mBank S.A. Group

IFRS Condensed Consolidated Financial Statements
for the first quarter of 2016

Contents

Selected financial data

The selected financial data are supplementary information to the condensed consolidated financial statements of mBank S.A. Group for the first quarter of 2016.

SELECTED FINANCIAL DATA FOR THE GROUP		in PLN'000		in EUR'000	
		1 Quarter of 2016 period from 01.01.2016 to 31.03.2016	1 Quarter of 2015 period from 01.01.2015 to 31.03.2015	1 Quarter of 2016 period from 01.01.2016 to 31.03.2016	1 Quarter of 2015 period from 01.01.2015 to 31.03.2015
I.	Interest income	945 483	912 286	217 058	219 886
II.	Fee and commission income	351 910	314 527	80 789	75 810
III.	Net trading income	84 087	102 618	19 304	24 734
IV.	Operating profit	459 611	566 225	105 515	136 476
V.	Profit before income tax	402 309	565 318	92 360	136 257
VI.	Net profit attributable to Owners of mBank S.A.	307 782	450 936	70 659	108 688
VII.	Net profit attributable to non-controlling interests	1 723	1 408	396	339
VIII.	Net cash flows from operating activities	5 771	(2 175 637)	1 325	(524 389)
IX.	Net cash flows from investing activities	(74 785)	348 792	(17 169)	84 069
X.	Net cash flows from financing activities	377 725	2 131 401	86 716	513 727
XI.	Net increase / decrease in cash and cash equivalents	308 711	304 556	70 872	73 406
XII.	Basic earnings per share (in PLN/EUR)	7.29	10.68	1.67	2.57
XIII.	Diluted earnings per share (in PLN/EUR)	7.28	10.67	1.67	2.57
XIV.	Declared or paid dividend per share (in PLN/EUR)	-	-	-	-

SELECTED FINANCIAL DATA FOR THE GROUP		in PLN'000			in EUR'000		
		As at			As at		
		31.03.2016	31.12.2015	31.03.2015	31.03.2016	31.12.2015	31.03.2015
I.	Total assets	123 268 380	123 523 021	123 293 888	28 879 294	28 985 808	30 152 577
II.	Amounts due to the Central Bank	2	-	1	0	-	0
III.	Amounts due to other banks	10 972 444	12 019 331	17 839 428	2 570 622	2 820 446	4 362 785
IV.	Amounts due to customers	81 133 851	81 140 866	71 861 014	19 008 024	19 040 447	17 574 227
V.	Equity attributable to Owners of mBank S.A.	12 593 056	12 242 346	11 568 718	2 950 299	2 872 779	2 829 229
VI.	Non-controlling interests	34 341	32 618	31 146	8 045	7 654	7 617
VII.	Share capital	168 956	168 956	168 841	39 583	39 647	41 292
VIII.	Number of shares	42 238 924	42 238 924	42 210 157	42 238 924	42 238 924	42 210 157
IX.	Book value per share (in PLN/EUR)	298.14	289.84	274.07	69.85	68.01	67.03
X.	Total capital ratio	19.01	17.25	16.26	19.01	17.25	16.26

SELECTED FINANCIAL DATA FOR THE BANK		in PLN'000		in EUR'000	
		1st Quarter of 2016 period from 01.01.2016 to 31.03.2016	1st Quarter of 2015 period from 01.01.2015 to 31.03.2015	1st Quarter of 2016 period from 01.01.2016 to 31.03.2016	1st Quarter of 2015 period from 01.01.2015 to 31.03.2015
I.	Interest income	829 391	828 749	190 406	199 752
II.	Fee and commission income	270 447	268 733	62 088	64 772
III.	Net trading income	85 801	101 759	19 698	24 527
IV.	Operating profit	379 985	483 074	87 235	116 434
V.	Profit before income tax	377 512	546 739	86 667	131 779
VI.	Net profit	303 491	450 309	69 674	108 537
VII.	Net cash flows from operating activities	135 538	(399 751)	31 116	(96 351)
VIII.	Net cash flows from investing activities	(35 847)	144 841	(8 230)	34 911
IX.	Net cash flows from financing activities	(136 133)	346 999	(31 253)	83 636
X.	Net increase / decrease in cash and cash equivalents	(36 442)	92 089	(8 366)	22 196
XI.	Basic earnings per share (in PLN/EUR)	7.19	10.67	1.65	2.57
XII.	Diluted earnings per share (in PLN/EUR)	7.18	10.66	1.65	2.57
XIII.	Declared or paid dividend per share (in PLN/EUR)	-	-	-	-

SELECTED FINANCIAL DATA FOR THE BANK		in PLN'000			in EUR'000		
		As at			As at		
		31.03.2016	31.12.2015	31.03.2015	31.03.2016	31.12.2015	31.03.2015
I.	Total assets	117 966 145	119 115 370	119 919 032	27 637 088	27 951 512	29 327 227
II.	Amounts due to the Central Bank	2	-	1	0	-	0
III.	Amounts due to other banks	10 993 402	12 183 191	17 768 840	2 575 532	2 858 897	4 345 522
IV.	Amounts due to customers	85 904 281	85 924 151	78 941 341	20 125 640	20 162 889	19 305 782
V.	Own equity	12 583 015	12 242 347	11 567 825	2 947 947	2 872 779	2 829 011
VI.	Share capital	168 956	168 956	168 841	39 583	39 647	41 292
VII.	Number of shares	42 238 924	42 238 924	42 210 157	42 238 924	42 238 924	42 210 157
VIII.	Book value per share (in PLN/EUR)	297.90	289.84	274.05	69.79	68.01	67.02
IX.	Total capital ratio	22.58	20.18	18.41	22.58	20.18	18.41

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

- for items of the statement of financial position – exchange rate announced by the National Bank of Poland as at 31 March 2016: EUR 1 = 4.2684, 31 December 2015: EUR 1 = PLN 4.2615 and 31 March 2015: EUR 1 = PLN 4.0890.

- for items of the income statement – exchange rate calculated as the arithmetic mean of exchange rates announced by the National Bank of Poland as at the end of each month of the first quarter of 2016 and 2015: EUR 1 = PLN 4.3559 and EUR 1 = PLN 4.1489 respectively.

Introduction

In Q1 2016, mBank Group continued to face challenging market conditions, including record-low interest rates and significantly reduced interchange fees for card transactions. In addition, the Group's financial results were adversely affected by the so called bank tax introduced from February 2016. mBank Group's income fell quarter on quarter, mainly due to the one-off event from the previous quarter, i.e. the booking of additional income of PLN 125 million related to the sale of a block of shares in PZU. The Group posted a quarter-on-quarter drop in income from core activities with an almost unchanged net interest income and a lower net fee and commission income.

mBank Group generated a profit before tax of PLN 402.3 million in Q1 2016, which represents an increase by 13.0% compared to Q4 2015. Net profit attributable to the owners of mBank fell by 0.6% quarter on quarter and stood at PLN 307.8 million.

The main factors determining the Group's financial results in Q1 2016 were as follows:

- **Decreased income,** at PLN 1,008.9 million, down by 9.1% vs. Q4 2015, mainly due to one-off revenues recorded in Q4 2015. Net interest income was nearly as high as in Q4 2015. Net commission income went down by PLN 25.7 million or 10.8% compared to Q4 2015. Net trading income rose by PLN 13.2 million or 18.6% quarter on quarter.

- **Decrease in operating expenses** (including amortisation) by 26.2% quarter on quarter to PLN 480.8 million driven mainly by lower impact of one-off events (Q4 2015 costs included mBank's and mBank Hipoteczny's contributions related to the payment of guaranteed funds to the deposit holders of Spółdzielczy Bank Rzemiosła i Rolnictwa w Wołominie in the amount of PLN 141.7 million and the provision for the contribution to the Borrowers Support Fund of PLN 52.1 million).

- **Net impairment losses on loans and advances** decreased to PLN 68.5 million thanks to the release of provisions on several corporate exposures. Consequently, the cost of risk reached 35 basis points in Q1 2016, compared to 52 basis points a quarter earlier.

- **Continued organic growth and business expansion** as demonstrated by:

    - **increase in the retail customer base** to 5,037 thousand (+90 thousand customers quarter on quarter);

    - **increase in the number of corporate clients** to 19,992 clients (+430 clients quarter on quarter).

At the end of Q1 2016 net loans and advances to clients stood at PLN 77,940.8 million and decreased by PLN 492.8 million, i.e. 0.6% quarter on quarter (excluding reverse repo / buy-sell-back transactions and the FX effect, the volume of net loans and advances increased by 0.9%).

The volume of customer deposits remained almost unchanged at PLN 81,133.9 million with amounts due to individuals rising by 3.7% in the analysed period and amounts due to corporate clients going down by 5.2% quarter on quarter.

As a result of the above changes, the loan to deposit ratio of mBank Group amounted to 96.1%, the lowest level in the entire history of the Bank.

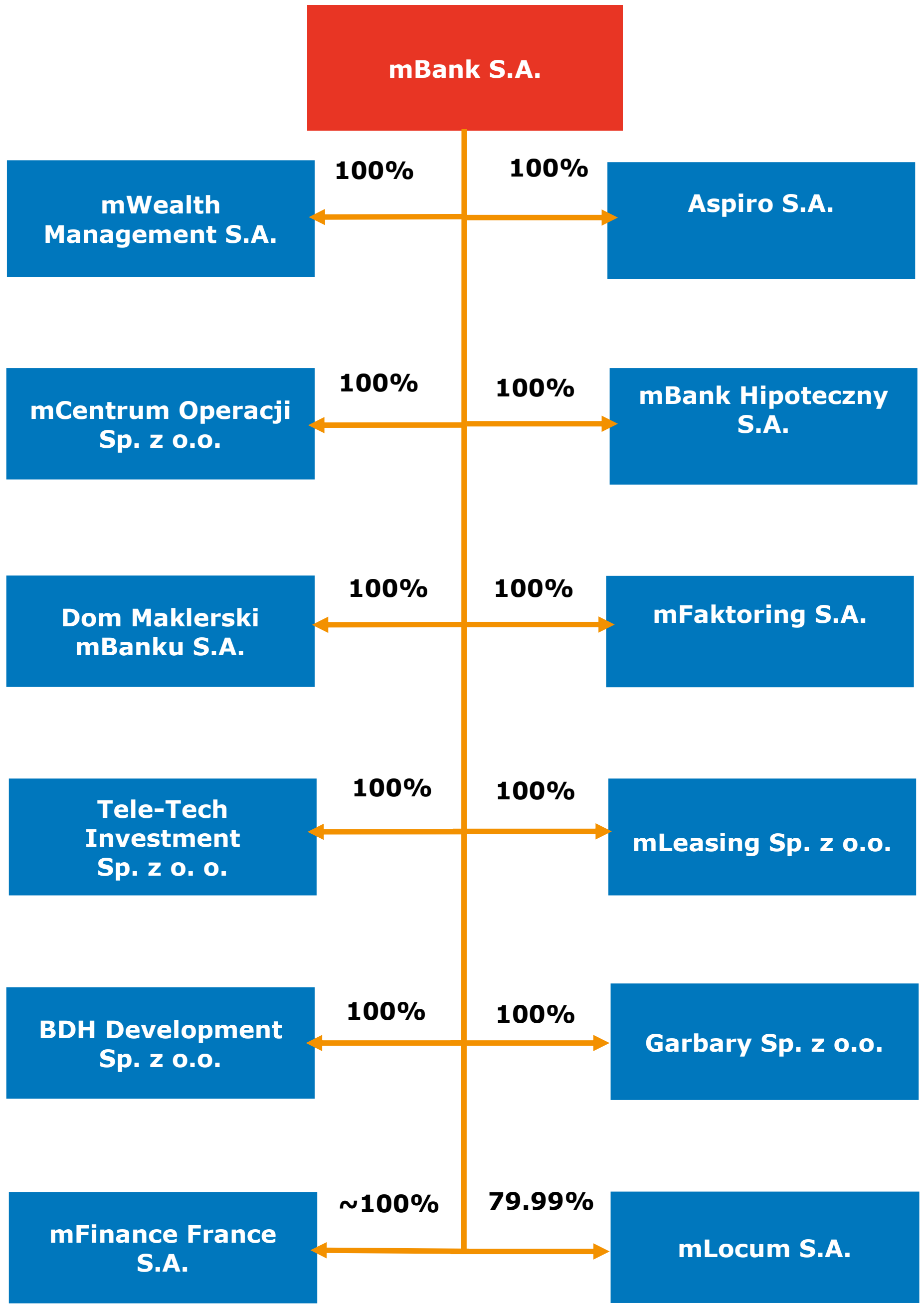
The changes in the Group's results translated into the following profitability ratios:

- Gross ROE of 13.2% (compared to 14.7% in 2015);
- Net ROE of 10.1% (compared to 11.6% in 2015).

mBank Group's capital ratios improved after inclusion of 2015 net profit into Tier 1 capital. The total capital ratio stood at 19.0% and the Core Tier 1 ratio at 16.2% at the end of March 2016.

Composition of mBank Group

The composition of mBank Group as of 31 March 2016 was as follows:



Changes in the rating of mBank S.A.

Standard & Poor's Ratings Services (S&P)

On February 3, 2016 S&P confirmed the rating for mBank at the current level, i.e. "BBB" for long-term counterparty credit rating and "A2" for short-term counterparty credit rating, downgrading the rating outlook from stable to negative as a result of change in the risk perspective for the banking sector to negative. In the opinion of S&P the capacity of the banking sector to absorb losses and its resistance to turbulence may decrease in the following two years. According to S&P the operating conditions for Polish banks will be difficult owing to the introduction of bank tax, growing regulatory costs, as well as potential costs associated with the considered conversion of foreign currency loans, which will increase the pressure on the profitability of the banking sector in the low interest rates environment. The agency decided that in such a situation mBank's ability to generate income may not compensate for the potential decrease in the assessment of Commerzbank's support for mBank in the case when Commerzbank's rating is downgraded.

On March 11, 2016 S&P upgraded the rating outlook for mBank from negative to stable in connection with a similar change in Commerzbank AG's rating outlook.

According to S&P, mBank's current rating is as follows: long-term counterparty credit rating "BBB" and short-term counterparty credit rating "A2", stand-alone credit profile (SCAP) "bbb-", long-term rating outlook - stable.

Fitch Ratings (Fitch)

On March 7, 2016 Fitch Ratings agency upgraded mBank's long-term rating for foreign currency from "BBB-" to "BBB" and a short-term foreign currency IDR from "F3" to "F2". Long-term rating outlook is stable. Improvement in mBank's rating was connected with upgrading the long-term rating for Commerzbank from "BBB" to "BBB+". In the opinion of Fitch agency, support for mBank from Commerzbank is highly probable, if needed.

According to Fitch, mBank's current rating is as follows: long-term rating "BBB" and short-term rating "F2", viability rating "bbb-", support rating "2", long-term rating outlook - stable.

Changes in the Management Board and the Supervisory Board of mBank

On April 12, 2016 Mr. Joerg Hessenmueller informed about his resignation from the position of Member of the Management Board, Vice-President of the Management Board of mBank S.A, Chief Financial Officer as of June 30, 2016. The reason behind Mr. Joerg Hessenmueller's resignation is the fact that he will take over new responsibilities in Commerzbank Group. As at the beginning of July Mr. Joerg Hessenmueller will assume the position of Head of Group Strategy and Development in Commerzbank Group.

In March 2016, Mr. Martin Blessing, Member of the Supervisory Board and the Executive Committee of the Supervisory Board resigned from his position as of April 30, 2016.

On March 24, 2016 Mr. Michael Mandel was appointed member of the Bank's Supervisory Board as of May 1, 2016 until the end of the current term of the Supervisory Board, taking the place of the outgoing Mr. Martin Blessing.

Since 2010 Mr. Michael Mandel has held the Executive position for Private Clients in Commerzbank AG. Starting from May 2016 Mr. Michael Mandel will take over the position of a Member of the Management Board at Commerzbank AG responsible for the private clients segment.

Awards and distinctions

Q1 2016 was yet another period when mBank Group was appreciated by both market participants and domestic and foreign experts in a number of prestigious contests.

Euromoney statuette for mBank Private Banking

For the eighth time **private banking of mBank was ranked the best in Poland by Euromoney Magazine**, a prestigious British financial magazine. During a formal gala in London, mBank has been also appreciated in additional six subcategories including best specialist services for the affluent clients, asset management and intergenerational succession.

In January **Private Banking of mBank** has been again - for the fifth time- **granted a highest 5 star distinction from Forbes Magazine**. Authors of the ranking awarded the bank for setting high private banking standards in Poland, broad, customized offer and the development of mobile banking.

mBank unrivalled on Mobile Trends Awards 2015

The Mobile Trends Awards Gala is one of the most important events in the mobile industry in Poland. It is an occasion to honor the best firms and projects of the previous year. mBank's mobile application was awarded with two statuettes gaining: 1st place in the **Mobile Banking category** (jury verdict), 1st place in the **special award of Mobile Trends Awards category** (Internet users votes). **Mobile mTransfer** gained another two awards: 1st place in the Company supporting popularization of mobile techniques and technologies category (jury verdict), 2nd in the special award Mobile Trends Awards (Internet users votes).

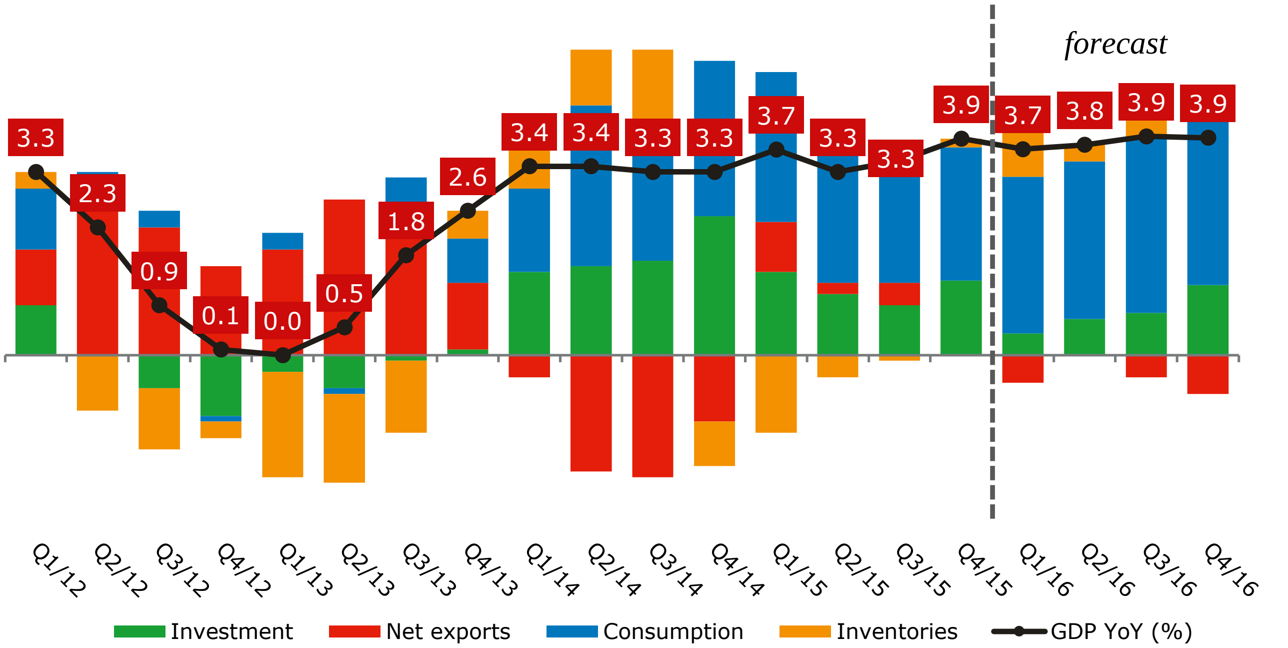
mBank the Best Trade Finance Bank in Poland

mBank honored by Global Finance with the Best Trade Finance Bank in Poland 2016 award as a part of another edition of the annual competition. The award is granted in the following categories: Country Winners, Regional Winners and Global Winners. Among assessed fields were: realized trade finance volumes, complexity and innovativness of the product offering, competences, and transactional experience as well as a scale of conducted business.

Macroeconomic environment in Q1 2016

Strong growth continues in a turbulent environment

In the first three months of the year the Polish economy continued its growth momentum. Based on high frequency data, the Bank estimates that economic growth in Q1 stood at about 3.5-3.6% and was only slightly below the 3.9% reported in Q4 2015. The Bank forecasts that the Polish economy will continue to grow at this robust pace in the following months.



