted	957	583	407	462	355 716	352 182	2 124 709	1 842 625	3 502	-
Liabilities received	-	-	-	-	-	-	1 816 577	2 074 354	-	-

* Other related persons and entities include: close family members of Members of the Supervisory and the Management Board of mBank, key executive management of mBank, Members of the Supervisory Board and the Management Board of Commerzbank, entities controlled or jointly controlled by above mentioned persons.

In 2019 and 2018, no provisions were created in connection with credits granted to related entities.

<u>Supervisory Board and Management Board Remuneration</u>

On 12 April 2018, the Supervisory Board of mBank S.A. selected members of the Management Board of mBank S.A. for a joint term of five years, with the following composition:

1. Cezary Stypułkowski – President of the Management Board,
2. Lidia Jabłonowska-Luba – Vice-President of the Management Board, Chief Risk Officer,
3. Frank Bock – Vice-President of the Management Board, Head of Financial Markets,
4. Andreas Böger – Vice-President of the Management Board, Chief Financial Officer,
5. Krzysztof Dąbrowski – Vice-President of the Management Board, Head of Operations and IT,
6. Cezary Kocik – Vice-President of the Management Board, Head of Retail Banking,
7. Adam Pers – Vice-President of the Management Board, Head of Corporate and Investment Banking.

At the end of 2019, the composition of the Management Board of mBank S.A. remained unchanged.

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Information on the salaries, bonuses and benefits paid and due to the Members of the Management Board of the Bank who were performing their functions at the end of 2019 and at the end of 2018, remuneration of the former Management Board Members and remuneration of Supervisory Board Members.

	2019	2018
mBank Management Board		
Basic salary	13 570 816	13 924 321
Other benefits	1 891 377	1 282 195
Bonus for previous year	1 560 000	1 306 634
Deffered bonus	1 762 899	1 892 082
Remuneration of the former Management Board Members		
Bonus for previous year	-	291 668
Deffered bonus	980 834	1 385 000
mBank Supervisory Board		
Basic salary	2 066 528	2 425 920

The total compensation of members of the Management Board consists of: basic salary, bonuses, termination payments of management agreement, prohibition of competitiveness payment, insurance costs and accommodation costs.

The above mentioned benefits are short-term employee benefits.

The total amount of remuneration received in 2019 by Bank's Management Board members was PLN 18 785 092 (2018: PLN 18 405 232).

In accordance with the Bank's remuneration system, the members of the Management Board of the Bank may be eligible to receive bonuses for the year 2019, which would be paid out in 2020. Therefore, a provision was created for the payment of a cash bonus for 2019 for the members of the Management Board, which amounted to PLN 4 113 206 as of 31 December 2019 (31 December 2018: PLN 4 752 541). The final decision concerning the level of the bonus will be taken by the Remuneration Committee of the Supervisory Board by 28 February 2020.

In 2019 and 2018, the members of the Management Board of mBank S.A. did not receive compensation for their role as members of the management boards and supervisory boards of the Bank's related companies.

The total compensation of Members of the Supervisory Board, the Management Board and other key executive management of the Bank that perform their duties in 2019 amounted to PLN 27 410 813 (2018: PLN 28 757 076).

Detailed information on the remuneration of individual Members of the Management Board and the Supervisory Board, as well as the composition of the Management Board and the Supervisory Board were presented in the Management Board Report on the Performance of mBank S.A. Group in 2019 in item 14.6. "Composition, powers and procedures of the Management Board and the Supervisory Board".

Information regarding proprietary position in Bank shares by Members of the Management Board and by Members of the Supervisory Board

As at 31 December 2019, the Bank shares were held by five Members of the Management Board: Mr. Cezary Stypułkowski – 21 249 shares, Mr. Frank Bock – 334 shares, Mr. Andreas Böger – 270 shares, Mr. Krzysztof Dąbrowski – 1 000 shares and Mr. Cezary Kocik – 1 040 shares.