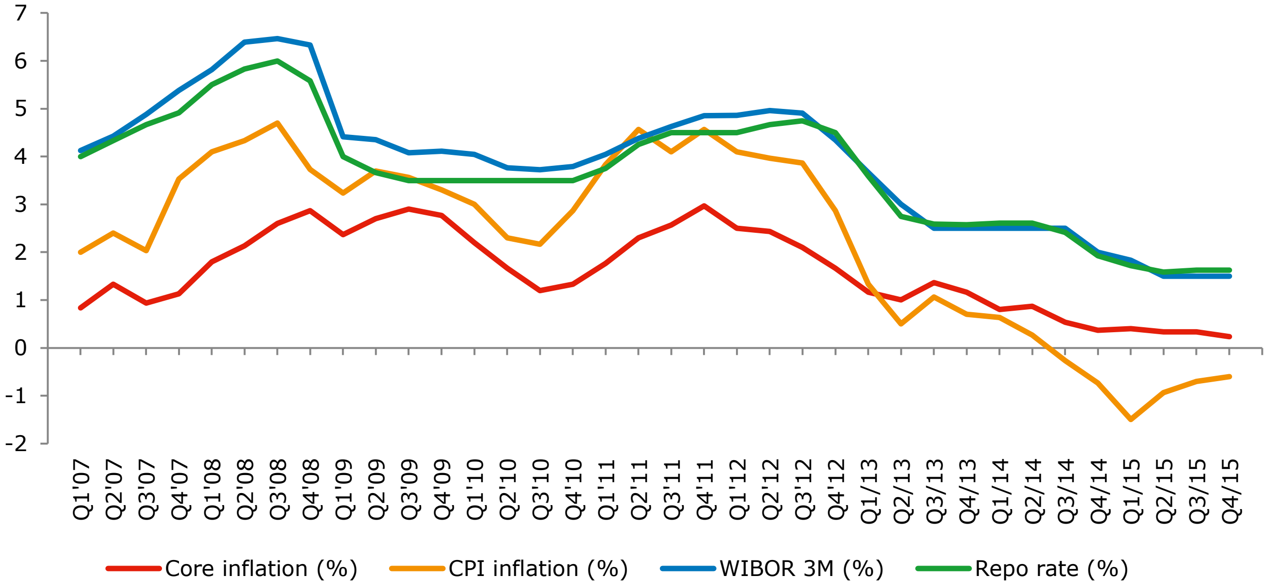
Although the overall picture of the economy and its mid-term outlooks remained unchanged at the beginning of the year, the structure of economic growth (as expected by the Bank) has started to show the first signs of private consumption taking the place of investments as the largest contributor.

First, Q1 most likely brought a distinct slowdown in gross fixed capital formation, driven mainly by a decrease in construction investments (construction and assembly production tumbled by nearly 10% year on year) and reduced spending on transport vehicles. In the Bank's opinion, the slowdown is connected with the fact that the disbursement of the EU structural funds for 2007-2013 has ended and the spending of the budget allocated for 2014-2020 is starting slowly. Consequently, 2016 will see a significant fall in public investments (mainly railway investments and investments of local governments, which may plunge by as much as 30%), which will not be offset by private investments.

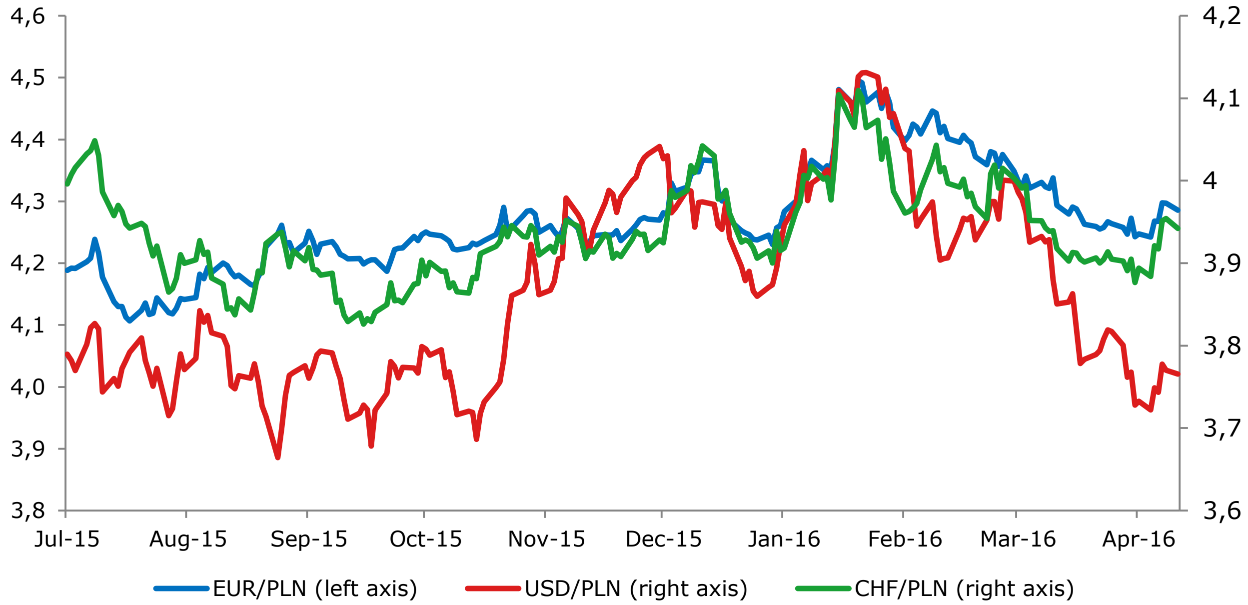
Second, in all likelihood private consumption accelerated in Q1 2016, driven by higher growth in salaries (result of labour market tightening) and the so-called consumption smoothing effect observed in households. In the Bank's opinion, households anticipate the payments of social benefits under the "500 plus" governmental programme, which started in April. Organisational success of the programme and efficient spending will make further acceleration in consumption driven by higher social benefits more likely.

Third, the weaker zloty in Q4 2015 and in early 2016 was highly supportive to exporters, and consequently, to GDP. Given the scale of this support, in accordance with the up-to-date estimates of the National Bank of Poland (NBP) it should increase the pace of economic growth by 0.2-0.3 percentage points. As a result, trade surplus is expected to hold up longer and be higher than forecast, while net export is predicted to increase its contribution to GDP growth.

Once again strong economic growth did not manage to disturb the deflationary equilibrium in the Polish economy: in Q1 inflation remained deep into negative territory with the main factor supporting this equilibrium being another wave of falling oil prices. The latter had been driving fuel prices down until the end of February. Lower inflation was also helped by further price drops in base categories: excluding food and energy prices, inflation fell below zero for the first time since 2006 to reach -0.3% year on year in March 2016. In these circumstances, as far as monetary policy is concerned, the Monetary Policy Council (MPC) kept a neutral bias. The new members who joined the Council in Q1 2016 did not bring about any major change in MPC's rhetoric. The Bank expects that low inflation, low interest rates environment and the possibility to reduce debt servicing costs will encourage MPC to cut interest rates this year and include unconventional instruments in its arsenal (following the example of the Hungarian central bank).



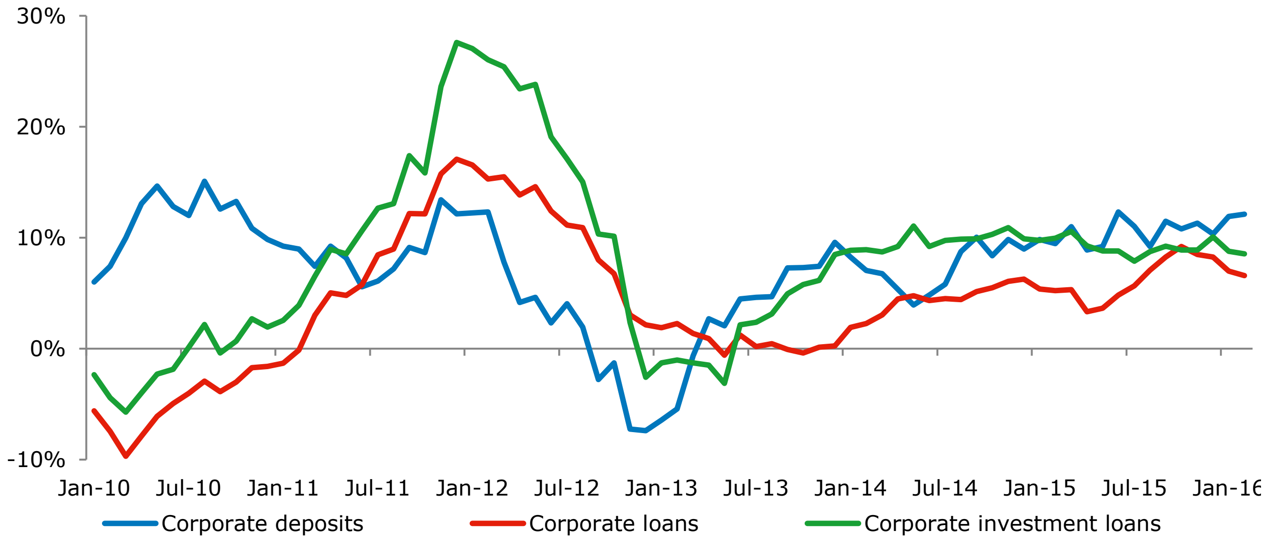
In the first half of Q1 2016 financial markets experienced high turbulence and a sharp rise in volatility, followed by weeks of recovery. The zloty had been getting stronger since the beginning of 2016 to reach a culminating point on January 15 when Poland's rating was downgraded by Standard and Poor's. Other factors adversely affecting the zloty include the prospective monetary tightening in the United States, rising risk aversion in global markets driven by another wave of falling prices of raw materials, and the uncertainty surrounding the shape and consequences of the act on foreign currency loans. The PLN exchange rate against major currencies deteriorated on January 20, 2016 when EUR 1 cost PLN 4.51 and USD 1 - PLN 4.14. February and March saw a recovery on the foreign currency market: the Polish currency was helped by both reduced domestic risks as well as favourable macroeconomic and market environment supported by coordinated intervention of the main central banks. Consequently, at the end of March EUR 1 was worth about PLN 4.25.



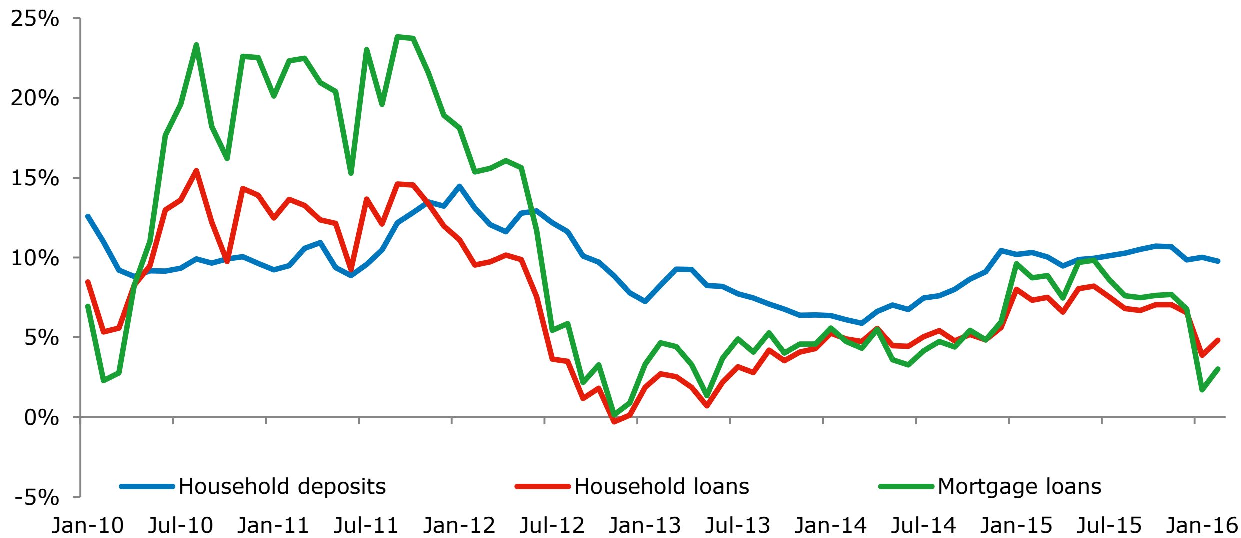
The aforesaid turbulence affected the T-bonds market as well. Just like in the foreign currency market, the rating downgrade marked the culminating point for the yields on T-bonds: yields on DS0725-series bonds surged by more than 20 basis points (from 2.99 to more than 3.20). Over the following weeks the market bounced back slowly and the risk premium on Polish bonds fell (measured as a difference with IRS yields or yields on German bonds with comparable maturities). Undoubtedly, the introduction of bank tax was a major event on the T-bonds market - the exemption of T-bonds and partial taxation of NBP money bills set off an increase of banks' demand for short-term government securities. This way, the domestic banking sector bridged the gap left by foreign investors who sold their bond holdings at the beginning of the year.

Banking sector and monetary aggregates

In Q1 2016 the growth in household deposits and loans remained largely unchanged compared with the previous months. Retail deposits rose by 9.3% on average (by 9.4% in Q4 2015), driven by strong growth in the nominal income of households and lack of alternative investments (due to low profitability of shares, low interest rates fail to encourage an outflow of funds from deposits). At the same time, growth in loans to households remained moderate: excluding seasonal factors, the average growth stood at approximately 4% for the third consecutive quarter. The stabilisation of growth in loans to households was helped by both increasingly restrictive credit policy pursued by banks and the Polish Financial Supervision Authority (applicable to housing loans) and low demand for consumer loans on the eve of launching the "500 plus" programme (which will improve the creditworthiness of households).



In the corporate area there was a slight slowdown in deposits coupled with continued strong growth in loans to corporate clients. The inflow of deposits was supported by healthy financial results posted by corporate clients (undoubtedly helped by the strong zloty). In turn, corporate loans were on the rise across all main categories, especially investment loans, which may be a sign that there is no major slowdown in investment activity of companies and that lending is insensitive to the introduction of bank tax.



Changes in recommendations of the Polish Financial Supervision Authority (KNF) and legal regulations concerning banks

Act on Tax on Certain Financial Institutions

On February 1, 2016 the Act on Tax on Certain Financial Institutions introducing the so-called bank tax entered into force. The new levy has been imposed on domestic banks, branches of foreign banks, branches of credit institutions, cooperative savings and credit unions, domestic insurance and reinsurance companies, branches and main branches of foreign insurance and reinsurance companies, and lending institutions. Banks are now obliged to pay a monthly tax (0.0366% per month or 0.4400% per annum) calculated at the end of every month on the basis of the value of their total assets in excess of PLN 4 billion reduced by the value of own funds and Treasury securities.

Act on Macroprudential Supervision over the Financial System and Crisis Management in the Financial System

The Act entered into force on November 1, 2015, but its provisions on mandatory capital buffers (among them a security buffer of 1.25%) and restrictions on dividend payouts took effect on January 1, 2016. Institutions' ability to pay out dividends and variable components of remuneration will be determined by the amount of own funds they hold in accordance with the procedure set forth in the Act.

Act on the Bank Guarantee Fund

On March 23, 2016 the Act of March 11 amending the Act on the Bank Guarantee Fund in the scope of, among others, banks' mandatory contributions to BFG entered into force. The one-off annual contribution has been replaced by quarterly payments. The amendment authorises banks to recognise the contributions as costs by spreading them over time on a pro rata basis instead of recognising a one-off charge in the first quarter.

Act on Assistance to Home Loan Borrowers in a Difficult Financial Situation

The Act on Assistance to Borrowers in a Difficult Financial Situation entered into force on February 19, 2016. The borrowers meeting specific criteria can apply for interest-free support in repaying their housing loans until December 31, 2018. The monthly payment of up to PLN 1,500, covering principal and interest instalments, will be transferred by BGK directly to the account of the bank that granted the loan over a period of up to 18 months. The repayment of the support should be completed within 8 years and start 2 years after the last support instalment was paid.

The support will be paid from the Borrowers Assistance Fund with an initial value of PLN 600 million, financed by payments made by lenders proportionally to their share in the housing loans for households which are 90 days or more past due. If the value of the Fund falls below PLN 100 million, banks will be obliged to make additional payments in proportion to the amount of support already provided to the clients of a given lender in order to bring the value of the Fund back to the level of at least PLN 300 million.

Amendments to KNF's Recommendation K concerning the principles of banks' maintenance of registers of security for covered bonds

KNF's resolution on Recommendation K entered into force on March 1, 2016. The Recommendation provides for qualitative guidelines with regard to registers of security for covered bonds. The aim of the amendments is to adjust the recommendation to the new legal environment created by the amendments to the Act on Covered Bonds and Mortgage Banks which became law on January 1, 2016. The Act should make the purchase of and trading in covered bonds more secure and thus indirectly facilitate the development of the Polish mortgage lending sector.

"Anti-usury Act" - Act on Amending the Act on Financial Market Supervision and Certain Other Acts

On March 11, 2016 the Act of August 5, 2015 providing customers with a higher level of protection against unfair provisions of contracts concluded with lenders entered into force. To accomplish this aim, the Act provides for a maximum amount of non-interest costs, i.e. total costs a customer must pay under a consumer credit agreement aside from interest. The maximum amount of such costs must not exceed the total amount of the loan. In addition, the Act has capped the amounts of fees and interest on overdue debt.

Restructuring Law

On January 1, 2016 the regulations stipulated in the Restructuring Law Act of May 15, 2015 took effect (except for the transitional provisions specified in the Act). The Act should facilitate effective restructuring of debtors and prevent them from being wound down by way of a composition with creditors or with the help of restructuring measures, as far as such are available. The Act provides also for a number of amendments to other regulations, including the Bankruptcy and Restructuring Law, by changing the classification of receivables that may be repaid with assets belonging to the bankruptcy estate.

Act on Capital Market Supervision

The provisions of the Act of June 12, 2015 on Amendments to the Act on Capital Market Supervision and Certain Other Acts entered into force on January 1, 2016, introducing changes to the system of financing the supervision. All entities operating on the capital market have been obliged to pay annual fees for the supervision. This has changed the size of charges that were earlier incurred only by selected market participants.

Moreover, legislative works on a number of other regulatory proposals which will materially affect the functioning of banks are underway. The proposals include amendments to the Act on the Bank Guarantee Fund, Deposit Guarantee Scheme and Resolution which aims at transposing Directive EU 2014/59 establishing a framework for recovery and resolution and Directive EU 2014/49 on deposit guarantee schemes, as well as the bill on the manners of restoring the equality of parties to certain credit agreements regarding FX denominated and indexed loans.

Financial position of mBank Group in Q1 2016

Profit and Loss Account of mBank Group

mBank Group generated a profit before tax of PLN 402.3 million in Q1 2016, which represents an increase by 13.0% compared to Q4 2015. Net profit attributable to the owners of mBank fell by 0.6% quarter on quarter and stood at PLN 307.8 million.

PLN M	Q1 2015	Q4 2015	Q1 2016	QoQ	YoY
Interest income	912.3	960.3	945.5	-1.5%	3.6%
Interest expense	-324.8	-283.7	-269.1	-5.2%	-17.2%
Net interest income	**587.4**	**676.6**	**676.4**	**0.0%**	**15.1%**
Fee and commission income	314.5	382.0	351.9	-7.9%	11.9%
Fee and commission expense	-120.7	-144.6	-140.2	-3.1%	16.2%
Net fee and commission income	**193.9**	**237.4**	**211.7**	**-10.8%**	**9.2%**
Dividend income	0.0	0.0	0.0	-	-
Net trading income	102.6	70.9	84.1	18.6%	-18.1%
Gains less losses from investment securities, investments in subsidiaries and associates	195.0	127.4	3.4	+/-	+/-
The share in profits (losses) of investments in joint ventures	0.0	-0.1	0.0	-0.4	-
Other operating income	88.7	51.4	94.1	83.1%	6.1%
Other operating expenses	-49.5	-53.2	-60.8	14.3%	22.9%
Total income	**1,118.1**	**1,110.5**	**1,008.9**	**-9.1%**	**-9.8%**
Net impairment losses on loans and advances	-100.0	-102.6	-68.5	-33.2%	-31.5%
Overhead costs and amortization	-451.9	-651.0	-480.8	-26.1%	6.4%
Taxes on bank balance sheet items	-0.9	-0.9	-57.3	6041.7%	6217.8%
Profit before income tax	**565.3**	**356.0**	**402.3**	**13.0%**	**-28.8%**
Income tax expense	-113.0	-46.6	-92.8	99.1%	-17.9%
Net profit attributable to:	**452.3**	**309.4**	**309.5**	**0.0%**	**-31.6%**
- Owners of mBank S.A.	**450.9**	**309.5**	**307.8**	**-0.6%**	**-31.7%**
- Non-controlling interests	1.4	-0.1	1.7	-1478.4%	22.4%
ROA net	1.5%	1.0%	1.0%		
ROE gross	20.6%	14.7%	13.2%		
ROE net	16.4%	11.8%	10.1%		
Cost / Income ratio	40.4%	50.1%	47.7%		
Net interest margin	2.1%	2.1%	2.3%		
Common Equity Tier 1 ratio	12.9%	14.3%	16.2%		
Total capital ratio	16.3%	17.3%	19.0%		

Income of mBank Group

In Q1 2016, total income generated by mBank Group amounted to PLN 1,008.9 million, which was lower by 9.1% than in Q4 2015.

Net interest income remained mBank Group's largest revenue source. It stood at PLN 676.4 million and remained almost unchanged quarter on quarter.

Interest income in Q1 2016 decreased by PLN 14.8 million, i.e., 1.5% quarter on quarter and stood at PLN 945.5 million. Loans and advances remained the main source of interest income with a share of 70.2%. This income category stood at PLN 663.3 million, which represents a drop by PLN 9.9 million (-1.5%) quarter on quarter. This drop is attributable mainly to a smaller number of days in the quarter.

Interest expenses decreased by 14.6 million, i.e., 5.2% quarter on quarter and stood at PLN 269.1 million. In Q1 2016, interest expenses paid to clients decreased by PLN 9.8 million, i.e., 5.4%, which results from lower interest rates paid on client deposits and a smaller number of days in the quarter. The second largest category of interest expenses was issuance of debt securities, which fell by PLN 1.2 million, i.e. 2.1%, to PLN 56.9 million. Interest expenses paid to banks decreased by PLN 1.2 million (-5.9%).

Net interest margin of mBank increased to 2.3% in Q1 2016 from 2.1% in 2015 and 2.2% in Q4 2015.

Net fee and commission income in Q1 2016 was lower by PLN 25.7 million, i.e. 10.8% quarter on quarter, and amounted to PLN 211.7 million.

Fee and commission income in Q1 2016 decreased by PLN 30.1 million, i.e. 7.9% quarter on quarter, and stood at PLN 351.9 million. The highest decrease was reported in credit-related fees and commissions, which dropped by PLN 10.0 million, i.e. 12.7%. It results from a decrease in the sales of loans, mainly to corporate clients. Lower activity of clients and the lack of IPO transactions were the main cause of the decrease in income from brokerage activity by PLN 4.7 million (15.4%). Payment card-related fees, the largest item of the fee and commission income, decreased by PLN 3.4 million, i.e. 3.7% (the number of retail non-cash transactions remained almost unchanged quarter on quarter, while the total value of retail transactions dropped by 5.2%). Finally the commissions for agency service regarding sale of products of external financial entities dropped by PLN 4.3 million, i.e. 14.7%.

Fee and commission expenses in Q1 2016 amounted to PLN 140.2 million, which represents a decrease by PLN 4.5 million, i.e. 3.1% quarter on quarter, mainly due to a decrease in commissions from cash services.

In Q1 2016, similarly to the previous quarter, mBank generated no **dividend income**.

Net trading income in the discussed period amounted to PLN 84.1 million, up by PLN 13.2 million, i.e. 18.6% quarter on quarter. The growth in net trading income results mainly from an increase in other trading income to PLN 12.3 million from PLN -5.3 million in Q4 2015. Foreign exchange result stood at PLN 71.8 million and decreased by PLN 4.4 million.

Gains less losses on investment securities and on investments in subsidiaries and associates stood at PLN 3.4 million, compared to PLN 127.4 million in Q4 2015. A result of Q4 2015 was driven by the result from the sale of PZU shares amounting to PLN 125 million.

Net other operating income (other operating income net of other operating expenses) increased in Q1 2016 up to PLN 33.3 million, compared to PLN -1.8 million in Q4 2015, which is explained mainly by an increase in apartment sales by mLocum and the sale of a portfolio of non-performing receivables.

Costs of mBank Group

In Q1 2016, total overhead costs of mBank Group (including amortisation) stood at PLN 480.8 million, which represents a decrease by 26.2% quarter on quarter. This resulted mainly from the lower impact of one-off events (Q4 2015 costs included mBank's and mBank Hipoteczny's contributions related to the payment of guaranteed funds to the deposit holders of Spółdzielczy Bank Rzemiosła i Rolnictwa w Wołominie in the amount of PLN 141.7 million and the provision for the contribution to the Borrowers Support Fund of PLN 52.1 million).

PLN M	Q1 2015	Q4 2015	Q1 2016	QoQ change	YoY change
Staff-related expenses	208.6	210.6	217.9	3.4%	4.4%
Material costs, including	151.4	155.1	160.9	3.7%	6.2%
- logistic costs	83.5	86.6	86.3	1.4%	3.4%
- IT costs	27.9	24.4	32.2	23.5%	15.5%
- marketing costs	25.4	29.4	27.8	-5.5%	9.5%
- consulting services costs	12.0	11.9	12.0	1.1%	-0.5%
- other material costs	2.7	2.8	2.6	1.2%	-2.8%
Taxes and fees	8.9	54.7	9.4	-83.1%	5.4%
Contributions and transfer to the Bank Guarantee Fund	34.1	175.8	37.1	-78.9%	8.9%
Contributions to the Social Benefits Fund	1.7	1.6	1.7	8.4%	0.2%
Other	0.0	0.0	0.0	-	-
Amortization	47.1	53.1	53.7	1.1%	14.0%
Total overhead costs and amortization	**451.9**	**651.0**	**480.8**	**-26.2%**	**6.4%**
Cost / Income ratio	40.4%	50.1%	47.7%	-	-
Employment (FTE)	6 388	6 540	6 526	-0.2%	2.2%

In Q1 2016 staff-related expenses increased by PLN 7.3 million, i.e. 3.4% quarter on quarter, due to an increase in social insurance costs related to higher contribution paid to Social Insurance Institution at the beginning of the year and higher remuneration costs related to increased provisions for incentive bonuses and benefits in Q1 2016. The headcount of mBank Group decreased by 14 FTE in Q1 2016.

Material expenses in Q1 2016 increased by PLN 5.8 million, i.e. 3.7% quarter on quarter. In the reported period, the highest increase was reported in IT and logistic costs, while marketing spending decreased.

Amortisation increased by 1.1% quarter on quarter.

The cost to income ratio at the end of Q1 2016 reached 47.7%, decreasing from 50.1% quarter on quarter.

Net impairment losses on loans and advances

Net impairment losses on loans and advances in mBank Group stood at PLN 68.5 million in Q1 2016, representing a decrease by PLN 34.1 million, i.e. 33.2% quarter on quarter.

PLN M	Q1 2015	Q4 2015	Q1 2016	QoQ change	YoY change
Retail Banking	65.9	48.3	64.7	33.9%	-1.7%
Corporates and Financial Markets	28.1	62.0	4.0	-93.6%	-85.8%
Other	6.0	-7.7	-0.2	-97.5%	+/-
Total net impairment losses on loans and advances	**100.0**	**102.6**	**68.5**	**-33.2%**	**-31.5%**

Net impairment losses on loans and advances in the Retail Banking stood at PLN 64.7 million in Q1 2016, compared to PLN 48.3 million reported in Q4 2015.

Net impairment losses on loans and advances in Corporates and Financial Markets stood at PLN 4.0 million, representing a decrease by PLN 58.0 million quarter on quarter (or 93.6%) due to the releases of provisions noted mainly in the K2 segment.

Consolidated statement of financial position

The balance sheet total of mBank Group stood at PLN 123,268.4 million at the end of Q1 2016, down by 0.2% compared to the end of 2015.

Assets of mBank Group

PLN M	31.03.2015	31.12.2015	31.03.2016	QoQ change	YoY change
Cash and balances with Central Bank	2,406.9	5,938.1	4,042.8	-31.9%	68.0%
Loans and advances to banks	4,052.3	1,897.3	1,120.3	-41.0%	-72.4%
Trading securities	2,043.1	557.5	2,849.8	411.1%	39.5%
Derivative financial instruments	4,824.6	3,349.3	2,799.2	-16.4%	-42.0%
Net loans and advances to customers	78,977.1	78,433.5	77,940.8	-0.6%	-1.3%
Investment securities	28,442.1	30,736.9	31,618.5	2.9%	11.2%
Intangible assets	458.2	519.0	512.5	-1.3%	11.9%
Tangible assets	706.5	744.5	722.3	-3.0%	2.2%
Other assets	1,383.3	1,346.6	1,662.2	23.4%	20.2%
Total assets	**123,293.9**	**123,523.0**	**123,268.4**	**-0.2%**	**0.0%**

Loans and advances to clients were the largest asset category of mBank Group at the end of Q1 2016. Their share in total assets decreased slightly to 63.2% compared to 63.5% at the end of 2015. At the end of Q1 2016 net loans and advances to clients stood at PLN 77,940.8 million and decreased by PLN 492.8 million, i.e. 0.6% quarter on quarter (excluding reverse repo / buy-sell-back transactions and the FX effect, the volume of net loans and advances increased by 0.9%).

Gross loans and advances to corporate clients fell quarter on quarter by PLN 641.2 million, i.e. 1.9%, to PLN 32,805.4 million (excluding reverse repo / buy-sell-back transactions and the FX effect, the volume of loans and advances to corporate clients grew by 1.3%).

The volume of loans to individuals was slightly up by PLN 252.3 million, i.e. 0.5% quarter on quarter, to PLN 46,511.0 million. The volume of mortgage and housing loans fell by PLN 76.8 million, i.e. 0.2% quarter on quarter, driven by decreased sales volumes and the ongoing repayment of CHF mortgage loans by mBank clients. In Q1 2016, mBank Group sold PLN 718.0 million worth of mortgage loans and PLN 1,338.5 million worth of non-mortgage loans. Excluding the FX effect, loans to individuals rose by approx. 0.9%.

In Q1 2016 gross loans and advances to the public sector decreased by PLN 90.2 million, i.e. 1.8%. The value of those loans stood at PLN 1,430.8 million at the end of March 2016.

At the end of Q1 2016 investment securities were the Bank's second largest asset category and stood at PLN 31,618.5 million, i.e. 25.7% of total assets, and increased by PLN 881.5 million, i.e. 2.9% quarter on quarter.

mBank Group's total liabilities and equity

PLN M	31.03.2015	31.12.2015	31.03.2016	QoQ change	YoY change
Amounts due to other banks	17,839.4	12,019.3	10,972.4	-8.7%	-38.5%
Derivative financial instruments	4,838.2	3,173.6	2,355.8	-25.8%	-51.3%
Amounts due to customers	71,861.0	81,140.9	81,133.9	0.0%	12.9%
Debt securities in issue	10,382.1	8,946.2	9,698.0	8.4%	-6.6%
Subordinated liabilities	3,801.7	3,827.3	3,801.7	-0.7%	0.0%
Other liabilities	2,971.5	2,140.7	2,679.2	25.2%	-9.8%
Total Liabilities	**111,694.0**	**111,248.1**	**110,641.0**	**-0.5%**	**-0.9%**
Total Equity	**11,599.9**	**12,275.0**	**12,627.4**	**2.9%**	**8.9%**
Total Liabilities and Equity	**123,293.9**	**123,523.0**	**123,268.4**	**-0.2%**	**0.0%**

In Q1 2016, amounts due to clients, which are the Group's principal source of funding, remained unchanged quarter on quarter. The share of amounts due to clients in total liabilities and equity reached 65.8%, compared to 65.7% at the end of 2015.

Amounts due to corporate clients decreased by PLN 1,806.2 million, i.e. 5.2% quarter on quarter, to PLN 32,617.8 million at the end of Q1 2016. In the reporting period, amounts due to retail clients increased by PLN 1,718.4 million, i.e. 3.7%, to PLN 47,835.4 million. The change was driven by increased balances of current accounts as well as term deposits. Amounts due to the public sector stood at PLN 680.6 million, which represents an increase by PLN 80.7 million, i.e. 13.5%.

Amounts due to other banks stood at PLN 10,972.4 million at the end of Q1 2016, accounting for 8.9% of total liabilities and equity of mBank Group. Compared to Q4 2015, amounts due to other banks dropped by PLN 1,046.9 million, i.e. 8.9%, mainly due to lower volume of repo / sell-buy-back transactions.

The share of equity in total liabilities and equity of mBank Group increased to 10.2%, compared to 9.9% at the end of 2015.

Quality of the loan portfolio of mBank Group

As at 31 March 2016, the volume of non-performing loans (NPL) increased slightly against Q4 2015. The NPL ratio increased slightly quarter on quarter to 5.8%.

PLN M	31.03.2015	31.12.2015	31.03.2016	QoQ change	YoY change
Provisions for receivables with impairment	2,665.0	2,728.7	2,734.7	0.2%	2.6%
Impairment provisions for exposures analysed according to portfolio approach	240.8	247.2	249.7	1.0%	3.7%
Provisions for receivables	**2,905.9**	**2,975.9**	**2,984.3**	**0.3%**	**2.7%**
Receivables with impairment	**4,963.5**	**4,631.5**	**4,662.8**	**0.7%**	**-6.1%**
NPL ratio	6.1%	5.7%	5.8%		
Coverage ratio	53.7%	58.9%	58.6%		

Provisions for loans and advances to customers increased by PLN 8.5 million quarter on quarter and stood at PLN 2,984.3 million, including a PLN 2,734.7 millions of NPL provisions. The IBNI (Incurred But Not Identified) loss provision remained stable QoQ.

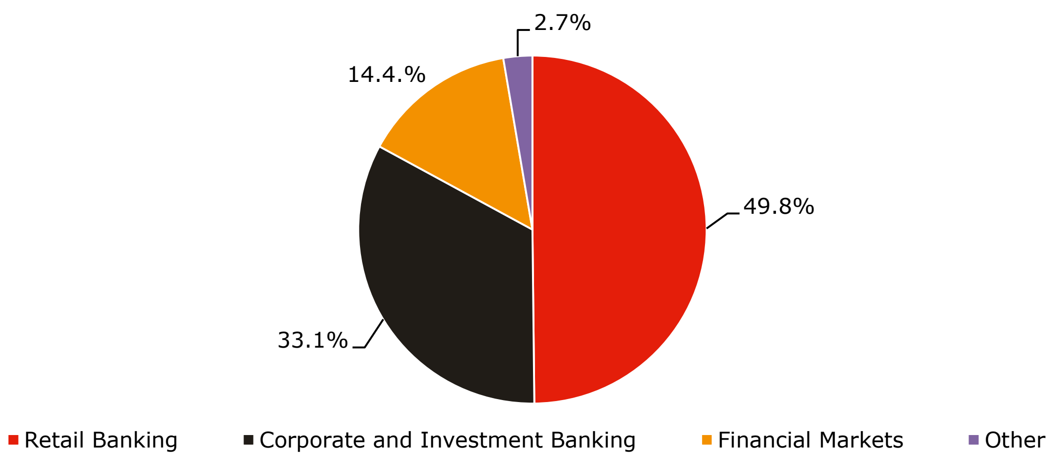
The coverage ratio (including IBNI provisions) decreased slightly quarter on quarter from 58.9% to 58.6%.

Performance of segments and the business lines

In Q1 2016, the segment of Retail Banking had the largest contribution to the profit before tax of mBank Group, which reached 49.8%, compared to 59.8% in Q4 2015. The contribution of the Corporate and Investment Banking segment was at 33.1% and the contribution of Financial Markets was at 14.4%.

PLN M	Q1 2015	Q4 2015	Q1 2016	QoQ change	YoY change
Retail Banking	413.3	207.8	200.5	-3.5%	-51.5%
Corporate and Investment Banking	127.7	147.3	133.2	-9.6%	4.3%
Financial Markets	28.0	44.1	57.9	31.3%	106.6%
Other	-3.7	-43.2	10.8	-/+	-/+
Profit before tax of mBank Group	**565.3**	**356.0**	**402.3**	**13.0%**	**-28.8%**

Gross profit contribution by business segments in Q1 2016



Retail Banking

Summary of segment results

In Q1 2016, the Retail Banking segment generated a profit before tax of PLN 200.5 million, which represents a decrease by PLN 7.2 million or 3.5% quarter on quarter.

PLN M	Q1 2015	Q4 2015	Q1 2016	QoQ change	YoY change
Net interest income	390.0	410.6	412.6	0.5%	5.8%
Net fee and commission income	106.3	133.8	119.9	-10.4%	12.8%
Dividend income	0.0	0.0	0.0	-	-
Net trading income	25.0	23.2	24.1	3.5%	-3.8%
Gains less losses from investment securities, investments in subsidiaries and associates	194.3	-0.3	0.0	-	-
Net other operating income	20.3	-2.8	11.2	-/+	-22.9%
Total income	736.0	564.6	567.7	0.5%	-22.9%
Net impairment losses on loans and advances	-65.9	-48.3	-64.7	33.9%	-1.7%
Overhead costs and amortization	-255.8	-307.5	-271.2	-11.8%	6.0%
Taxes on Group balance sheet items	-0.9	-0.9	-31.2	3249.2%	3342.6%
Profit before tax of Retail Banking	**413.3**	**207.8**	**200.5**	**-3.5%**	**-51.5%**

The profit before tax of the Retail Banking segment in Q1 2016 was driven by:

- **Increase in total income** by PLN 3.1 million or 0.5% quarter on quarter to PLN 567.7 million. Net interest income increased by PLN 2.0 million or 0.5%, whereas net fee and commission income dropped by PLN 13.9 million or 10.4% as a result of lower payment card commissions and lower agency commissions from the sale of products of external financial entities.

- **Decrease in overhead costs and amortisation** by PLN 36.4 million or 11.8% against Q4 2015 to PLN 271.2 million mainly as a result of lower costs of contributions to the Bank Guarantee Fund.

- **Increase in net impairment losses on loans and advances** by PLN 16.4 million quarter on quarter.

- **Tax on the Group's balance sheet items.** The part of the tax attributable to the Retail Banking Line amounted to PLN 31.3 million in Q1 2016.

Activity in the Retail Banking segment (Bank)

thou.	31.03.2015	31.12.2015	31.03.2016	QoQ change	YoY change
Number of retail clients, including:	**4,664.7**	**4,947.3**	**5,037.3**	**1.8%**	**8.0%**
Poland	3,897.6	4,127.7	4,195.3	1.6%	7.6%
Foreign branches	767.1	819.7	841.9	2.7%	9.8%
The Czech Republic	536.9	573.1	588.8	2.7%	9.7%
Slovakia	230.2	246.5	253.1	2.7%	9.9%
PLN M					
Loans to retail clients, including:	**43,706.5**	**46,168.7**	**46,410.2**	**0.5%**	**6.2%**
Poland	**40,699.3**	**42,344.7**	**42,418.6**	**0.2%**	**4.2%**
mortgage loans	32,456.7	33,473.4	33,260.5	-0.6%	2.5%
non-mortgage loans	8,242.6	8,871.3	9,158.1	3.2%	11.1%
Foreign branches	**3,007.2**	**3,824.0**	**3,991.6**	**4.4%**	**32.7%**
The Czech Republic	2,328.1	2,899.6	3,027.4	4.4%	30.0%
Slovakia	679.1	924.4	964.2	4.3%	42.0%
Deposits of retail clients, including:	**39,339.3**	**45,645.4**	**47,358.9**	**3.8%**	**20.4%**
Poland	**33,780.6**	**39,273.6**	**40,747.2**	**3.8%**	**20.6%**
Foreign branches	**5,558.7**	**6,371.8**	**6,611.8**	**3.8%**	**18.9%**
The Czech Republic	3,796.1	4,488.0	4,687.3	4.4%	23.5%
Slovakia	1,762.6	1,883.7	1,924.4	2.2%	9.2%
Investment funds (Poland)	**5,893.5**	**5,736.2**	**5,520.2**	**-3.8%**	**-6.3%**
thou.					
Credit cards, including	**331.3**	**332.4**	**333.0**	**0.2%**	**0.5%**
Poland	301.4	303.6	303.0	-0.2%	0.5%
Foreign branches	29.9	28.8	30.0	4.0%	0.3%
Debit cards, including:	**3,099.4**	**3,242.7**	**3,256.7**	**0.4%**	**5.1%**
Poland	2,546.7	2,701.0	2,717.0	0.6%	6.7%
Foreign branches	552.6	541.8	539.7	-0.4%	-2.3%

IFRS Condensed Consolidated Financial Statements for the first quarter of 2016 PLN (000's)

	31.03.2015	31.12.2015	31.03.2016
Distribution network			
Light branches within "One Network" Project	4	9	11
Advisory Centres	2	4	4
mBank (former Multibank)	128	123	122
mKiosks (incl. Partner Kiosks)	70	83	84
Aspiro Financial Centres	23	23	23
Czech Republic & Slovakia	35	36	36

Retail Banking (including Private Banking) in Poland

In Q1 2016, the number of retail banking clients of mBank in Poland increased by 67.7 thousand. In addition, the number of accounts (including Orange Finanse) also grew by a record number in Q1 2016, reaching 3.8 million.