As at 31 December 2018, the Bank shares were held by four Members of the Management Board: Mr. Cezary Stypułkowski – 19 384 shares, Mr. Frank Bock – 223 skares, Mr. Andreas Böger – 180 shares and Mr. Krzysztof Dąbrowski – 1 630 shares.

As at 31 December 2019 and as at 31 December 2018, the Bank shares were held by one Member of the Supervisory Board of mBank S.A., Mr. Jörg Hessenmüller – 7 175 shares. As at 31 December 2019 and as at 31 December 2018, other Members of the Supervisory Board of the Bank had no Bank's shares.

43. Acquisitions and disposals

- Acquisition of share in LeaseLink Sp. z o.o.

On March 8, 2019, mLeasing acquired 100% shares in LeaseLink Sp. z o.o. (hereinafter "Leaselink"). LeaseLink is a company operating in the field of fintech in the sectors of leasing of low-value objects and e-commerce, specializing in leasing payment services. The purchase of the company was aimed at expanding the offer of the Group for small and medium enterprises. The Bank indirectly holds

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100% shares in LeaseLink through mLeasing. The consideration transferred for shares, in total consisting of cash, 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 fair values of identifiable acquired assets and assumed liabilities as at the date of acquisition are presented in the table below.

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**

The gross conctractual amounts of loans and advances to customers amounted to PLN 77 787 thousand. The best estimate as at the acquisition date of the conctractual cash flows not expected to be collected amounted to PLN 6 773 thousand.

The interest income and fee and commission income of the acquired company recognized in the consolidated financial statements of the Group from the date of acquisition amounted to PLN 15 775 thousand, and net profit amounted to PLN 2 175 thousand. If the acquisition of the company took place on 1 January 2019, the interest income and fee and commission income of the Group for 2019 would amount to PLN 6 780 873 thousand, and net profit of the Group would amount to PLN 1 010 727 thousand.

- The liquidation of the company mCentrum Operacji Sp. z o.o.

On 1 March 2018, the Group completed the reorganization process of mCentrum Operacji Sp. z o.o. (mCO). As part of the process, two organized parts of the enterprise were separated in the form of the Automatic Processes Development Division and the General Division. On 1 March 2018, the Automatic Processes Development Division was sold to Feronia SA, whose majority shareholder is the Future Tech FIZ fund, a subsidiary of the Bank, to robotize processes operated by this part of mCO, while the General Division, covering most of the services currently operated by mCO processes, was sold to the Bank. In connection with the process described above, mCO was put into liquidation in May 2019. In December 2019, the company was removed from the National Court .

44. Prudential consolidation

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

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

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

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Basis of the preparation of the consolidated financial data

mBank S.A. Group consolidated financial data based on the rules of prudential consolidation specified by the CRR Regulation ("Consolidated prudentially financial data") have been prepared for the 12-month period ended 31 December 2019 and for the 12-month period ended 31 December 2018.

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

The accounting policies applied for the preparation of the Group consolidated prudentially financial data are identical to those, which have been applied to the mBank S.A. Group consolidated financial data for year 2018, prepared in compliance with IFRS, except for the consolidation standards presented below.

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

Company	31.12.2019		31.12.2018	
	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method
mBank Hipoteczny S.A.	100%	full	100%	full
mLeasing Sp. z o.o.	100%	full	100%	full
mFinanse S.A.	100%	full	100%	full
mFaktoring S.A.	100%	full	100%	full
mFinance France S.A.	99,998%	full	99,998%	full
Future Tech Fundusz Inwestycyjny Zamknięty	98,04%	full	98,04%	full
Tele-Tech Investment Sp. z o.o.	100%	full	100%	full
mCentrum Operacji Sp. z o.o. w likwidacji	-	-	100%	full
Asekum Sp. z o.o.	100%	full	100%	full
LeaseLink Sp. z o.o.	100%	full	-	-

In November 2019, mCentrum Operacji Sp. z o.o. has been liquidated. The liquidation process is described in Note 43.