Product offer

At the beginning of 2016 the offer of individual accounts was significantly simplified. Changes consisted of the withdrawal of the following products from sale: eKonto, eKonto mobilne, eKonto mobilne plus and mKonto Multi, which contributed to a considerable simplification of the offer. Instead of the aforementioned accounts an eKonto account was introduced in two versions: eKonto with a standard tariff and eKonto with a plus tariff. Both accounts include a mechanism releasing the client from a debit card fee, in a situation when the client makes at least five cash-less transactions a month using the card.

mBank was the first bank on the market to develop a comprehensive credit guide "Credit ABC", covering all aspects of incurring a loan, from the first formalities to loan repayment. Moreover, it focused on providing expert support in the case when a credit application is rejected. Thanks to open communication, the level of complaints connected with the process of granting a loan dropped by 20%.

Positively influenced by an amendment to the act governing the operation of mortgage banks, since January 2016 loans on the primary market within mBank Group have been sold by mBank Hipoteczny. After the implementation of this amendment, mBank Hipoteczny's share in the sales of loans to individuals in mBank Group may exceed 90%.

In the area of small and medium-sized enterprises (SME), one of the main achievements in Q1 2016 was the launch of mKsięgowość (mAccounting), which was developed in cooperation between mBank and SuperKsiegowa company (Extor S.A.). Owing to the possibility of exchanging basic data between the bank and the client's accounting unit, the SME client receives benefits which so far have only been available to corporate clients, i.e. automatic monitoring of payments, quick invoice, simplified invoice payment, analysis of counterparties, electronic settlement of tax declarations or up-to-date tax data.

Q1 2016 was yet another quarter when mBank confirmed its leading role in the e-Commerce and m-Commerce transaction area. The solution mTransfer Mobilny, an expanded mTransfer service with a mobile channel, was appreciated by the market once again in the "Debut of the Year" category during the Ekomersy 2015 gala. In addition mTransfer Mobilny was distinguished during the Mobile Trend Awards 2016 in the following categories: 1st place in the category "Company supporting the popularisation of mobile techniques and technologies" and a Special Award - 2nd place in the vote by the Internet users. For more information about awards granted to mBank Group in Q1 2016, see chapter "Awards and distinctions".

At the beginning of 2016 mBank also expanded the mPlatforma Walutowa service, an FX platform (dedicated to small and medium-sized enterprises) with individual clients segment, offering them mKantor. mKantor offers all the benefits of mPlatforma Walutowa: making transactions in two clicks, very attractive FX rates, possibility to make transactions via a mobile application.

In March 2016 mBank also obtained the consent of the Minister of Digital Affairs to establishing a centre of confirmation of ePUAP (electronic public administration services platform) trusted profiles, starting the process of integration of the Bank with electronic public administration services.

Co-operation with Orange Polska

In Q1 2016, mBank continued its cooperation with Orange and worked on developing its product offer as part of the Orange Finanse project. Since the project's launch in October 2014, Orange Finanse has opened more than 290 thousand accounts and acquired nearly the same number of clients, including almost 36 thousand clients in Q1 2016.

Q1 2016 was also a period of changes in the product offer supported by marketing campaigns promoting the Orange Finanse brand among current and new clients of Orange. The key component of the offer is the possibility to lower the monthly phone bill in return for active use of the Orange Finanse services for a period of 24 months.

Mobile application

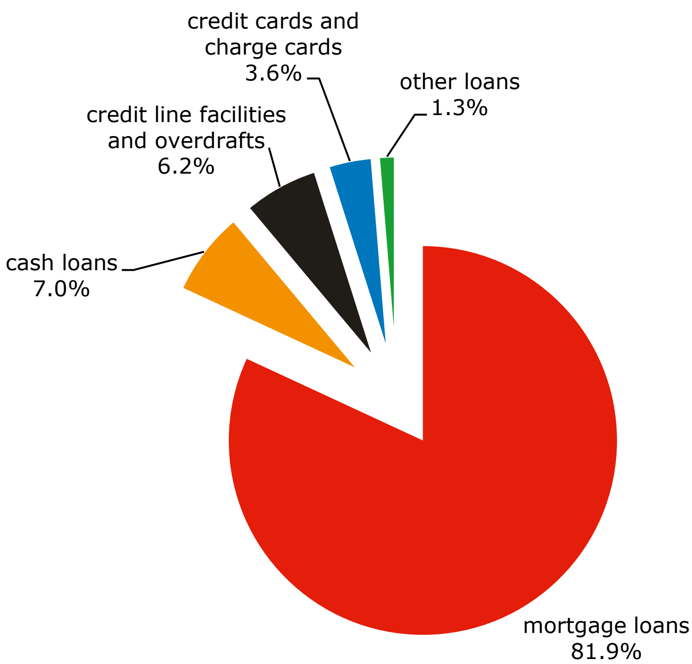
In Q1 2016 many interesting changes were also introduced in the mobile application. Clients who have access to Windows Phone system can now use Orange Finanse via their mobile phones, while iOS users have the possibility of logging into the system using their fingerprint. A unique functionality was also added to all platforms allowing logged-in users to connect with a hotline consultant without additional authentication - Click to Call.

Development of the retail banking offer in Poland

Loans

The graph below presents the structure of the retail banking loan portfolio in Poland (for households) at the end of March 2016:

Retail loan portfolio (Household loans, mBank in Poland only)



New sales of non-mortgage loans were record high in Q1 2016 and amounted to PLN 1,218.0 million, up by 10.3% quarter on quarter. Sales of mortgage loans in Q1 2016 stood at PLN 483.6 million (including sales of mBank Hipoteczny), which represents a decrease of 51.4% quarter on quarter. A sharp decrease was driven by the changes in pricing policy of the Group.

Q1 2016 was another consecutive quarter when the portfolio of non-mortgage loans granted to households increased dynamically, by PLN 286.8 million, i.e., 3.2% quarter on quarter. The portfolio of mortgage loans stood at PLN 33,260.5 million, with a slight decrease by PLN 212.9 million.

The NPL ratio of mortgage loan portfolio remained stable on a quarterly basis, and stood at 3.8% at the end of March 2016.

Deposits and investment funds

In the scope of deposit products, safe products with guaranteed rate of return (term deposits with a fixed interest rate) as well as products combining the aspect of security and high liquidity (savings accounts) were the most popular in Q1 2016. In the scope of investment products, clients were mainly interested in solutions offering capital protection (e.g. structured products).

Thanks to acquisition efforts made by the Bank, the balance of savings products increased by 4.5% quarter on quarter.

Cards

As far as the development of payment cards is concerned, the Bank's primary focus was on a successive increase in the share of mBank card transactions in the total number of transactions on the market.

In Q1 2016, mBank's retail clients made card transactions worth more than PLN 5.6 billion, which represents a drop by 5.2% quarter on quarter and a rise of 21.4% year on year. The average transaction amount as well as the number of non-cash transactions remained stable quarter on quarter.

mBank's activity in the Czech Republic (CZ) and Slovakia (SK)

In Q1 2016 in the Czech Republic and Slovakia mBank acquired 22.3 thousand clients (out of which 6.6 thousand clients in Slovakia, and 15.7 thousand clients on the Czech market).

Three new, innovative debit cards were introduced to the offer: gold debit card, debit phone sticker, and debit card for entrepreneurs.

The mobile application was upgraded with Click to Call functionality and with a possibility to change limits on credit and debit cards. The application was distinguished in Slovakia by the PC Review with an award for most client-friendly application.

Loans and deposits

In Q1 2016, the loan portfolio of mBank clients in the Czech Republic and Slovakia grew by PLN 167.6 million, i.e. 4.4% quarter on quarter.

The sales of non-mortgage loans increased quarter on quarter by 18.2% amounting to PLN 120.5 million, while the sales of mortgage loans decreased by 24.2%, amounting to PLN 234.5 million.

The deposit base increased by PLN 240.0 million or 3.8% quarter on quarter.

Corporates and Financial Markets

Corporate and Investment Banking

Summary of segment results

In Q1 2016, the Corporate and Investment Banking segment generated a profit before tax of PLN 133.2 million, down by PLN 14.2 million or 9.6% against the previous quarter.

PLN M	Q1 2015	Q4 2015	Q1 2016	QoQ change	YoY change
Net interest income	171.6	193.2	180.6	-6.5%	5.3%
Net fee and commission income	84.1	102.9	88.5	-14.0%	5.3%
Dividend income	0.0	0.0	0.0	-	-
Net trading income	53.9	54.3	57.2	5.4%	6.2%
Gains less losses from investment securities, investments in subsidiaries and associates	0.8	22.9	-0.4	+/-	+/-
Net other operating income	8.1	5.6	6.9	23.5%	-14.0%
Total income	318.4	378.9	332.8	-12.2%	4.5%
Net impairment losses on loans and advances	-28.0	-62.3	-3.7	-94.1%	-87.0%
Overhead costs and amortization	-162.7	-169.3	-174.6	3.1%	7.3%
Taxes on Group balance sheet items	0.0	0.0	-21.4	-	-
Profit before tax of Corporate and Investment Banking	**127.7**	**147.3**	**133.2**	**-9.6%**	**4.3%**

In Q1 2016, the profit before tax of the Corporate and Investment Banking segment was driven by:

- **Decrease in income** which amounted to PLN 332.8 million, compared to PLN 378.9 million in Q4 2015. Net interest income went down by PLN 12.6 million or 6.5%, whereas net fee and commission income dropped by 14.4 million or 14.0%, mainly as a result of lower sales of new loans.

- **Increase in operating costs (including amortisation)** by PLN 5.3 million, or 3.1% quarter on quarter to PLN 174.6 million driven by higher staff-related costs.

- **Decrease in net impairment losses on loss and advances** by PLN 58.7 million to PLN 3.7 million as a result of release of provisions on several corporate exposures.

- **Tax on the Group's balance sheet items -** the part of the tax attributable to the Corporate and Investment Banking Line amounted to PLN 21.4 million.

Activity of the Corporate and Investment Banking segment (Bank)

	31.03.2015	31.12.2015	31.03.2016	QoQ change	YoY change
Number of corporate clients	**18,133**	**19,562**	**19,992**	**2.2%**	**10.3%**
K1	1,839	1,983	2,152	**8.5%**	**17.0%**
K2	5,317	5,748	5,896	**2.6%**	**10.9%**
K3	10,977	11,831	11,944	**1.0%**	**8.8%**
PLN M					
Loans to corporate clients, including	**25,943.0**	**21,091.3**	**21,242.6**	**0.7%**	**-18.1%**
K1*	6,290.2	6,162.6	5,771.3	**-6.4%**	**-8.2%**
K2	11,228.5	11,837.6	12,518.1	**5.7%**	**11.5%**
K3	2,791.7	3,049.6	2,920.5	**-4.2%**	**4.6%**
Reverse repo/buy sell back transactions	5,613.5	19.6	4.8	**-75.7%**	**-99.9%**
Other	19.1	22.0	27.8	**26.8%**	**45.9%**
Deposits of corporate clients, including	**28,359.0**	**30,236.0**	**29,129.1**	**-3.7%**	**2.7%**
K1	10,917.7	14,019.2	13,713.5	**-2.2%**	**25.6%**
K2	8,798.1	11,259.6	10,451.6	**-7.2%**	**18.8%**
K3	3,913.2	4,855.9	4,459.0	**-8.2%**	**13.9%**
Repo transactions	4,681.9	33.3	455.9	**1270.4%**	**-90.3%**
Other	48.1	67.9	49.1	**-27.7%**	**2.1%**
Distribution network	**47**	**47**	**47**		
Corporate branches	29	29	29		
Corporate offices	18	18	18		

K1 is the segment of the largest corporations with annual sales over PLN 500 million, the largest public sector entities and non-bank financial institutions (including pension and investment funds and insurance companies); K2 is the segment of corporations with annual sales between PLN 30 and 500 million and medium-sized public sector enterprises; K3 is the segment of SMEs with annual sales of up to PLN 30 million.

Corporate loans market increased by 2.3% compared with the end of December 2015 and by 8.3% year on year, while corporate deposits market decreased by 7.3% compared with the end of Q4 2015 and increased by 7.2 % against the end of Q1 2015. mBank achieved similar dynamics of loans volume and significantly increased dynamics of deposit volumes. Loans to enterprises increased by 2.4% quarter on quarter and by 9.1% year on year. The growth rate of corporate deposits was at -8.0% and 17.6% respectively. At the end of Q1 2016 mBank shares in the market of deposits and loans for corporates reached 9.7% and 6.3% respectively.

In Q1 2016 the Bank intensified its sales efforts, which resulted in record-high acquisition of corporate clients - the corporate client base increased by 430 companies in comparison to the end of 2015.

The acquisition of new clients positively affected the value of funds deposited on current accounts, which at the end of March 2016 reached PLN 8,771.1 million, up 3.6% quarter on quarter and 26% year on year. The high volume of current deposits underpins further development of transactional banking, which is of vital importance to the Bank due to its growth potential and closer cooperation with clients.

In Q1 2016 the Bank continued to pursue the strategy of increasing its share in the sector of small and medium-sized enterprises (SME). The undertaken initiatives aimed at strengthening the Bank's position on the SME market translated into high acquisition of clients in this sector (client base in the K3 segment grew by 113 companies compared to the end of 2015).

At the end of March 2016, the Bank held a 12.1% share on the corporate bond market. Moreover, the activity of the segment was focused on intensifying cooperation with non-banking financial institutions and clients from the agricultural and food industry.

Products and services offer

Corporate client loans

The value of loans granted by mBank to corporate clients (excluding repo transactions) amounted to PLN 21,237.8 million at the end of Q1 2016, which represents an increase by 0.8% compared with the end of December 2015 (PLN 21,071.8 million) and by 4.5% compared to the end of Q1 2015 (PLN 20,329.5 million).

The value of loans to enterprises (NBP category, enabling comparison with the banking sector results) at the end of March 2016 amounted to PLN 19,916.6 million and was higher by 2.4% than at the end of December 2015 (PLN 19,442.2 million) and by 9.1% higher than at the end of March 2015 (PLN 18,259.7 million). The share of mBank's lending to enterprises in the lending of the entire banking sector was at 6.3% at the end of March 2016, and was the same as at the end of December 2015 and March 2015. At the end of Q1 2016, the loan-to-deposit ratio for enterprises in the Bank stood at 84.5% and and was significantly lower than the market ratio of 130.5%.

The value of loans granted to local governments at the end of March 2016 amounted to PLN 872.9 million compared to PLN 930.6 million at the end of December 2015 and PLN 1,216.7 million at the end of March 2015.

Corporate client deposits

The value of corporate client deposits gathered at mBank (excluding repo transactions) amounted to PLN 28,673.3 million at the end of Q1 2016, which represents a decrease by 5.1% compared to the end of December 2015 (PLN 30,202.7 million) and an increase by 21.1% compared with the end of Q1 2015 (PLN 23,677.1 million).

The value of mBank's current corporate deposits amounted to PLN 8,771.1 million at the end of Q1 2016, which represents an increase by 3.6% compared to the end of December 2015 (PLN 8,467.1 million) and by 26.0% compared to the end of Q1 2015 (PLN 6,961.1 million).

The value of deposits of enterprises (NBP category, enabling the comparison to banking sector results) at the end of March 2016 amounted to PLN 23,571.8 million and was by 8.0% lower than at the end of December 2015 (PLN 25,629.2 million) and by 17.6% higher than at the end of Q1 2015 (PLN 20,047.4 million). The share of mBank in deposits placed by enterprises reached 9.7% at the end of March 2016, compared with 9.8% at the end of December 2015 and 8.9% at the end of March 2015.

The value of deposits of local governments at the end of March 2016 amounted to PLN 183.2 million compared with PLN 192.1 million at the end of December 2015 and PLN 631.7 million at the end of March 2015.

De minimis guarantee

The Bank continued the performance of the Portfolio Guarantee Line De Minimis (PLD) Agreement as part of the government's "Supporting Entrepreneurship through BGK Sureties and Guarantees" program with allocated limit for guarantees at PLN 1,630 million (an amending annex increasing the limit by PLN 330 million was signed on February 16, 2016). The amount drawn under the limit reached PLN 1,158.5 million as at 31 March 2016.

Moreover, on February 22, 2016 mBank signed an agreement with Bank Gospodarstwa Krajowego under which it may offer loans backed by BGK guarantees to innovative clients from the SME sector. The BGK guarantee limit for mBank stands at PLN 15 million.

The guarantees will enable micro-entrepreneurs and small and medium-sized enterprises to finance their innovative operations and will be funded from the PLN 250 million pool allocated to the Innovative Economy Operational Programme.

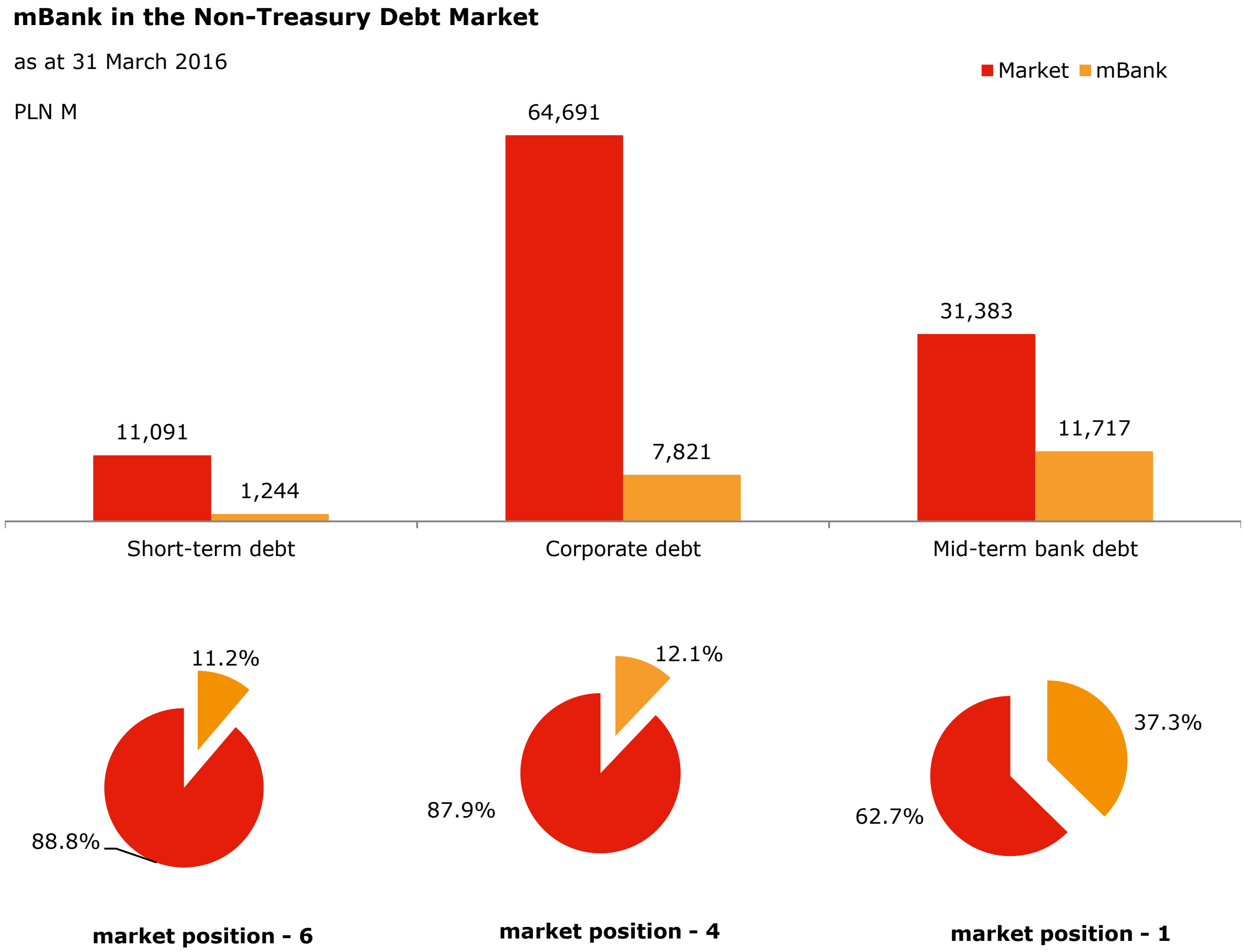
European Union financing

On March 16, 2016 the Bank signed a new agreement with the European Investment Bank (EIB) to open a EUR 100 million credit line dedicated to financing projects and obligations related to the production cycle of mid-caps (entities with a headcount ranging from over 250 to 3,000 people).

Issuing debt securities for corporate clients

In Q1 2016, mBank organised or co-organised many bond issue programs on the domestic market, both for corporate issuers and banks.

The share of mBank in the non-treasury debt market at the end of March 2016 is presented in the chart below.



Value of debt securities issued by banks but not kept on primary books (excluding „road" bonds issued by Bank Gospodarstwa Krajowego) whose issue was arranged by mBank amounted to circa PLN 11.7 billion, compared to PLN 11.3 billion at the end of 2015. The largest issues arranged by mBank in Q1 2016 included the issue of covered bonds of mBank Hipoteczny at the value of PLN 300 million and EUR 50 million. Another transaction in which the Bank participated included the issue of bonds of PLN 10 million for Volkswagen Bank Polska.

The Bank was ranked fourth on the growing market of corporate bonds, with a market share of 12.1%. A number of new major issues were executed, i.e. for Enea S.A. (PLN 250 million), BEST S.A. (PLN 55 million), Magellan S.A. (EUR 10 million), Elzab S.A. (PLN 25 million) and EGB S.A. (PLN 16 million). The value of corporate bonds issued and unredeemed amounted to circa PLN 7.2 billion, compared to PLN 7.3 billion at the end of December 2015.

Development of transactional banking

Cash management is an area of Corporate Banking which offers state-of-the-art solutions to facilitate planning, monitoring and management of the most liquid assets, cash processing, as well as electronic banking. The solutions facilitate daily financial operations, enhance effective cash flow management, and optimise interest costs and income.

mBank's comprehensive cash management offer, supporting long-term relationships with clients, is reflected in the following data:

- the number of domestic transfers made by corporate clients in Q1 2016 increased by 13.7% year on year;
- the number of foreign transfers increased by 11.2% in Q1 2016 year on year; the number of SEPA (Single Euro Payments Area) transfers grew by 18.5% in the discussed period;
- the total number of corporate cards issued amounted to 970 thousand at the end of Q1 2016;
- as at the end of March 2016, 711.7 thousand cards were issued as Electronic Money Instrument;
- the number of mBank CompanyNet system users rose by 10.2% compared with Q1 2015. Currently, there are 89.1 thousand active authorizations allowing the entitled employees of clients to cooperate with mBank.

Financial Markets

Summary of segment results

In Q1 2016, the profit before tax generated by the Financial Markets segment rose to PLN 57.9 million from PLN 44.1 million a quarter earlier, i.e. by 31.3%.

PLN M	Q1 2015	Q4 2015	Q1 2016	QoQ change	YoY change
Net interest income	25.1	70.3	81.8	16.4%	225.9%
Net fee and commission income	-0.5	-1.0	-0.9	-7.7%	64.0%
Dividend income	0.0	0.0	0.0	-	-
Net trading income	24.5	-6.3	2.9	-146.9%	-88.0%
Gains less losses from investment securities, investments in subsidiaries and associates	3.2	5.5	3.9	-29.2%	22.5%
Net other operating income	0.1	0.1	0.1	43.7%	-12.5%
Total income	52.3	68.6	87.8	28.0%	67.9%
Net impairment losses on loans and advances	0.0	0.4	-0.3	-193.1%	566.6%
Overhead costs and amortization	-24.3	-24.9	-25.4	2.0%	4.6%
Taxes on Group balance sheet items	0.0	0.0	-4.3	-	-
Profit before tax of Financial Markets	**28.0**	**44.1**	**57.9**	**31.3%**	**106.6%**

The profit before tax of the Financial Markets segment in Q1 2016 was driven by the following factors:

- **Increase in total income** by PLN 19.2 million quarter on quarter to PLN 87.8 million. Net interest income went up by PLN 11.5 million or 16.4%. Net trading income increased by PLN 9.2 million and amounted to PLN 2.9 million as compared with the negative value reported a quarter earlier.

- **Increase in overhead costs (including amortisation)** to PLN 25.4 million, compared with PLN 24,9 million in Q4 2015.

- **Tax on the Group's balance sheet items**. The part of the tax attributable to the Financial Markets segment amounted to PLN 4.3 million.

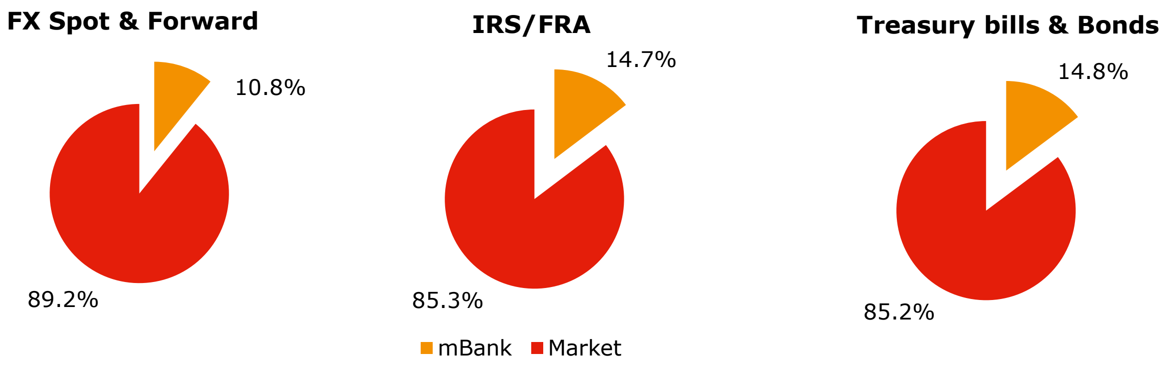
Activity of Financial Markets segment

Q1 2016 in the Financial Markets segment was marked by shrinking trading volumes. Turnover dropped to PLN 19.9 billion from PLN 23.0 billion in Q4 2015 (down by 15.6%) due to lower market volatility.

The lower turnover was accompanied by a falling number of clients who actively concluded transactions. In Q1 2016 the number of active clients contracted by 4.7% against Q4 2015. The number of clients concluding derivative transactions was growing further (up by 3.7% against Q4 2015).

In the area of commodity derivatives, Q1 2016 was marked by a growing number of active clients and further increase in generated margins. The number of clients concluding commodity transactions grew by 13.6% compared with Q4 2015.

mBank's market shares in specific financial instrument markets as at 31 March 2016 are presented below:



Subsidiaries of mBank Group

<u>Summary of results of mBank Group's subsidiaries</u>

In Q1 2016, the consolidated profits before tax generated by mBank Group subsidiaries based on a comparable number of subsidiaries amounted to PLN 92.9 million, compared to PLN 81.0 million a quarter earlier.

In particular, the following subsidiaries improved their results in comparison to Q1 2015: mLeasing, mBank Hipoteczny, mLocum and mFaktoring.

The table below presents the profit before tax of the subsidiaries in Q1 2016, compared to Q4 2015.

PLN M	Q4 2015	Q1 2016	QoQ change
mLeasing	11.9	20.5	71.5%
mBank Hipoteczny	9.4	11.8	25.5%
mLocum	-0.7	10.7	-/+
mWealth Management	7.4	5.5	-25.3%
mFaktoring	-5.2	6.2	-/+
Dom Maklerski mBanku	5.8	3.2	-44.0%
Aspiro	55.7	36.4	-34.7%
Other[1]	-3.2	-1.4	-57.0%
Total	**81.1**	**92.9**	14.8%

[1] Other subsidiaries include mFinanceFrance, mCentrumOperacji, BDH Development, Garbary, and Tele-Tech Investment

Business activities of selected subsidiaries

Aspiro

Aspiro is an agent offering credit products, bank accounts, insurance, and investment and savings products to both individuals and companies.

Due to the changes in pricing policy of mBank and mBank Hipoteczny, sales of mortgage loans of Aspiro dropped quarterly by 50.0% in Q1 2016 (PLN 274.4 million in Q1 2016 against PLN 548.7 million in Q4 2015). The change in pricing policy affected mortgage sales both at mBank and mBank Hipoteczny.

In Q1 2016, the company posted an increase in the profit from selling car loans dedicated to car dealers, compared to Q4 2015 (PLN 82.0 million in Q1 2016 against PLN 64.7 million in Q4 2015). In addition, Q1 2016 was marked by improving sales volumes in the area of car leasing, a service added to the company's portfolio in 2015.

In Q1 2016, profit before tax of Aspiro stood at PLN 36.4 million compared to PLN 55.7 million in Q4 2015, which represents a drop by 34.7%. The slowdown is a result of lower sales of the company's main product, i.e. mortgage loans, due to the pricing policies adopted by mBank and mBank Hipoteczny and lower insurance agency revenues in the area of insurance policies attached to cash and mortgage loans.

mLeasing

mLeasing is the second-largest company on the Polish leasing market measured by the new contracts concluded in Q1 2016, and the first-largest company measured by the value of movable and immovable assets (according to data as at the end of December 2015).

The total value of contracts concluded in Q1 2016 amounted to PLN 1,010.7 million compared to PLN 1,105.3 million in Q4 2015 (down by 8.6% quarter on quarter).

In Q1 2016, mLeasing generated profit before tax of PLN 20.5 million, up by 72.3% quarter on quarter, driven by rising revenues and lower risk costs and operating expenses.

The value of new movable assets purchased by the company in Q1 2016 stood at PLN 998.8 million, resulting in market share of 7.9%. The total value of the immovables owned by the company was PLN 11.9 million at the end of Q1 2016, with 14.5% market share.

The "Leasing in Retail" project was continued in Q1 2016 pursuant to the "One Bank" Strategy geared to developing a comprehensive offer for clients. The initiative is dedicated to companies and enables them to conclude a leasing agreement using special leasing processes.

mBank Hipoteczny

mBank Hipoteczny (mBH) is Poland's largest mortgage bank.

In Q1 2016, mBank Hipoteczny's gross loan portfolio totalled PLN 7.8 billion compared to PLN 7.5 billion at the end of Q4 2015, i.e. +4.5%. This growth resulted, in particular, from systematic growth in the portfolio of new mortgage loans for retail clients of the Group – new sales in Q1 amounted to PLN 223 million. Moreover, in pursuit of the mBank Group Strategy in Q1 2016 mBank Hipoteczny acquired from mBank retail mortgage loans worth PLN 123.8 million and commercial loans worth PLN 136.3 million.

In Q1 2016, mBH reported a profit before tax of PLN 11.8 million, compared to PLN 9.4 million in the previous quarter. The improved result of Q12016 was mainly helped by lower impairment losses on loans and advances compared to Q4 2015, lower administrative costs and higher other operating income as a result of releasing impairment losses on other amounts due. At the same time the results included an additional burden in the form of the bank tax.

In Q1 2016, mBH was pursuing the strategy of raising long-term funding through the issue of covered bonds and carried out two issues of mortgage bonds denominated in PLN and EUR worth PLN 300.0 million and EUR 50.0 million, respectively.

As at March 31, 2016 the total value of new covered bonds issued by mBH and the outstanding covered bonds on the market amounted to PLN 4,442.7 million, while the value of public sector covered bonds stood at PLN 150.0 million.

The issuing activity of mBH in Q1 2016 is summarized in the table below.

Volume	Currency	Date of issue	Maturity	Tenor (in years)	Coupon
300.0 M	PLN	09.03.2016	05.03.2021	5.0	WIBOR 3M + 120 bp
50.0 M	EUR	23.03.2016	21.06.2021	5.2	EURIBOR 3M + 87 bp

Dom Maklerski

Dom Maklerski mBanku (mDM) offers brokerage and capital market services for individuals and institutions as well as issuers.

In Q1 2016 the market share of mDM in equity trading on the WSE was 4.0%, which ensured the ninth position on the market. mDM had the second position on the market of futures with a market share of 13.5% and the fourth position on the market of options with a market share of 11.0%.

At the end of Q1 2016, the number of clients of Dom Maklerski mBanku stood at 299.8 thousand (including 5.5 thousand accounts for the FOREX/CFD service) and increased by 0.8 thousand compared to the end of 2015.

The company generated a profit before tax of PLN 3.2 million in Q1 2016, compared to PLN 5.8 million in Q4 2015, mainly due to much lower investor activity on the WSE.

In 2015, the management boards of mBank, Dom Maklerski mBanku S.A. and mWealth Management S.A. signed the division plans marking the first stage of the planned integration of the companies within the Group's structure. Brokerage services that so far have been rendered through Dom Maklerski mBanku and mBank will be carried out via single entity, i.e. mBank, with mWealth Management expected to join the process later on.

Locum

mLocum is a property developer active on the primary real estate market.

The company is engaged in housing development projects in Poland's biggest cities including Kraków, Łódź, Warsaw, Wrocław, Poznań and Tricity.

In Q1 2016, the company started handing over apartments from the completed Nowe Dąbie II project in Kraków to clients. The company sold 196 apartments in Q1 2016 under final agreements compared to 97 apartments a quarter earlier. Owing to a higher level of sales, in Q1 2016 the company generated a profit before tax of PLN 10.8 million, compared to a small loss recorded in Q4 2015.

IFRS Condensed Consolidated Financial Statements for the first quarter of 2016 PLN (000's)

Condensed consolidated income statement

	Note	1st Quarter (current year) period from 01.01.2016 to 31.03.2016	1st Quarter (previous year) period from 01.01.2015 to 31.03.2015
Interest income	5	945 483	912 286
Interest expense	5	(269 065)	(324 847)
Net interest income		**676 418**	**587 439**
Fee and commission income	6	351 910	314 527
Fee and commission expense	6	(140 165)	(120 670)
Net fee and commission income		**211 745**	**193 857**
Dividend income	7	-	31
Net trading income, including:	8	84 087	102 618
Foreign exchange result		*71 817*	*78 687*
Other net trading income and result on hedge accounting		*12 270*	*23 931*
Gains less losses from investment securities, investments in subsidiaries and associates, including:	9	3 427	195 008
Gains less losses from investment securities		*3 869*	*3 947*
Gains less losses from investments in subsidiaries and associates		*(442)*	*191 061*
The share in the profits (losses) of joint ventures		(40)	-
Other operating income	10	94 087	88 674
Net impairment losses on loans and advances	11	(68 520)	(99 971)
Overhead costs	12	(427 045)	(404 801)
Amortisation		(53 727)	(47 131)
Other operating expenses	13	(60 821)	(49 499)
Operating profit		**459 611**	**566 225**
Taxes on the Group balance sheet items		(57 302)	(907)
Profit before income tax		**402 309**	**565 318**
Income tax expense	24	(92 804)	(112 974)
Net profit		**309 505**	**452 344**
Net profit attributable to:			
- Owners of mBank S.A.		307 782	450 936
- Non-controlling interests		1 723	1 408

Net profit attributable to Owners of mBank S.A.		**307 782**	**450 936**
Weighted average number of ordinary shares	14	**42 238 924**	**42 210 129**
Earnings per share (in PLN)	14	**7.29**	**10.68**
Weighted average number of ordinary shares for diluted earnings	14	**42 295 299**	**42 257 952**
Diluted earnings per share (in PLN)	14	**7.28**	**10.67**

IFRS Condensed Consolidated Financial Statements for the first quarter of 2016 PLN (000's)

Condensed consolidated statement of comprehensive income

	1st Quarter (current year) period from 01.01.2016 to 31.03.2016	1st Quarter (previous year) period from 01.01.2015 to 31.03.2015
Net profit	**309 505**	**452 344**
Other comprehensive income net of tax, including:	**39 720**	**71 828**
Items that may be reclassified subsequently to the income statement		
Exchange differences on translation of foreign operations (net)	(64)	(5 355)
Change in valuation of available for sale financial assets (net)	38 612	76 130
Cash flows hedges (net)	1 172	1 053
Items that will not be reclassified to the income statement		
Actuarial gains and losses relating to post-employment benefits (net)	-	-
Total comprehensive income (net)	**349 225**	**524 172**
Total comprehensive income (net), attributable to:		
- Owners of mBank S.A.	347 502	522 764
- Non-controlling interests	1 723	1 408

IFRS Condensed Consolidated Financial Statements for the first quarter of 2016 PLN (000's)

Condensed consolidated statement of financial position

ASSETS	Note	31.03.2016	31.12.2015	31.03.2015
Cash and balances with the Central Bank		4 042 760	5 938 133	2 406 938
Loans and advances to banks		1 120 253	1 897 334	4 052 272
Trading securities	15	2 849 810	557 541	2 043 083
Derivative financial instruments	16	2 799 170	3 349 328	4 824 571
Loans and advances to customers	18	77 940 778	78 433 546	78 977 052
Hedge accounting adjustments related to fair value of hedged items		112	130	360
Investment securities	19	31 618 471	30 736 949	28 442 073
Investments in joint ventures		7 319	7 359	1 000
Intangible assets	20	512 481	519 049	458 185
Tangible assets	21	722 279	744 522	706 458
Current income tax assets		43 591	1 850	57 352
Deferred income tax assets	24	353 386	366 088	303 361
Other assets		1 257 970	971 192	1 021 183
Total assets		**123 268 380**	**123 523 021**	**123 293 888**

LIABILITIES AND EQUITY				
Liabilities				
Amounts due to the Central Bank		2	-	1
Amounts due to other banks		10 972 444	12 019 331	17 839 428
Derivative financial instruments	16	2 355 838	3 173 638	4 838 248
Amounts due to customers	22	81 133 851	81 140 866	71 861 014
Debt securities in issue		9 697 975	8 946 195	10 382 134
Hedge accounting adjustments related to fair value of hedged items		170 695	100 098	132 046
Other liabilities		2 294 769	1 764 091	1 998 579
Current income tax liabilities		10 066	50 126	42 851
Provisions for deferred income tax	24	34 632	981	780
Provisions	23	169 038	225 416	162 371
Subordinated liabilities		3 801 673	3 827 315	4 436 572
Total liabilities		**110 640 983**	**111 248 057**	**111 694 024**
Equity				
Equity attributable to Owners of mBank S.A.		**12 593 056**	**12 242 346**	**11 568 718**
Share capital:		**3 535 758**	**3 535 758**	**3 523 935**
- Registered share capital		168 956	168 956	168 841
- Share premium		3 366 802	3 366 802	3 355 094
Retained earnings:		**8 584 772**	**8 273 782**	**7 423 432**
- Profit from the previous years		8 276 990	6 972 536	6 972 496
- Profit for the current year		307 782	1 301 246	450 936
Other components of equity		**472 526**	**432 806**	**621 351**
Non-controlling interests		**34 341**	**32 618**	**31 146**
Total equity		**12 627 397**	**12 274 964**	**11 599 864**
Total liabilities and equity		**123 268 380**	**123 523 021**	**123 293 888**

Total capital ratio		**19.01**	**17.25**	**16.26**
Common Equity Tier 1 capital ratio		**16.20**	**14.29**	**12.88**
Book value		**12 593 056**	**12 242 346**	**11 568 718**
Number of shares		**42 238 924**	**42 238 924**	**42 210 157**
Book value per share (in PLN)		**298.14**	**289.84**	**274.07**

IFRS Condensed Consolidated Financial Statements for the first quarter of 2016 PLN (000's)

Condensed consolidated statement of changes in equity

Changes from 1 January to 31 March 2016

	Share capital		Retained earnings					Other components of equity						
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	Exchange differences on translation of foreign operations	Valuation of available for sale financial assets	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 2016	**168 956**	**3 366 802**	**4 883 602**	**103 972**	**1 095 453**	**2 190 755**	**-**	**(6 426)**	**442 354**	**859**	**(3 981)**	**12 242 346**	**32 618**	**12 274 964**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**307 782**	**(64)**	**38 612**	**1 172**	**-**	**347 502**	**1 723**	**349 225**
Transfer to general banking risk reserve	-	-	-	-	30 000	(30 000)	-	-	-	-	-	-	-	-
Transfer to reserve capital	-	-	4 581	-	-	(4 581)	-	-	-	-	-	-	-	-
Stock option program for employees	-	-	-	3 208	-	-	-	-	-	-	-	3 208	-	3 208
- value of services provided by the employees	-	-	-	*3 208*	-	-	-	-	-	-	-	*3 208*	-	*3 208*
Equity as at 31 March 2016	**168 956**	**3 366 802**	**4 888 183**	**107 180**	**1 125 453**	**2 156 174**	**307 782**	**(6 490)**	**480 966**	**2 031**	**(3 981)**	**12 593 056**	**34 341**	**12 627 397**