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. Information on both of the above-mentioned companies is included in Note 1.

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

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

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

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

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Consolidated prudentially income statement

	Year ended 31 December	
	2019	**2018 - restated**
Interest income, including:	5 071 805	4 517 593
Interest income accounted for using the effective interest method	*4 523 624*	*3 867 454*
Income similar to interest on financial assets at fair value through profit or loss	*548 181*	*650 139*
Interest expenses	(1 068 892)	(1 021 056)
Net interest income	**4 002 913**	**3 496 537**
Fee and commission income	1 704 637	1 630 341
Fee and commission expenses	(740 035)	(654 476)
Net fee and commission income	**964 602**	**975 865**
Dividend income	22 673	3 558
Net trading income, including:	440 530	347 336
Foreign exchange result	*381 547*	*323 472*
Gains or losses on financial assets and liabilities held for trading	*50 788*	*30 571*
Gains or losses from hedge accounting	*8 195*	*(6 707)*
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	69 259	(160 041)
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates, including:	24 904	33 180
Gains less losses from debt securities measured at fair value through other comprehensive income	*34 995*	*16 465*
Gains less losses from investments in subsidiaries and associates	*(10 205)*	*14 651*
Gains less losses from derecognition	*114*	*2 064*
Other operating income	176 787	384 189
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(712 337)	(527 573)
Result on provisions for legal risk related to foreign currency loans	(387 786)	(20 349)
Overhead costs	(1 952 630)	(1 909 214)
Depreciation	(375 498)	(252 589)
Other operating expenses	(260 062)	(168 825)
Operating profit	**2 013 355**	**2 202 074**
Taxes on the Group balance sheet items	(458 658)	(415 425)
Profit before income tax	**1 554 697**	**1 786 649**
Income tax expense	(544 445)	(483 945)
Net profit	**1 010 252**	**1 302 704**
Net profit attributable to:		**-**
- Owners of mBank S.A.	1 010 350	1 302 786
- Non-controlling interests	(98)	(82)

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Consolidated prudentially statement of financial position

ASSETS	31.12.2019	31.12.2018 - restated
Cash and balances with the Central Bank	7 897 010	9 199 264
Financial assets held for trading and hedging derivatives	2 866 034	2 134 741
Non-trading financial assets mandatorily at fair value through profit or loss, including:	2 275 772	2 940 396
Equity instruments	*170 466*	*177 111*
Debt securities	*133 774*	*58 130*
Loans and advances to customers	*1 971 532*	*2 705 155*
Financial assets at fair value through other comprehensive income	22 773 921	24 338 284
Financial assets at amortised cost, including:	118 778 693	103 564 317
Debt securities	*11 234 873*	*9 000 539*
Loans and advances to banks	*4 341 723*	*2 546 346*
Loans and advances to customers	*103 202 097*	*92 017 432*
Non-current assets and disposal groups classified as held for sale	91 605	-
Intangible assets	955 440	776 175
Tangible assets	1 262 397	785 026
Current income tax assets	12 662	9 336
Deferred income tax assets	937 712	959 076
Other assets	956 928	1 123 938
TOTAL ASSETS	**158 808 174**	**145 830 553**
LIABILITIES AND EQUITY		
LIABILITIES		
Financial liabilities held for trading and hedging derivatives	948 764	981 117
Financial liabilities measured at amortised cost, including:	137 853 610	125 691 756
Amounts due to banks	*1 168 178*	*3 108 826*
Amounts due to customers	*116 750 072*	*102 059 184*
Debt securities issued	*17 435 143*	*18 049 583*
Subordinated liabilities	*2 500 217*	*2 474 163*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	136	-
Provisions	739 296	258 283
Current income tax liabilities	161 534	352 962
Deferred income tax liabilities	82	83
Other liabilities	2 951 447	3 375 145
TOTAL LIABILITIES	**142 654 869**	**130 659 346**
EQIUTY		
Equity attributable to Owners of mBank S.A.	**16 151 303**	**15 169 107**
Share capital:	**3 579 818**	**3 574 686**
- Registered share capital	169 401	169 348
- Share premium	3 410 417	3 405 338
Retained earnings:	**12 394 775**	**11 379 583**
- Profit from the previous years	11 384 425	10 076 797
- Profit for the current year	1 010 350	1 302 786
Other components of equity	**176 710**	**214 838**
Non-controlling interests	**2 002**	**2 100**
TOTAL EQUITY	**16 153 305**	**15 171 207**
TOTAL LIABILITIES AND EQUITY	**158 808 174**	**145 830 553**

45. Capital adequacy

One of the Bank's main tasks is to ensure an adequate level of capital. As part of the capital management policy of mBank Group, the Bank creates a framework and guidelines for the most effective planning and use of the capital base, which:

- are compliant with external and internal regulations in force,
- guarantee a continuity of financial targets achievement, which render an appropriate rate of return for shareholders,
- ensure the maintenance of a strong capital basis being a fundamental support for business development.

The capital management policy in mBank Group is based on two pillars:

- maintenance of an optimal level and structure of own funds with the application of available methods and means, like among others retention of net profit, subordinated loan or issue of shares,
- effective use of existing capital, among others through application of a set of measures of effective use of the capital, limitation of activities that do not provide an expected rate of return and development of products with lower capital absorption.

Effective use of capital is an integral part of the capital management policy oriented at reaching an optimal rate of return on capital and as a result forming a stable fundament of reinforcement of the capital basis in future periods. This enables to maintain the Common Equity Tier 1 capital ratio (calculated as a quotient of Common Equity Tier 1 capital to the total risk exposure amount), Tier 1 ratio (calculated as a quotient of Tier 1 capital to the total risk exposure amount) and the total capital ratio (calculated as a quotient of own funds and the total risk exposure amount) at the level higher than required by the supervision authority.

The strategic goals of mBank Group are aimed at maintaining the total capital ratio as well as the Common Equity Tier 1 capital ratio above the level required by the supervision authority. This allows to maintain business development while meeting the supervisory requirements in the long perspective.

Capital ratios

The adequacy assessment of the capital base, including among others: the calculation of capital ratios and the leverage ratio, the own funds, the total capital requirement in the mBank Group was made according to the following regulations:

- the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, with further ammendments (CRR Regulation);
- the Commission Implementing Regulation (EU) No 680/2014 of 16 April 2014 laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council with further amendments (ITS Regulation);
- the Banking Act of 29 August 1997 (Dz.U. from year 2002 No 72, item 665) with further amendments;
- the Act on Macro-prudential Supervision of the Financial System and Crisis Management of 5 August 2015 (Dz.U. 2015 item 1513);
- Regulation of the Minister of Development and Finance of 25 May 2017 on the application of higher risk weights to credit exposures secured by mortgages on real estate property,
- Regulation of the Minister of Development and Finance of 1 September 2017 regarding the systemic risk buffer.

The entities included in the scope of prudential consolidation according to the rules of the CRR Regulation are taken into account in the process of calculating consolidated own funds and the own funds requirements.

As a result of the Act on Macro-prudential Supervision over the Financial System and Crisis Management in the Financial System ("the Act") that entered into force in 2015 and transposed the CRD IV provisions to the Polish prudential regulations, as of 31 December 2019 the mBank Group is obliged to ensure adequate own funds to meet conservation capital buffer designated under the provisions of the Act of 2.5% of total risk exposure amount.

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As of the end of 2019 the countercyclical capital buffer rate set for relevant exposures in Poland according to the article 83 of the Act amounted to 0%. mBank Group specific countercyclical capital buffer calculated in accordance with the provisions of the Act as the weighted average of the countercyclical buffer rates that apply in the countries where the relevant credit exposures of the Group are located, amounted to 6 bps as of 31 December 2019. The value of the indicator was predominantly affected by the exposures of the mBank's foreign branches in the Czech Republic and Slovakia, where the countercyclical buffer rates at the end of 2019 were: 1.5% and 1.5%.