Changes from 1 January to 31 December 2015

	Share capital		Retained earnings					Other components of equity						
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	Exchange differences on translation of foreign operations	Valuation of available for sale financial assets	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 2015	**168 840**	**3 355 063**	**4 413 825**	**101 252**	**1 041 953**	**1 412 786**	**-**	**(1 765)**	**549 621**	**4 056**	**(2 389)**	**11 043 242**	**29 738**	**11 072 980**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**1 301 246**	**(4 661)**	**(107 267)**	**(3 197)**	**(1 592)**	**1 184 529**	**2 882**	**1 187 411**
Transfer to general banking risk reserve	-	-	-	-	53 500	(53 500)	-	-	-	-	-	-	-	-
Transfer to supplementary capital	-	-	469 777	-	-	(469 777)	-	-	-	-	-	-	-	-
Issue of shares	116	-	-	-	-	-	-	-	-	-	-	116	-	116
Other changes	-	-	-	-	-	-	-	-	-	-	-	-	(2)	(2)
Stock option program for employees	-	11 739	-	2 720	-	-	-	-	-	-	-	14 459	-	14 459
- value of services provided by the employees	-	-	-	*14 459*	-	-	-	-	-	-	-	*14 459*	-	*14 459*
- settlement of exercised options	-	*11 739*	-	*(11 739)*	-	-	-	-	-	-	-	-	-	-
Equity as at 31 December 2015	**168 956**	**3 366 802**	**4 883 602**	**103 972**	**1 095 453**	**889 509**	**1 301 246**	**(6 426)**	**442 354**	**859**	**(3 981)**	**12 242 346**	**32 618**	**12 274 964**

Changes from 1 January to 31 March 2015

	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 - restated	Exchange differences on translation of foreign operations	Valuation of available for sale financial assets	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 2015	**168 840**	**3 355 063**	**4 413 825**	**101 252**	**1 041 953**	**1 412 786**	**-**	**(1 765)**	**549 621**	**4 056**	**(2 389)**	**11 043 242**	**29 738**	**11 072 980**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**450 936**	**(5 355)**	**76 130**	**1 053**	**-**	**522 764**	**1 408**	**524 172**
Issue of shares	1	-	-	-	-	-	-	-	-	-	-	1	-	1
Stock option program for employees	-	31	-	2 680	-	-	-	-	-	-	-	2 711	-	2 711
- value of services provided by the employees	-	-	-	*2 711*	-	-	-	-	-	-	-	*2 711*	-	*2 711*
- settlement of exercised options	-	*31*	-	*(31)*	-	-	-	-	-	-	-	-	-	-
Equity as at 31 March 2015	**168 841**	**3 355 094**	**4 413 825**	**103 932**	**1 041 953**	**1 412 786**	**450 936**	**(7 120)**	**625 751**	**5 109**	**(2 389)**	**11 568 718**	**31 146**	**11 599 864**

IFRS Condensed Consolidated Financial Statements for the first quarter of 2016 PLN (000's)

Condensed consolidated statement of cash flows

	Period from 01.01.2016 to 31.03.2016	Period from 01.01.2015 to 31.03.2015
A. Cash flows from operating activities	**5 771**	**(2 175 637)**
Profit before income tax	**402 309**	**565 318**
Adjustments:	***(396 538)***	***(2 740 955)***
Income taxes paid	(143 666)	(93 405)
Amortisation, including amortisation of fixed assets provided under operating lease	65 200	58 523
Foreign exchange (gains) losses related to financing activities	(89 350)	1 310 672
(Gains) losses on investing activities	(233)	(195 057)
Impairment of investments in subsidiaries	442	(10)
Dividends received	-	(31)
Interest income (income statement)	(945 483)	(912 286)
Interest expense (income statement)	269 065	324 847
Interest received	792 267	778 943
Interest paid	(218 755)	(247 560)
Changes in loans and advances to banks	573 486	(228 190)
Changes in trading securities	99 472	(10 815)
Changes in assets and liabilities on derivative financial instruments	(212 016)	178 512
Changes in loans and advances to customers	519 660	(4 340 252)
Changes in investment securities	(644 901)	(636 188)
Changes in other assets	(285 397)	(216 537)
Changes in amounts due to other banks	(868 556)	1 485 511
Changes in amounts due to customers	8 996	(780 054)
Changes in debt securities in issue	205 723	(30 656)
Changes in provisions	(56 378)	(14 510)
Changes in other liabilities	533 886	827 588
Net cash generated from/(used in) operating activities	**5 771**	**(2 175 637)**
B.Cash flows from investing activities	**(74 785)**	**348 792**
Investing activity inflows	**7 636**	**435 779**
Disposal of shares in subsidiaries, net of cash disposed	500	427 424
Disposal of intangible assets and tangible fixed assets	7 136	8 324
Dividends received	-	31
Investing activity outflows	**82 421**	**86 987**
Acquisition of shares in subsidiaries	307	-
Purchase of intangible assets and tangible fixed assets	82 114	86 987
Net cash generated from/(used in) investing activities	**(74 785)**	**348 792**
C. Cash flows from financing activities	**377 725**	**2 131 401**
Financing activity inflows	**512 680**	**2 198 361**
Proceeds from loans and advances from other banks	15	1 782 940
Proceeds from other loans and advances	-	415 420
Issue of debt securities	512 665	-
Issue of ordinary shares	-	1
Financing activity outflows	**134 955**	**66 960**
Repayments of loans and advances from other banks	90 665	705
Repayments of other loans and advances	6 422	6 523
Payments of financial lease liabilities	87	122
Interest paid from loans and advances received from other banks, subordinated liabilities and long term issue	37 781	59 610
Net cash generated from/(used in) financing activities	**377 725**	**2 131 401**
Net increase / decrease in cash and cash equivalents (A+B+C)	**308 711**	**304 556**
Effects of exchange rate changes on cash and cash equivalents	(12 683)	(5 077)
Cash and cash equivalents at the beginning of the reporting period	6 656 382	4 711 505
Cash and cash equivalents at the end of the reporting period	**6 952 410**	**5 010 984**

IFRS Condensed Consolidated Financial Statements for the first quarter of 2016 PLN (000's)

mBank S.A. stand-alone financial information

Income statement

	Note	1st Quarter (current year) period from 01.01.2016 to 31.03.2016	1st Quarter (previous year) period from 01.01.2015 to 31.03.2015 - restated
Interest income		829 391	828 749
Interest expense		(242 922)	(304 646)
Net interest income		**586 469**	**524 103**
Fee and commission income		270 447	268 733
Fee and commission expense		(125 802)	(105 006)
Net fee and commission income		**144 645**	**163 727**
Dividend income		22 090	31
Net trading income, including:		85 801	101 759
Foreign exchange result		*72 042*	*79 780*
Other net trading income and result on hedge accounting		*13 759*	*21 979*
Gains less losses from investment securities, investments in subsidiaries and associates, including:		3 602	163 741
Gains less losses from investment securities		*4 044*	*3 947*
Gains less losses from investments in subsidiaries and associates		*(442)*	*159 794*
Other operating income		25 311	12 727
Net impairment losses on loans and advances		(63 755)	(97 558)
Overhead costs		(356 332)	(331 388)
Amortisation		(47 334)	(40 227)
Other operating expenses		(20 512)	(13 841)
Operating profit		**379 985**	**483 074**
Taxes on the Bank's balance sheet items		(54 799)	(907)
Share in profits (losses) of entities under the equity method		52 326	64 572
Profit before income tax		**377 512**	**546 739**
Income tax expense		(74 021)	(96 430)
Net profit		**303 491**	**450 309**

Net profit		**303 491**	**450 309**
Weighted average number of ordinary shares	14	**42 238 924**	**42 210 129**
Earnings per share (in PLN)	14	**7.19**	**10.67**
Weighted average number of ordinary shares for diluted earnings	14	**42 295 299**	**42 257 952**
Diluted earnings per share (in PLN)	14	**7.18**	**10.66**

IFRS Condensed Consolidated Financial Statements for the first quarter of 2016 PLN (000's)

mBank S.A. stand-alone financial information

Statement of comprehensive income

	1st Quarter (current year) period from 01.01.2016 to 31.03.2016	1st Quarter (previous year) period from 01.01.2015 to 31.03.2015 - restated
Net profit	**303 491**	**450 309**
Other comprehensive income net of tax, including:	**33 969**	**71 559**
Items that may be reclassified subsequently to the income statement		
Exchange differences on translation of foreign operations (net)	(72)	12
Change in valuation of available for sale financial assets (net)	37 594	75 688
Cash flow hedges (net)	1 172	1 053
Share in other comprehensive income of entities under the equity method (net)	(4 725)	(5 194)
Items that will not be reclassified to the income statement		
Actuarial gains and losses relating to post-employment benefits (net)	-	-
Total comprehensive income net of tax, total	**337 460**	**521 868**

IFRS Condensed Consolidated Financial Statements for the first quarter of 2016 PLN (000's)

mBank S.A. stand-alone financial information

Statement of financial position

ASSETS	31.03.2016	31.12.2015 - restated	31.03.2015 - restated	01.01.2016 - restated
Cash and balances with the Central Bank	4 004 188	5 930 611	2 392 651	3 046 817
Loans and advances to banks	3 689 098	4 981 321	6 207 097	5 648 047
Trading securities	2 950 507	558 590	2 140 117	1 251 064
Derivative financial instruments	2 796 895	3 350 746	4 824 259	4 874 882
Loans and advances to customers	70 650 891	71 284 102	73 557 011	69 529 868
Hedge accounting adjustments related to fair value of hedged items	112	130	360	461
Investment securities	30 780 514	29 982 642	27 855 169	27 246 034
Investments in subsidiaries	1 803 267	1 758 247	1 662 333	1 580 226
Non-current assets held for sale	-	-	-	31 063
Intangible assets	465 786	473 816	415 727	425 078
Tangible assets	461 061	484 867	462 355	468 822
Current income tax assets	41 857	-	54 272	60 211
Deferred income tax assets	4 624	31 279	6 443	15 144
Other assets	317 345	279 019	341 238	199 405
Total assets	**117 966 145**	**119 115 370**	**119 919 032**	**114 377 122**

LIABILITIES AND EQUITY				
Liabilities				
Amounts due to the Central Bank	2	-	1	-
Amounts due to other banks	10 993 402	12 183 191	17 768 840	13 384 224
Derivative financial instruments	2 409 054	3 203 918	4 896 542	4 755 856
Amounts due to customers	85 904 281	85 924 151	78 941 341	79 312 266
Hedge accounting adjustments related to fair value of hedged items	131 686	78 568	96 780	77 619
Debt securities in issue	-	-	389 793	386 423
Other liabilities	1 936 399	1 386 264	1 658 935	1 112 805
Current income tax liabilities	4 005	44 190	-	-
Provisions for deferred income tax	33 664	82	79	82
Provisions	168 964	225 344	162 323	176 878
Subordinated liabilities	3 801 673	3 827 315	4 436 573	4 127 724
Total liabilities	**105 383 130**	**106 873 023**	**108 351 207**	**103 333 877**
Equity				
Share capital:	**3 535 758**	**3 535 758**	**3 523 935**	**3 523 903**
- Registered share capital	168 956	168 956	168 841	168 840
- Share premium	3 366 802	3 366 802	3 355 094	3 355 063
Retained earnings:	**8 580 346**	**8 273 647**	**7 422 683**	**6 969 694**
- Profit for the previous year	8 276 855	6 972 414	6 972 374	6 969 694
- Net profit for the current year	303 491	1 301 233	450 309	-
Other components of equity	**466 911**	**432 942**	**621 207**	**549 648**
Total equity	**12 583 015**	**12 242 347**	**11 567 825**	**11 043 245**
Total liabilities and equity	**117 966 145**	**119 115 370**	**119 919 032**	**114 377 122**

Total capital ratio	**22.58**	**20.18**	**18.41**	**16.95**
Common Equity Tier 1 capital ratio	**19.29**	**16.70**	**14.42**	**14.06**
Book value	**12 583 015**	**12 242 347**	**11 567 825**	**11 043 245**
Number of shares	**42 238 924**	**42 238 924**	**42 210 157**	**42 210 057**
Book value per share (in PLN)	**297.90**	**289.84**	**274.05**	**261.63**

IFRS Condensed Consolidated Financial Statements for the first quarter of 2016 PLN (000's)

mBank S.A. stand-alone financial information

Statement of changes in equity

Changes from 1 January to 31 March 2016

	Share capital		Retained earnings					Other components of equity					
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	Exchange differences on translation of foreign operations	Valuation of available for sale financial assets	Actuarial gains and losses relating to post-employment benefits	Actuarial gains (losses) on defined benefit pension plans	Share in profits (losses) of entities under the equity method	Total equity
Restated equity as at 1 January 2016	**168 956**	**3 366 802**	**4 384 011**	**32 976**	**1 065 143**	**2 791 517**	**-**	**(6 290)**	**441 758**	**859**	**(3 850)**	**465**	**12 242 347**
Total comprehensive income	-	-	-	-	-	-	**303 491**	**(72)**	**37 594**	**1 172**	**-**	**(4 725)**	**337 460**
Transfer to general banking risk reserve	-	-	-	-	30 000	(30 000)	-	-	-	-	-	-	-
Stock option program for employees	-	-	-	3 208	-	-	-	-	-	-	-	-	3 208
- value of services provided by the employees	-	-	-	*3 208*	-	-	-	-	-	-	-	-	*3 208*
Equity as at 31 March 2016	**168 956**	**3 366 802**	**4 384 011**	**36 184**	**1 095 143**	**2 761 517**	**303 491**	**(6 362)**	**479 352**	**2 031**	**(3 850)**	**(4 260)**	**12 583 015**

Changes from 1 January to 31 December 2015

	Share capital		Retained earnings					Other components of equity					
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	Exchange differences on translation of foreign operations	Valuation of available for sale financial assets	Actuarial gains and losses relating to post-employment benefits	Actuarial gains (losses) on defined benefit pension plans	Share in profits (losses) of entities under the equity method	Total equity
Equity as at 1 January 2015	**168 840**	**3 355 063**	**3 977 488**	**30 256**	**1 015 143**	**1 174 096**	**-**	**(6 974)**	**553 950**	**4 056**	**(2 332)**	**-**	**10 269 586**
- changes to accounting policies	-	-	-	-	-	772 711	-	-	-	-	-	948	773 659
Restated equity as at 1 January 2015	**168 840**	**3 355 063**	**3 977 488**	**30 256**	**1 015 143**	**1 946 807**	**-**	**(6 974)**	**553 950**	**4 056**	**(2 332)**	**948**	**11 043 245**
Total comprehensive income	-	-	-	-	-	-	**1 301 233**	**684**	**(112 192)**	**(3 197)**	**(1 518)**	**(483)**	**1 184 527**
Transfer to general banking risk reserve	-	-	-	-	50 000	(50 000)	-	-	-	-	-	-	-
Transfer to supplementary capital	-	-	406 523	-	-	(406 523)	-	-	-	-	-	-	-
Issue of shares	116	-	-	-	-	-	-	-	-	-	-	-	116
Stock option program for employees	-	11 739	-	2 720	-	-	-	-	-	-	-	-	14 459
- value of services provided by the employees	-	-	-	*14 459*	-	-	-	-	-	-	-	-	*14 459*
- settlement of exercised options	-	*11 739*	-	*(11 739)*	-	-	-	-	-	-	-	-	-
Equity as at 31 December 2015 - restated	**168 956**	**3 366 802**	**4 384 011**	**32 976**	**1 065 143**	**1 490 284**	**1 301 233**	**(6 290)**	**441 758**	**859**	**(3 850)**	**465**	**12 242 347**

Changes from 1 January to 31 March 2015

	Share capital		Retained earnings					Other components of equity					
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	Exchange differences on translation of foreign operations	Valuation of available for sale financial assets	Actuarial gains and losses relating to post-employment benefits	Actuarial gains (losses) on defined benefit pension plans	Share in profits (losses) of entities under the equity method	Total equity
Equity as at 1 January 2015	**168 840**	**3 355 063**	**3 977 488**	**30 256**	**1 015 143**	**1 174 096**	**-**	**(6 974)**	**553 950**	**4 056**	**(2 332)**	**-**	**10 269 586**
- changes to accounting policies	-	-	-	-	-	772 711	-	-	-	-	-	948	773 659
Restated equity as at 1 January 2015	**168 840**	**3 355 063**	**3 977 488**	**30 256**	**1 015 143**	**1 946 807**	**-**	**(6 974)**	**553 950**	**4 056**	**(2 332)**	**948**	**11 043 245**
Total comprehensive income	-	-	-	-	-	-	**450 309**	**12**	**75 688**	**1 053**	**-**	**(5 194)**	**521 868**
Issue of shares	1	-	-	-	-	-	-	-	-	-	-	-	1
Stock option program for employees	-	31	-	2 680	-	-	-	-	-	-	-	-	2 711
- value of services provided by the employees	-	-	-	*2 711*	-	-	-	-	-	-	-	-	*2 711*
- settlement of exercised options	-	*31*	-	*(31)*	-	-	-	-	-	-	-	-	-
Equity as at 31 March 2015 - restated	**168 841**	**3 355 094**	**3 977 488**	**32 936**	**1 015 143**	**1 946 807**	**450 309**	**(6 962)**	**629 638**	**5 109**	**(2 332)**	**(4 246)**	**11 567 825**

IFRS Condensed Consolidated Financial Statements for the first quarter of 2016 PLN (000's)

mBank S.A. stand-alone financial information

Statement of cash flows

	Period from 01.01.2016 to 31.03.2016	Period from 01.01.2015 to 31.03.2015 - restated
A. Cash flows from operating activities	**135 538**	**(399 751)**
Profit before income tax	**377 512**	**546 739**
Adjustments:	***(241 974)***	***(946 490)***
Income taxes paid	(118 647)	(63 603)
Amortisation	47 334	40 227
Foreign exchange (gains) losses related to financing activities	(88 623)	1 310 859
(Gains) losses on investing activities	(53 443)	(233 822)
Impairment of investments in subsidiaries	442	5 455
Dividends received	(22 090)	(31)
Interest income (income statement)	(829 391)	(828 749)
Interest expense (income statement)	242 922	304 646
Interest received	702 462	747 846
Interest paid	(228 573)	(290 925)
Changes in loans and advances to banks	759 787	(785 887)
Changes in trading securities	22	65 580
Changes in assets and liabilities on derivative financial instruments	(196 091)	209 684
Changes in loans and advances to customers	660 241	(4 016 700)
Changes in investment securities	(614 026)	(454 791)
Changes in other assets	(46 445)	(149 962)
Changes in amounts due to other banks	(1 028 480)	3 192 316
Changes in amounts due to customers	50 826	(568 297)
Changes in provisions	(56 380)	(14 555)
Changes in other liabilities	576 179	584 219
Net cash generated from/(used in) operating activities	**135 538**	**(399 751)**
B.Cash flows from investing activities	**(35 847)**	**144 841**
Investing activity inflows	**22 649**	**210 518**
Disposal of shares in subsidiaries, net of cash disposed	500	27 929
Disposal of intangible assets and tangible fixed assets	59	58
Dividends received	22 090	31
Other investing inflows	-	182 500
Investing activity outflows	**58 496**	**65 677**
Purchase of intangible assets and tangible fixed assets	58 496	65 677
Net cash generated from/(used in) investing activities	**(35 847)**	**144 841**
C. Cash flows from financing activities	**(136 133)**	**346 999**
Financing activity inflows	**-**	**415 421**
Proceeds from other loans and advances	-	415 420
Issue of ordinary shares	-	1
Financing activity outflows	**136 133**	**68 422**
Repayments of loans and advances from other banks	89 670	-
Repayments of other loans and advances	6 422	6 523
Payments of financial lease liabilities	2 260	2 289
Interest paid from loans and advances received from other banks, subordinated liabilities and long term issue	37 781	59 610
Net cash generated from/(used in) financing activities	**(136 133)**	**346 999**
Net increase / decrease in cash and cash equivalents (A+B+C)	**(36 442)**	**92 089**
Effects of exchange rate changes on cash and cash equivalents	(13 410)	(5 257)
Cash and cash equivalents at the beginning of the reporting period	6 892 431	4 762 605
Cash and cash equivalents at the end of the reporting period	**6 842 579**	**4 849 437**

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

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

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

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

As at 31 March 2016, mBank S.A. Group covered by the condensed consolidated financial statements comprised the following companies:

mBank S.A., the parent entity

mBank S.A. was established under the name of Bank Rozwoju Eksportu SA by Resolution of the Council of Ministers N° 99 of 20 June 1986. The Bank was registered pursuant to the legally valid decision of the District Court for the Capital City of Warsaw, 16th Economic Registration Division, on 23 December 1986 in the Business Register under the number RHB 14036. The 9th Extraordinary Meeting of Shareholders held on 4 March 1999 adopted the resolution changing the Bank's name to BRE Bank S.A. 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-lows arising from Resolutions N°26 and Resolutions N°27 of the 26th Annual General Meeting of mBank S.A., which was held on 11 April 2013. With the registration of changes in By-lows, the name of the Bank has changed from the current BRE Bank Spółka Akcyjna on mBank Spółka Akcyjna (abbreviated mBank S.A.).