In 2016 the Bank received an administrative decision of the KNF that identified Bank as other systemically important institutions (O-SII). Bank was a subject to a capital buffer which on the basis of KNF administrative decision of 14 October 2019 amounted to 0.75% of the total risk exposure amount, calculated in accordance with article 92(3) of the CRR Regulation, to be maintained on individual and consolidated levels. The value of the buffer specified in the administrative decision applies as of 31 December 2019.

Starting from 1 January 2018 the Regulation of the Minister of Development and Finance with regard to systemic risk buffer entered into force. The Regulation introduced systemic risk buffer of 3% of the total risk exposure amount applied to all exposures located in Poland. Due to the fact that not all mBank Group's exposures are located in Poland, due to foreign branches in Czech Republic and in Slovakia, the systemic risk buffer rate applicable to the mBank Group amounted to 2.83% in December 2019.

Consequently, the all-in-one combined buffer requirement set for the mBank Group as of the end of 2019 amounted to 6.14% of the total risk exposure amount.

Additionally, as a result of risk assessment carried out in 2019 by the KNF within the supervisory review and evaluation process (BION), in particular with regard to the evaluation of the risk related to the portfolio of foreign exchange retail mortgage loans, the mBank Group received on the consolidated level an individual recommendation to maintain own funds to cover additional capital requirement of 3.11% for total capital ratio and 2.33% for Tier 1 capital ratio (on individual basis: 3.62% and 2.71% respectively). Additional capital requirement in Pillar II set by the KNF in 2019 encompasses also additional risk factors related to the FX mortgage loan portfolio such as operational risk, market risk or risk of collective default of borrowers.

The important component affecting an additional capital requirement within Pillar II related to the BION supervisory evaluation quantifying the risk of foreign exchange retail mortgage loans portfolio, where taking into account the specificity of the Bank portfolio, the following factors were taken into account:

- the share of loans with LTV >100% in the portfolio;
- the level of the Bank margin from the foreign exchange retail mortgage loans portfolio;
- sensitivity of the Bank's total capital ratio to exchange rates and interest rates changes;
- the Bank preparation for loan portfolio conversion.

Within 2019 capital ratios both on the individual and consolidated level were above the required values taking into account the components described above.

mBank Group	31.12.2019		31.12.2018	
Capital ratio	**Required level**	**Reported level**	**Required level**	**Reported level**
Total capital ratio	17.25%	19.46%	16.88%	20.69%
Tier 1 ratio	14.47%	16.51%	13.97%	17.47%

The consolidated leverage ratio calculated in accordance with the provisions of CRR Regulation and Commission Delegated Regulation (EU) 2015/62 of 10 October 2014, amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the leverage ratio, including transitional definition of Tier 1 capital, amounted to 8.25% at the end of 2019.

Own Funds

In accordance with the CRR Regulation, the consolidated own funds consist of consolidated Common Equity Tier 1 capital, consolidated Additional Tier 1 capital and consolidated Tier 2 capital, however items that could be treated as Additional Tier 1 capital are not identified in the Group.

Common Equity Tier 1 capital of mBank Group contains:

- paid up capital instruments and the related share premium accounts,
- previous years retained earnings,
- independently reviewed interim profits,
- accumulated other comprehensive income,
- other reserves,
- funds for general banking risk,
- items deducted from a Common Equity Tier 1 capital (fair value gains and losses arising from the institution's own credit risk related to derivative liabilities, value adjustments due to the requirements for prudent valuation, intangible assets, AIRB shortfall of credit risk adjustments to expected losses, own Tier 1 instruments, regulatory adjustments relating to accumulated other comprehensive income and net impairment losses).

Tier 2 capital of mBank Group contains capital instruments and the related share premium accounts (subordinated liabilities with specified maturity).

The consolidated own funds of mBank Group as of 31 December 2019 amounted to PLN 16 363 190 thousand. Additionally the consolidated Common Equity Tier 1 capital of mBank Group amounted to PLN 13 882 865 thousand.