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

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

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

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

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

As at 31 March 2016 the headcount of mBank S.A. amounted to 5 136 FTEs (Full Time Equivalents) and of the Group to 6 526 FTEs (31 March 2015: Bank to 4 972 FTEs, Group 6 388 FTEs).

As at 31 March 2016 the employment in mBank S.A. was 6 135 persons and in the Group 8 377 persons (31 March 2015: Bank 6 129 persons, Group 8 415 persons).

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

Corporates and Financial Markets Segment, including:

Corporate and Investment Banking

- Dom Maklerski mBanku S.A., subsidiary (the corporate segment of the company's activity)
- mBank Hipoteczny S.A., subsidiary (the corporate segment of the company's activity)
- mFaktoring S.A., subsidiary
- mLeasing Sp. z o.o., subsidiary (the corporate segment of the company's activity)
- Garbary Sp. z o.o., subsidiary
- Tele-Tech Investment Sp. z o.o., subsidiary

Financial Markets

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

Retail Banking Segment (including Private Banking)

- Aspiro S.A., subsidiary
- Dom Maklerski mBanku S.A., subsidiary (the retail segment of the company's activity)
- 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)
- mWealth Management S.A., subsidiary

Other

- mCentrum Operacji Sp. z o.o., subsidiary
- mLocum S.A., subsidiary
- BDH Development Sp. z o.o., subsidiary

Other information concerning companies of the Group

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

2. Description of the relevant accounting policies

The most important accounting policies applied to the drafting of these condensed consolidated financial statements are presented below. These principles were applied consistently over all presented periods.

2.1. Accounting basis

The condensed consolidated financial statements of mBank S.A. Group have been prepared for the 3-month period ended 31 March 2016.

The presented condensed consolidated financial statements for the first quarter of 2016 fulfill the requirements of the International Accounting Standard (IAS) 34 "Interim Financial Reporting", concerning interim financial statements and adopted for application by the European Union.

The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and, therefore, the presented condensed consolidated financial statements for the first quarter of 2016 should be read in conjunction with the mBank S.A. Group Consolidated Financial Statements for the year 2015, which have been prepared in accordance with IFRSs adopted for application by the European Union, on 25 February 2016 approved by the Bank's Management Board. Accounting policies applied to the preparation of the condensed consolidated financial statements are consistent with those applied in the annual consolidated financial statements for the year ended 31 December 2015, with the exception of the application of new or amended standards and interpretations binding for annual periods beginning on or after 1 January 2016 and described in Note 2.33.

The data presented in the mBank S.A. Group condensed consolidated financial statements for the year 2015 was audited by the auditor.

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

These condensed consolidated financial statements were prepared under the assumption that the Bank continues as a going concern in the foreseeable future, i.e. in the period of at least 12 months following the reporting date.

The Management Board of mBank S.A. approved these condensed consolidated financial statements for issue on 28 April 2016.

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 (see Note 2.20). 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.

IFRS Condensed Consolidated Financial Statements for the first quarter of 2016 PLN (000's)

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

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

Company	31.03.2016		31.12.2015		31.03.2015	
	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method
Aspiro S.A.	100%	full	100%	full	100%	full
BDH Development Sp. z o.o.	100%	full	100%	full	100%	full
Dom Maklerski mBanku S.A.	100%	full	100%	full	100%	full
Garbary Sp. z o.o.	100%	full	100%	full	100%	full
mBank Hipoteczny S.A.	100%	full	100%	full	100%	full
mCentrum Operacji Sp. z o.o.	100%	full	100%	full	100%	full
mFaktoring S.A.	100%	full	100%	full	100%	full
mLeasing Sp. z o.o.	100%	full	100%	full	100%	full
mWealth Management S.A.	100%	full	100%	full	100%	full
Tele-Tech Investment Sp. z o.o.	100%	full	100%	full	-	-
mFinance France S.A.	99,998%	full	99,998%	full	99,98%	full
mLocum S.A.	79,99%	full	79,99%	full	79,99%	full
MLV 45 Sp. z o.o. spółka komandytowa	-	-	-	-	100%	full

Starting with the financial statements for the third quarter of 2015, the Group has begun to consolidate the company Tele-Tech Investment Sp. z o.o., a subsidiary of mBank.

2.3. Associates and joint ventures

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

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

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

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

The share of the Group in the profits (losses) of associates and joint ventures since the date of acquisition is recognised in the income statement, whereas its share in other comprehensive income since the date of acquisition – in other comprehensive income. The carrying amount of the investment is adjusted by the total changes of share of net assets. When the share of the Group in the losses of an associate or joint venture becomes equal to or greater than the share of the Group in that associate or joint venture, possibly covering receivables other than secured claims, the Group discontinues the recognition of any further losses, unless it has assumed obligations or has settled payments on behalf of the respective associate or joint venture.

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

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

2.4. Interest income and expenses

All interest income on financial instruments carried at amortised cost using the effective interest rate method is recognised in the income statement as well as interest income from financial assets held for trading and available for sale.

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 at which the discounted future payments or future cash inflows in the expected life of the financial instrument, are equal to the net present carrying value of the respective financial asset or liability. When calculating the effective interest rate, the Group estimates the cash flows taking into account all the contractual terms of the financial instrument, but without taking into account possible future losses on account of non-recovered loans and advances. 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.

Following the recognition of an impairment loss on a financial asset or a group of similar financial assets, the interest income is calculated on the net value of financial assets and recognised 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 recognised in the calculation of the effective interest rate.

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

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

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

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

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

2.5. Fee and commission income

Income on account of fees and commissions is recognised on the accrual basis, at the time of performance of the respective services. Fees charged for the granting of loans which are likely to be drawn down are deferred (together with the related direct costs) and recognised as adjustments 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. 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 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.

Additionally, fee and commission income on insurance activity comprises income on services provided by an insurance agent and income on account of payments for arranging instalments for a premium for insurance products sold through the Internet platform. The fee for the distribution of premium installment is settled in accordance with the duration of the policy.

Income on account of services provided as an insurance agent is recognised at the time of performance of the services in the net amount.

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

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

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

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

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

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

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

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

2.7. Insurance premium revenue

Insurance premium revenue accomplished upon insurance activity is recognised at the policy issue date and calculated proportionally over the period of insurance cover. Insurance premium revenue is recognised under other operating income in the consolidated financial statements of the Group.

2.8. Compensations and benefits, net

Compensations and benefits, net relate to insurance activity. They comprise payoffs and charges made in the reporting period due to compensations and benefits for events arising in the current and previous periods, together with costs of claims handling and costs of enforcement of recourses, less received returns, recourses and any recoveries, including recoveries from sale of remains after claims and reduced by reinsurers' share in these positions. Costs of claims handling and costs of enforcement of recourses also comprise costs of legal proceedings. The item also comprises compensations and benefits due to co-insurance activity in the part related to the share of the Group. Compensations and benefits, net are recognised together with insurance premium revenue recognition under other operating income in the consolidated financial statements of the Group.

2.9. 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.

2.10. Financial assets

The Group classifies its financial assets to the following categories: financial assets valued at fair value through the income statement; loans and receivables; financial assets held to maturity; financial assets available for sale. The classification of financial assets is determined by the Management at the time of their initial recognition.

Standardised purchases and sales of financial assets at fair value through the income statement, held to maturity and available for sale are recognised on the settlement date – the date on which the Group 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 recognised in profit or loss or in other components of equity. Loans are recognised when cash is advanced to the borrowers. Derivative financial instruments are recognised beginning from the date of transaction.

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

Financial assets valued at fair value through the income statement

This category comprises two subcategories: financial assets held for trading and financial assets designated at fair value through the income statement upon initial recognition. A financial asset is classified in this category if it was acquired principally for the purpose of short-term resale or if it was classified in this category by the companies of the Group. Derivative instruments are also classified as "held for trading", unless they were designated for hedging according to IAS 39.

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

The Group classifies financial assets/financial liabilities as measured at fair value through the income statement if they meet either of the following conditions:

- assets/liabilities are classified as held for trading i.e. they are acquired or incurred principally for the purpose of selling or repurchasing them in the near term, they are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit making or they are derivatives (except for derivatives that are designated as and being effective hedging instruments and financial guarantee contracts),
- upon initial recognition, assets/liabilities are designated by the entity at fair value through the income statement according to IAS 39.

If a contract contains one or more embedded derivatives, the Group designates the entire hybrid (combined) contract as a financial asset or financial liability at fair value through the income statement unless:

- the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or
- it is clear with little or no analysis when a similar hybrid instrument is first considered that separation of the embedded derivative(s) is prohibited, such as a prepayment option embedded in a loan that permits the holder to prepay the loan for approximately its amortised cost.

The Group also designates the financial assets/financial liabilities at fair value through the income statement 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.

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

Interest income/expense on financial assets/financial liabilities designated at fair value (Note 2.4), except for derivatives the recognition of which is discussed in Note 2.17, is recognised in net interest income. The valuation and result on disposal of financial assets/financial liabilities designated at fair value is recognised in trading income.

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 the income statement.

Loans and receivables

Loans and receivables consist of financial assets not classified as derivative instruments, with payments either determined or possible to determine, not listed on an active market. They arise when the Group supplies monetary assets, goods or services directly to the debtor without any intention of trading the receivable.

Financial assets held to maturity

Investments held to maturity comprise listed on active markets financial assets, not classified as derivative instruments, where the payments are determined or possible to determine and with specified maturity dates, and which the Group intends and is capable of holding until their maturity.

In the case of sale by the Group before maturity of a part of assets held to maturity which cannot be deemed insignificant the held to maturity portfolio is tainted, and there with all the assets of this category are reclassified to the available for sale category.

In reporting periods presented in these financial statements, there were no assets held to maturity at the Group.

Financial assets available for sale

Available for sale investments consist of investments which the Group intends to hold for an undetermined period of time. They may be sold, e.g., in order to improve liquidity, in reaction to changes of interest rates, foreign exchange rates, or prices of equity instruments.

Interest income and expense from available for sale investments are presented in net interest income. Gains and losses from sale of available for sale investments are presented in gains and losses from investment securities.

Available for sale financial assets and financial assets measured at fair value through the income statement are valued at the end of the reporting period according to their fair value. Loans and receivables, as well as investments held to maturity are measured at adjusted cost of acquisition (amortised cost), applying the effective interest rate method. Gains and losses resulting from changes in the fair value of "financial assets measured at fair value through the income statement" are recognised in the income statement in the period in which they arise.

Gains and losses arising from changes in the fair value of available for sale financial assets are recognised 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 recognised in other comprehensive income is now recognised in the income statement. However, interest calculated using the effective interest rate is recognised in the income statement. Dividends on available for sale equity instruments are recognised in the income statement when the entity's right to receive payment is established.

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 Group 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.

If the application of valuation techniques does not ensure obtaining a reliable fair value of investments in equity instruments not quoted on an active market, they are stated at cost.

2.11. Reinsurance assets

The Group transfers insurance risks to reinsurers in the course of typical operating activities in insurance activity. Reinsurance assets comprise primarily reinsurers' share in technical-insurance provisions.

The amounts of settlements with reinsurers are estimated according to relevant reinsured polices and reinsurance agreements.

Tests for impairment of reinsurance assets are carried out if there is objective evidence that the reinsurance asset is impaired. Impairment loss of reinsurance asset is calculated if either there is an objective evidence that the Group might not receive the receivable in accordance with the agreement or the value of such impairment can be reliably assessed.

If in a subsequent period the impairment loss is decreasing and the decrease can be objectively related to an event occurring after the recognition of impairment, then the previously recognised impairment loss is reversed as an adjustment of the impairment loss through the consolidated income statement.

The reversal cannot cause an increase of the carrying amount of the financial asset more than the amount which would constitute the amortised cost of this asset on the reversal date if the recognition of the impairment did not occur at all.

2.12. Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.13. Impairment of financial assets

Assets carried at amortised cost

At the end of the reporting period, the Group estimates whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the future cash flows of the financial asset or group of financial assets that can be reliably estimated. Loss events were divided into definite ("hard") loss events of which occurrence requires that there is a need to classify the client into the default category, and indefinite ("soft") loss events of which occurrence may imply that there is a need to classify the client into the default category.

The Group measures impairment of loan exposures in accordance with the International Accounting Standard 39. The classification of customers to default portfolio and calculation of impairment write-off is as follows:

a) identifying impairment indicator on individual basis (loss events) and if they exist, classifying a customer to a default category;

b) assessing estimated future cash flows (repayments) both from collateral and from repayments by a customer;

c) calculating impairment losses taking into account the current amount of estimated future recovery discounted at the effective interest rate;

d) booking of impairment losses and provisions.

Loss events were divided into definite ('hard') loss events of which occurrence requires the client to be classified into the default category, and indefinite ('soft') loss events of which occurrence may imply that there is a need to classify the client into the default category. In the case of indefinite loss events, credit analyst assesses additionally whether the event impacted adversely the obligor's creditworthiness. Indefinite loss events have been introduced in order to signal situations that may increase the credit risk of the debtor, which may result in the loss of the debtor's ability to repay loan the Bank.

The list of definite loss events:

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.

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) 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 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.

<u>The list of required conditions for indefinite loss events is prepared separately for each following entity type:</u>

a) governments and central banks,

b) banks,

c) corporations, including specialised lending,

d) local government units,

e) insurers,

f) pension fund managing companies, investment fund managing companies.

Defining separately the conditions for indefinite loss events for particular types of entities aims at reflecting specificity of particular types of entities in identification of loss events.

In order to assess if the impairment loss has occurred, identification of credit exposures with premises for impairment is carried out. Subsequently the comparison of the gross balance sheet credit exposure with the value of estimated future cash flows discounted at the original effective interest rate is carried out, which leads to the conclusion whether the impairment loss has occurred. If the discounted value of future cash flow is higher than the gross balance sheet value, the impairment charge is not recognised.

In case of specific situation, when the future cash flows are clearly dependent on individual events (based on discrete metric), the Bank estimates the probability of such events as the basis for calculating the impairment charge.

The Group first assesses whether objective indications exist individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that for the given financial asset assessed individually there are no objective indications of its impairment (regardless of whether that particular item is material or not), the given asset is included in a group of financial assets featuring similar credit risk characteristics, which is subsequently collectively assessed in terms of its possible impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Recognition of default in respect of one exposure to a customer leads to recognision of the default status for all exposures to that customer.

If there is impairment indicator for impairment of loans and receivables or investments held to maturity and recognised at amortised cost, the impairment amount is calculated as the difference between the carrying value in the statement of financial position of the respective asset and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying value of the asset is reduced through the use of an allowance account, and the resulting impairment loss is charged to the income statement. If a loan or held to maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of collective evaluation of impairment, the credit exposures are grouped in order to ensure the uniformity of credit risk attached to the given portfolio. Many different parameters may be applied to the grouping into homogeneous portfolios, e.g., the type of counterparty, the type of exposure, estimated probability of default, the type of collateral provided, overdue status outstanding, maturities, and their combinations. Such features influence the estimation of the future cash flows attached to specific groups of assets as they indicate the capabilities of repayment on the part of debtors of their total liabilities in conformity with the terms and conditions of the contracts concerning the assessed assets.

Future cash flows concerning groups of financial assets assessed collectively in terms of their possible impairment are estimated on the basis of contractual cash flows and historical loss experience for assets with credit risk characteristics similar to those in the group.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

For the purpose of calculation of the amount to be provisioned against balance sheet exposures analysed collectively, the probability of default (PD) method has been applied. By calibration of PD values, taking into account characteristics of specific products and emerging periods for losses on those products, such PD values allow already arisen losses to be identified and cover only the period in which the losses arising at the date of establishment of impairment should crystallise.

When a loan is uncollectible, it is written off against the related provision for impairment. Before any loan is written off, it is necessary to conduct all the procedures required by the Group and sets the amount of the loss. Subsequent recoveries of amounts previously written off reduce the amount of the provision for loan impairment in the income statement.

If in a subsequent period, after the transitional period, the impairment loss amount is decreasing and the decrease can be related objectively to an event occurring after the impairment was recognised (e.g., improvement of the debtor's credit rating), then the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recorded in the income statement.

Assets measured at fair value available for sale

At the end of the reporting period the Group estimates whether there is an objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity instruments classified as assets available for sale, a significant or prolonged decline in the fair value of the security below its cost resulting from higher credit risk is considered when determining whether the assets are impaired. If such kind of evidence concerning available for sale financial assets exists, the cumulative loss – determined as the difference between the cost of acquisition and the current fair value – is removed from other comprehensive income and recognised in the income statement. The above indicated difference should be reduced by the impairment concerning the given asset which was previously recognised in the income statement. Impairment losses concerning equity instruments recorded in the income statement are not reversed through the income statement, but through other comprehensive income. If the fair value of a debt instrument classified as available for sale increases in a subsequent period, and such increase can be objectively related to an event occurring after the recording of the impairment loss in the income statement, then the respective impairment loss is reversed in the income statement.

Renegotiated agreements

The Group considers renegotiations on contractual terms of loans and advances as impairment indicator unless the renegotiation was not due to the situation of the debtor but had been carried out on normal business terms. In such a case the Group makes an assessment whether the impairment should be recognised on either individual or group basis.

2.14. 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 measures it at the higher of:

- the amount determined in accordance with IAS 37 "*Provisions, Contingent Liabilities and Contingent Assets*", and
- the amount initially recognised less, when appropriate, cumulative amortization recognised in accordance with IAS 18 "*Revenue*".

2.15. 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.

2.16. Sell-buy-back, buy-sell-back, reverse repo and repo contracts

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

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

When concluding a repo or reverse repo transaction, mBank S.A. 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 held for trading or as investment financial assets, and also as liabilities in the case of "sell-buy-back" transactions and as receivables in the case of "buy-sell-back" transactions.

Securities borrowed by the Group under "sell-buy-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 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 "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.

2.17. 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 2.18.

Embedded derivative instruments are treated as separate derivative instruments if the risks attached to them and their characteristics are not strictly linked to the risks and characteristics of the underlying contract and the underlying contract is not measured at fair value through the income statement. Embedded derivative instruments of this kind are measured at fair value and the changes in fair value are recognised in the income statement.

In accordance with IAS 39 AG 30: (i), there is no need to separate the prepayment option from the host debt instrument for the needs of consolidated financial statements, because 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 consolidated 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 convertible 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). Derivative instruments designated as hedges against positions maintained by the Group are recorded by means of hedge accounting, subject to the fulfilment of the criteria specified in IAS 39:

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

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

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

Fair value hedges

Changes in the fair value of derivative instruments designated and qualifying as fair value hedges are recognised in the income statement together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

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

Cash flow hedges

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

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

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

Derivative instruments not fulfilling the criteria of hedge accounting

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

The Group holds the following derivative instruments in its portfolio:

Market risk instruments:

- Futures contracts for bonds, index futures
- Options for securities and for stock-market indices
- Options for futures contracts

- Forward transactions for securities
- Commodity swaps

Interest rate risk instruments:

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

Foreign exchange risk instruments:

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

2.18. 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 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 date, 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.

2.19. Borrowings and deposits taken

Borrowings (including deposits) are initially recognised at fair value reduced by the incurred transaction costs. After the initial recognition, borrowings 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 recognised in the income statement over the period of duration of the respective agreements according to the effective interest rate method.

2.20. 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. Accumulated 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 measured as 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 acquire over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill on acquisition of subsidiaries is included in "Intangible assets". Goodwill is not amortised, but it is tested annually for impairment and if there have been any indication that it may be impaired, and it is carried in the statement of financial position at cost reduced by accumulated impairment losses. The Group assesses at the end of each reporting period whether there is any indication that cash 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.

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 finite 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.

2.21. 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 when 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 are not classified as revenue.

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.

2.22. 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.

2.23. 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 disposal 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 (or disposal groups) and its sale must be highly probable, i.e., the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, 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.

2.24. Deferred income tax

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

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

The main temporary differences arise on account of impairment write-offs recognised in relation to the loss of value of credits and granted guarantees of repayment of loans, amortization 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 available for sale investments 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.

2.25. Assets repossessed for debt

Repossessed collateral 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.

2.26. 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".

Deferred income comprises reinsurance and co-insurance commissions, resulting from insurance agreements included in reinsurance and co-insurance agreements, which are subject to settlement over the period in the proportional part to the future reporting periods.

Acquisition costs in the part attributable to future reporting periods are subject to settlement, proportionally to the duration of the relevant insurance agreements.