Total risk exposure amount (TREA)

The total risk exposure amount of mBank Group contains:

- risk weighted exposure amounts for credit risk, counterparty credit risk, dilution risk and free deliveries,
- risk exposure amount for market risk, including position risk, foreign exchange risk and commodities risk,
- risk exposure amount for operational risk,
- risk exposure amount for credit valuation adjustment,
- other risk exposure amounts including supervisory floor.

As at 31 December 2019 the AIRB approach was applied to the calculation of own funds requirements for credit and counterparty credit risk for the following portfolios:

- mBank corporate portfolio,
- mBank retail mortgage loan portfolio,
- mBank real estate-related specialised lending exposures (IRB slotting approach),
- mBank retail non-mortgage exposures,
- mBank retail microenterprises mortgage loan portfolio (conditional consent),
- bank exposures (conditional consent),
- mLeasing S.A. credit exposure (conditional consent),
- mBank Hipoteczny SA specialized lending exposures (IRB slotting approach).

In case of portfolios with conditional consent to the application of AIRB approach, mBank Group applies supervisory floor, which means that where the own funds requirement for credit risk calculated under AIRB approach is lower than the own funds requirement for credit risk calculated under standardised approach, it is necessary to supplement it up to the level of the own funds requirement for credit risk calculated under standardised approach.

With regard to retail mortgage exposures (microenterprises) and portfolio of commercial bank exposures, high significance conditions specified by the banking supervision have been met, and the Group is waiting for formal confirmation by the banking supervision.

The total risk exposure amount of mBank Group as at 31 December 2019 amounted to PLN 84 105 802 thousand, including PLN 75 013 807 thousands of risk exposure amount for credit risk, counterparty credit risk and supervisory floor.

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Internal capital

The ICAAP (Internal Capital Adequacy Assessment Process) implemented in mBank Group aims at adjusting capital resources to the level and the risk profile arising from mBank Group’s operations.

These resources are at a safe level. In the regulatory approach, the value of the Group's own funds is significantly above the value required to cover the Group's total capital requirement determined pursuant to the CRR Regulation. Similarly, in the economic approach, capital resources in the form of risk coverage potential are significantly higher than the value of internal capital estimated for the Group pursuant to the Regulation of the Minister of Development and Finance of 6 March 2017 on the market management system and internal control system, remuneration policy and a detailed method for internal capital assessment.

The internal capital of mBank Group as at 31 December 2019 amounted to PLN 6 215 450 thousand.

Capital adequacy	31.12.2019	31.12.2018
Common Equity Tier 1 Capital	**13 882 865**	**13 317 233**
Total Own Funds	**16 363 190**	**15 771 383**
Risk weighted exposure amounts for credit, counterparty credit, dilution risk and free deliveries:	74 843 596	67 812 104
- including under standardised approach	19 972 726	15 812 102
- including under AIRB approach	54 868 396	51 998 405
- including risk exposure amount for contributions to the default fund of a CCP	2 474	1 597
Settlement / delivery risk exposure amount	-	-
Total risk exposure amount for position, foreign exchange and commodities risks	913 708	789 039
Total risk exposure amount for operational risks	7 993 942	7 245 932
Additional risk exposure amount due to fixed overheads	-	-
Total risk exposure amount for credit valuation adjustments	184 345	221 288
Total risk exposure amount for large exposures in the trading book	-	-
Other risk exposure amounts	170 211	171 170
Total risk exposure amount	**84 105 802**	**76 239 533**
Comon Equity Tier 1 capital ratio	**16.51%**	**17.47%**
Total capital ratio	**19.46%**	**20.69%**
Internal capital	**6 215 450**	**5 529 271**

OWN FUNDS	31.12.2019	31.12.2018
Own funds	**16 363 190**	**15 771 383**
TIER 1 CAPITAL	**13 882 865**	**13 317 233**
Common Equity Tier 1 Capital	**13 882 865**	**13 317 233**
Capital instruments eligible as CET1 Capital	3 579 747	3 574 636
Paid up capital instruments	169 330	169 330
Share premium	3 410 417	3 405 338
(-) Own CET1 instruments	-	(32)
Retained earnings	553 874	(473 639)
Previous years retained earnings	306 074	(965 478)
Profit or loss eligible	247 800	491 839
Accumulated other comprehensive income	176 710	214 838
Other reserves	9 924 598	9 919 730
Funds for general banking risk	1 153 753	1 153 753
Adjustments to CET1 due to prudential filters	(31 023)	(32 360)
Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	(2 166)	(2 101)
(-) Value adjustments due to the requirements for prudent valuation	(28 857)	(30 259)
(-) Intangible assets	(927 456)	(746 839)
(-) Other intangible assets gross amount	(955 440)	(776 175)
Deferred tax liabilities associated to other intangible assets	27 984	29 336
(-) IRB shortfall of credit risk adjustments to expected losses	(43 022)	(113 759)
Provision for cash flow hedging instruments	(119 142)	(83 643)
CET1 capital elements or deductions - other	(385 174)	(95 484)
Additional Tier 1 capital	**-**	**-**
TIER 1 CAPITAL	**2 480 325**	**2 454 150**
Capital instruments and subordinated loans eligible as T2 capital	2 480 325	2 454 150
Tier 2 capital elements or deductions - other	-	-
Transitional adjustments due to grandfathered T2 capital instruments and subordinated loans	-	-

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Credit risk	31.12.2019	31.12.2018
Risk weighted exposure amounts for credit risk, counterparty credit risk, dilution risk and free deliveries	**74 843 596**	**67 812 104**
Standardised approach	**19 972 726**	**15 812 102**
SA exposure classes excluding securitisation positions	19 972 726	15 812 102
Central governments or central banks	2 372 251	30 402
Regional governments or local authorities	84 303	130 188
Public sector entities	15 553	24 745
Multilateral Development Banks	-	-
International Organisations	-	-
Institutions	331 063	270 382
Corporates	9 595 404	8 939 675
Retail	2 357 298	1 924 644
Secured by mortgages on immovable property	4 178 342	3 841 191
Exposures in default	463 609	363 960
Items associated with particular high risk	100 699	52 059
Covered bonds	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-
Collective investments undertakings (CIU)	-	-
Equity	418 468	219 827
Other items	55 736	15 029
AIRB approach	**54 868 396**	**51 998 405**
AIRB approaches when neither own estimates of LGD nor Conversion Factors are used	-	-
AIRB approaches when own estimates of LGD and/or Conversion Factors are used	52 016 332	47 469 726
Central governments and central banks	-	-
Institutions	741 377	1 229 148
Corporates - SME	6 704 405	5 980 637
Corporates - Specialised Lending	6 799 726	6 029 173
Corporates - Other	18 152 484	16 652 554
Retail - Secured by real estate SME	1 002 315	901 557
Retail - Secured by real estate non-SME	5 295 297	5 436 764
Retail - Qualifying revolving	-	-
Retail - Other SME	4 257 821	3 785 492
Retail - Other non-SME	9 062 907	7 454 401
Equity AIRB	-	-
Securitisation positions IRB	-	-
Other non credit-obligation assets	2 852 064	4 528 679
Risk exposure amount for contributions to the default fund of a CCP	**2 474**	**1 597**

46. Other information

- 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.

47. Events after the balance sheet date

- Tax Capital Group of mBank

Since 1 January 2020 mBank S.A., mBank Hipoteczny S.A., mFinanse S.A. and mLeasing Sp. z. o o established, based on Corporate Income Tax Act, Tax Capital Group of mBank ("TCG"). According to the Corporate Income Tax Act, mBank – as a dominant entity – represents TCG with respect described by tax law. In a year preceding establishing the TCG, there was no tax losses in either of the entity that is a member of TCG. The TCG agreement has been concluded for 4 years.