2.27. Leasing

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

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

<u>mBank S.A. Group as a lessor</u>

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

Revenue from leasing agreements is recognised as follows:

- Interests on finance lease

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

- Net revenue from operating lease

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

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

<u>mBank S.A. Group as a lessee</u>

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

2.28. Provisions

The value of provisions for contingent liabilities such as unutilised guarantees and (import) letters of credit, as well as for unutilised irreversible unconditionally granted credit limits, is measured in compliance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

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.

Technical-insurance provisions for unpaid claims, benefits and premiums concern insurance activity.

Provision for unpaid claims and benefits is created in the amount of the established or expected final value of future claims and benefits paid in connection with events before the reporting period date, including related claims handling costs.

Provision for unpaid claims and benefits which were notified to the insurer and in relation to which the information held does not enable to assess the value of claims and benefits is calculated using the lump sum method.

Provision for premiums is created individually for each insurance agreement as premium written, attributed to subsequent reporting periods, proportionally to the period for which the premium was written on the daily basis. However, in case of insurance agreements whose risk is not evenly apportioned over the period of duration of insurance, provision is created proportionally to the expected risk in subsequent reporting periods.

At each reporting date, the Group tests for adequacy of technical-insurance provisions to ensure whether the provisions deducted by deferred acquisition costs are sufficient. The adequacy test is carried out using up-to-date estimates of future cash flows arising from insurance agreements, including costs of claims handling and policy-related costs.

If the assessment reveals that the technical-insurance provisions are insufficient in relation to estimated future cash flows, then the whole disparity is promptly recognised in the consolidated income statement through impairment of deferred acquisition costs or/and supplementary provisions.

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

Cash-settled share-based payment transactions

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

Other employee benefits

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

2.30. Equity

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

Registered share capital

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

- Own shares

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

Share premium

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

- Share issue costs

Costs directly connected with the issue of new shares or reduce the proceeds from the issue recognised in equity.

Retained earnings

Retained earnings include:

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

Other supplementary capital, other reserve capital and general banking 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 employee options.

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 on account of dividends payable under the item "Other liabilities".

Other components of equity

Other components of equity result from:

- valuation of available for sale financial instruments,
- 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.

2.31. 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 the income statement are recognised under gains or losses arising in connection with changes of fair value. Foreign exchange differences on account of such monetary assets as equity instruments classified as available for sale financial assets are recognised under 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 component of that gain or loss is recognised in other comprehensive income. Coversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Changes in fair value of monetary items available for sale 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 3 months of each presented periods; whereas
- all resulting foreign exchange differences are recognised as a distinct item of other comprehensive income.

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

Leasing business

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

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

2.32. 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.

Dom Maklerski mBanku S.A. operates trust and fiduciary activities in connection with the handling of securities accounts of the clients.

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.

2.33. New standards, interpretations and amendments to published standards

These financial statements include the requirements of all the International Accounting Standards and the International Financial Reporting Standards endorsed by the European Union, and the related with them interpretations which have been endorsed and binding for annual periods starting on 1 January 2016.

Published Standards and Interpretations which have been issued and binding for the Group for annual periods starting on 1 January 2016

Standards and interpretations approved by the European Union:

- IAS 19 (Amended), *Defined Benefit Plans: Employee Contributions*, published by the International Accounting Standards Board on 21 November 2013, approved by European Union on 17 December 2014 and binding for annual periods starting on or after 1 July 2014, in EU effective at the latest for financial years beginning on or after 1 February 2015.
- Improvements to IFRSs 2010 - 2012, published by the International Accounting Standards Board on 12 December 2013, approved by European Union on 17 December 2014, in majority binding for annual periods starting on or after 1 July 2014 and some effective prospectively for transactions occurring on or after 1 July 2014, in EU effective at latest for financial years beginning on or after 1 February 2015.
- Amendments to IAS 1, *Disclosure initiative*, published by the International Accounting Standards Board on 18 December 2014 approved by European Union on 18 December 2015 and binding for annual periods starting on or after 1 January 2016.
- Amendments to IAS 16 and IAS 38, *Clarification of acceptable methods of depreciation and amortization*, published by the International Accounting Standards Board on 12 May 2014, approved by European Union on 2 December 2015, binding for annual periods beginning on or after 1 January 2016.
- Amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants* published by the International Accounting Standards Board on 30 June 2014, approved by European Union on 23 November 2015, binding for annual periods beginning on or after 1 January 2016.
- Amendments to IAS 27, *Equity method in separate financial statements*, published by the International Accounting Standards Board on 12 August 2014, approved by European Union on 18 December 2015, binding for annual periods beginning on or after 1 January 2016. The impact of applying the amended IAS 27 on the standalone comparative data presented in these financial statements has been presented under Note 2.34 "Comparative data".
- IFRS 11 (Amended), *Accounting for acquisitions of interests in joint operations*, published by the International Accounting Standards Board on 6 May 2014, approved by European Union on 24 November 2015, binding for annual periods beginning on or after 1 January 2016.
- Annual Improvements to IFRSs 2012-2014 Cycle, changing 4 standards, published by the International Accounting Standards Board on 25 September 2014, approved by European Union on 15 December 2015 and binding for annual periods beginning on or after 1 January 2016.

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

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

Standards and interpretations not yet approved by the European Union:

- Amendments to IFRS 10 and IAS 28, *Sale or contribution of assets between an investor and its associate or joint venture*, published by the International Accounting Standards Board on 11 September 2014, binding for annual periods beginning on or after 1 January 2016, wherein the term has been initially postponed by the International Accounting Standards Board.

  The Group is of the opinion that the application of the amended standards will have no significant impact on the financial statements in the period of its initial application.
- Amendments to IFRS 10, IFRS 12 and IAS 28, *Investment entities: applying the consolidation exception,* published by the International Accounting Standards Board on 18 December 2014, binding for annual periods starting on or after 1 January 2016.

  The Group is of the opinion that the application of the amended standards will have no significant impact on the financial statements in the period of their initial application.
- IFRS 14, *Regulatory Deferral Accounts*, published by the International Accounting Standards Board on 30 January 2014, binding for annual periods starting on or after 1 January 2016.

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

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

Standards and interpretations not yet approved by the European Union:

- IFRS 9, *Financial Instruments*, published by the International Accounting Standards Board on 24 July 2014, represents the final version of the standard, replaces earlier versions of IFRS 9 and completes the International Accounting Standards Board's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard addresses classification and measurement of financial assets and financial liabilities, impairment methodology and hedge accounting. IFRS 9 does not include macro hedge accounting, which is a separate project of International Accounting Standards Board. The Group continues to apply IAS 39 accounting for macro hedges. The new standard is effective for annual periods beginning on or after 1 January 2018.

  The Group is of the opinion that the application of the standard will have an impact on the presentation and measurement of these instruments in the financial statements.

- IFRS 15, *Revenue from Contracts with Customers*, published by the International Accounting Standards Board on 28 May 2014, binding for annual periods beginning on or after 1 January 2018.

  Amendments to IFRS 15 were published by International Accounting Standards Board on 11 September 2015 and are binding for annuals periods starting on or after 1 January 2018.

  Amendments to IFRS 15, *Clarifications to IFRS 15 Revenue from Contracts with Customers*, published by International Accounting Standards Board on 12 April 2016, binding for annuals periods starting on or after 1 January 2018.

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

- Amendments to IAS 12, *Recognition of Deferred Tax Assets for Unrealised Losses*, published by the International Accounting Standards Board on 19 January 2016, binding for annual periods beginning on or after 1 January 2017.

  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 its initial application

- Amendments to IAS 7, *Disclosure Initiative*, published by the International Accounting Standards Board on 29 January 2016, binding for annual periods beginning on or after 1 January 2017.

  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 its initial application

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

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

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

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

IFRS Condensed Consolidated Financial Statements for the first quarter of 2016 PLN (000's)

2.34. Comparative data

- Consolidated Financial Statements

Consolidated data as at 31 March 2015 and 31 December 2015 are comparable with the current accounting period and therefore have not been adjusted except for the presentation of the amount of tax on the Group's balance sheet items, as described below.

Following the entry into force on 1 February 2016 of the Act on tax on certain financial institutions in the comparative data of the income statement for the period from 1 January to 31 March 2015, the Group reclassified the amount of PLN 907 thousand of the tax paid by the mBank's branch in Slovakia on its total amount of liabilities, from overhead costs (from "Taxes and fees") to the new position "Taxes on the Group balance sheet items". This change had no impact on the net income and equity of the Group.

- Stand-alone Financial Statements

Similarly as in case of comparative data of the Group, in connection with the entry into force on 1 February 2016 of the Act on tax on certain financial institutions in the comparative data of the income statement for the period from 1 January to 31 March 2015, the Bank reclassified the amount of PLN 907 thousand of tax paid by the mBank's branch in Slovakia on its total amount of liabilities, from overhead costs (from "Taxes and fees") to the new position "Taxes on the Bank's balance sheet items". This change had no impact on the net income and equity of the Bank.

Due to the change in accounting policy regarding to the valuation method of investments in subsidiaries, associates and joint ventures, the Bank made restatement of the stand-alone comparative data as at 31 March 2015, as at 1 January 2015 and as at 31 December 2015. Until 31 December 2015, shares in subsidiaries, associates and joint ventures were recognised at cost method. Starting from 1 January 2016 the Bank applies the equity method to the valuation of such assets following the entry into force of IAS 27 *Separate financial statements* amendments allowing usage of such a valuation method (IAS 27.10 (c)).

The impact of changes in the accounting policies on the stand-alone comparative data of mBank S.A. presented in these condensed consolidated financial statements are shown in the following tables.

Restatement of the mBank S.A. statement of financial position as at 31 March 2015.

ASSETS	31.03.2015 before restatement	Restatement	31.03.2015 after restatement
Investments in subsidiaries	804 674	857 659	1 662 333
Other items of assets	118 256 699	-	118 256 699
Total assets	**119 061 373**	**857 659**	**119 919 032**
LIABILITIES AND EQUITY			
Liabilities			
Other liabilities	1 634 313	24 622	1 658 935
Other items of liabilities	106 692 272	-	106 692 272
Total liabilities	**108 326 585**	**24 622**	**108 351 207**
Equity			
Share capital	**3 523 935**	**-**	**3 523 935**
Retained earnings:	**6 585 400**	**837 283**	**7 422 683**
- Profit for the previous year	6 199 663	772 711	6 972 374
- Net profit for the current year	385 737	64 572	450 309
Other components of equity	**625 453**	**(4 246)**	**621 207**
			-
Total equity	**10 734 788**	**833 037**	**11 567 825**
Total liabilities and equity	**119 061 373**	**857 659**	**119 919 032**

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Restatement of the mBank S.A. income statement for the period from 1 January 2015 to 31 March 2015.

	1st Quarter period from 01.01.2015 to 31.03.2015 before restatement	Restatement	1st Quarter period from 01.01.2015 to 31.03.2015 after restatement
Interest income	828 749	-	828 749
Interest expense	(304 646)	-	(304 646)
Net interest income	**524 103**	**-**	**524 103**
Fee and commission income	268 733	-	268 733
Fee and commission expense	(105 006)	-	(105 006)
Net fee and commission income	**163 727**	**-**	**163 727**
Dividend income	31	-	31
Net trading income, including:	101 759	-	101 759
Foreign exchange result	*79 780*	-	*79 780*
Other net trading income and result on hedge accounting	*21 979*	-	*21 979*
Gains less losses from investment securities, investments in subsidiaries and associates, including:	163 741	-	163 741
Gains less losses from investment securities	*3 947*	-	*3 947*
Gains less losses from investments in subsidiaries and associates	*159 794*	-	*159 794*
Other operating income	12 727	-	12 727
Net impairment losses on loans and advances	(97 558)	-	(97 558)
Overhead costs	(332 295)	907	(331 388)
Amortisation	(40 227)	-	(40 227)
Other operating expenses	(13 841)	-	(13 841)
Operating profit	**482 167**	**907**	**483 074**
Taxes on the Bank's balance sheet items	-	(907)	(907)
Share in profits (losses) of entities under the equity method	-	64 572	64 572
Profit before income tax	**482 167**	**64 572**	**546 739**
Income tax expense	(96 430)	-	(96 430)
Net profit	**385 737**	**64 572**	**450 309**
Earnings per share (in PLN)	**9.14**		**10.67**
Diluted earnings per share (in PLN)	**9.13**		**10.66**

Restatement of the mBank S.A. statement of comprehensive income for the period from 1 January 2015 to 31 March 2015.

	1st Quarter period from 01.01.2015 to 31.03.2015 before restatement	Restatement	1st Quarter period from 01.01.2015 to 31.03.2015 after restatement
Net profit	**385 737**	**64 572**	**450 309**
Other comprehensive income net of tax, including:	**76 753**	**(5 194)**	**71 559**
Items that may be reclassified subsequently to the income statement			**-**
Exchange differences on translation of foreign operations (net)	12	-	12
Change in valuation of available for sale financial assets (net)	75 688	-	75 688
Cash flow hedges (net)	1 053	-	1 053
Share in other comprehensive income of entities under the equity method	-	(5 194)	(5 194)
Items that will not be reclassified to the income statement			**-**
Actuarial gains and losses relating to post-employment benefits (net)	-	-	-
Total comprehensive income net of tax, total	**462 490**	**59 378**	**521 868**

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Restatement of the mBank S.A. statement of cash flows for the period from 1 January 2015 to 31 March 2015.

	Period from 01.01.2015 to 31.03.2015 before restatement	Restatement	Period from 01.01.2015 to 31.03.2015 after restatement
A. Cash flows from operating activities	**(399 751)**	**-**	**(399 751)**
Profit before income tax	**482 167**	**64 572**	***546 739***
Adjustments:	***(881 918)***	***(64 572)***	***(946 490)***
Income taxes paid	(63 603)	-	(63 603)
Amortisation	40 227	-	40 227
Foreign exchange (gains) losses related to financing activities	1 310 859	-	1 310 859
(Gains) losses on investing activities	(169 250)	(64 572)	(233 822)
Impairment of investments in subsidiaries	5 455	-	5 455
Dividends received	(31)	-	(31)
Interest income (income statement)	(828 749)	-	(828 749)
Interest expense (income statement)	304 646	-	304 646
Interest received	747 846	-	747 846
Interest paid	(290 925)	-	(290 925)
Changes in loans and advances to banks	(785 887)	-	(785 887)
Changes in trading securities	65 580	-	65 580
Changes in assets and liabilities on derivative financial instruments	209 684	-	209 684
Changes in loans and advances to customers	(4 016 700)	-	(4 016 700)
Changes in investment securities	(454 791)	-	(454 791)
Changes in other assets	(149 962)	-	(149 962)
Changes in amounts due to other banks	3 192 316	-	3 192 316
Changes in amounts due to customers	(568 297)	-	(568 297)
Changes in provisions	(14 555)	-	(14 555)
Changes in other liabilities	584 219	-	584 219
Net cash generated from/(used in) operating activities	**(399 751)**	**-**	**(399 751)**
B.Cash flows from investing activities	**144 841**	**-**	**144 841**
C. Cash flows from financing activities	**346 999**	**-**	**346 999**
Net increase / decrease in cash and cash equivalents (A+B+C)	**92 089**	**-**	**92 089**
Effects of exchange rate changes on cash and cash equivalents	(5 257)	-	(5 257)
Cash and cash equivalents at the beginning of the reporting period	4 762 605	-	4 762 605
Cash and cash equivalents at the end of the reporting period	**4 849 437**	**-**	**4 849 437**

IFRS Condensed Consolidated Financial Statements for the first quarter of 2016 PLN (000's)

Restatement of the mBank S.A. statement of financial position as at 31 December 2015.

ASSETS	31.12.2015 before restatement	Restatement	31.12.2015 after restatement
Investments in subsidiaries	1 438 183	320 064	1 758 247
Other items of assets	117 357 123	-	117 357 123
Total assets	**118 795 306**	**320 064**	**119 115 370**
LIABILITIES AND EQUITY			
Liabilities			
Other liabilities	1 363 428	22 836	1 386 264
Other items of liabilities	105 486 759	-	105 486 759
Total liabilities	**106 850 187**	**22 836**	**106 873 023**
Equity			
Share capital	**3 535 758**	**-**	**3 535 758**
Retained earnings:	**7 976 884**	**296 763**	**8 273 647**
- Profit for the previous year	6 705 435	266 979	6 972 414
- Net profit for the current year	1 271 449	29 784	1 301 233
Other components of equity	**432 477**	**465**	**432 942**
Total equity	**11 945 119**	**297 228**	**12 242 347**
Total liabilities and equity	**118 795 306**	**320 064**	**119 115 370**

Restatement of the mBank S.A. statement of financial position as at 1 January 2015 (opening balance).

ASSETS	01.01.2015 before restatement	Restatement	01.01.2015 after restatement
Investments in subsidiaries	806 567	773 659	1 580 226
Other items of assets	112 796 896	-	112 796 896
Total assets	**113 603 463**	**773 659**	**114 377 122**
LIABILITIES AND EQUITY			
Liabilities			
Total liabilities	**103 333 877**	**-**	**103 333 877**
Equity			
Share capital	**3 523 903**	**-**	**3 523 903**
Retained earnings:	**6 196 983**	**772 711**	**6 969 694**
- Profit for the previous year	6 196 983	772 711	6 969 694
- Net profit for the current year	-	-	-
Other components of equity	**548 700**	**948**	**549 648**
Total equity	**10 269 586**	**773 659**	**11 043 245**
Total liabilities and equity	**113 603 463**	**773 659**	**114 377 122**

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

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

Impairment of loans and advances

The Group reviews its loan portfolio in terms of possible impairments at least once per quarter. In order to determine whether any impairment loss should be recognised in the income statement, the Group assesses whether any evidence exists that would indicate some measurable reduction of estimated future cash flows attached to the loan portfolio. The methodology and the assumptions (on the basis of which the estimated cash flow amounts and their anticipated timing are determined) are regularly verified. The rules of determining write-downs and provisions for impairment of credit exposures have been described under Note 3.4.6 of the Consolidated Financial Statements of mBank S.A. Group for the year 2015.

Fair value of derivatives and other financial instruments

The fair value of financial instruments not listed on active markets is determined by applying valuation techniques. All the models are approved prior to being applied and they are also calibrated in order to assure that the obtained results indeed reflect the actual data and comparable market prices. As far as possible, observable market data originating from an active market are used in the models. Methods for determining the fair value of financial instruments are described in Note 3.16 of the Consolidated Financial Statements of mBank S.A. Group for the year 2015.

Impairment of available for sale financial assets

The Group reviews its debt securities classified as available for sale investments at each reporting date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances. The Group also records impairment charges on available for sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires professional judgment. In making this judgment, the Group evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

Deferred tax assets

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

Revenue and expenses from sale of insurance products bundled with loans

Revenue 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 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.

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

Liabilities due to post-employment employee benefits

The costs of post-employment employee benefits are determined using an actuarial valuation. 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 liabilities, such estimates are subject to significant uncertainty.

Leasing classification

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

Classification for forborne exposures

In accordance with the Group's forbearance policy presented under Note 3.4.7 of the Consolidated Financial Statements of mBank S.A. Group for the year 2015, the Group classifies exposure / customers which are subject to the forbearance policy on the basis of professional judgment.

4. Business segments

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

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

According to above-mentioned changes, the comparative data concerning business segments of the Group were restated to reflect changes in presentation made to the current financial year.

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: mWealth Management S.A., Aspiro S.A., as well as the results of retail segments of mLeasing Sp. z o.o., Dom Maklerski mBanku S.A. and mBank Hipoteczny S.A. Moreover this segment includes the result of BRE Ubezpieczenia TUiR S.A. and AWL I Sp. z o.o. until the date of their sale as well as the result of BRE Ubezpieczenia Sp. z o.o. and BRE Agent Ubezpieczeniowy Sp. z o.o. until the date of their merger with Aspiro. In 2015, this segment also includes the Group's result on sale of BRE Ubezpieczenia TUiR 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., Dom Maklerski mBanku S.A. and mBank Hipoteczny S.A. Moreover this segment includes the results of Transfinance a.s. until the date of sale of the company and results of MLV 45 Sp. z o.o. spółka komandytowa until the date of adopting a resolution of liquidation of the company.
  - *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 mLocum S.A., mCentrum Operacji Sp. z o.o. and BDH Development Sp. z o.o.

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

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

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

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

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

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

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

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

Business segment reporting on the activities of mBank S.A. Group
for the period from 1 January to 31 March 2016
(PLN'000)

	Corporates & Financial Markets		Retail Banking (including Private Banking)	Other	Total figure for the Group	Statement of financial position reconciliation/ income statement reconciliation
	Corporate and Investment Banking	Financial Markets				
Net interest income	**180 608**	**81 832**	**412 574**	**1 404**	**676 418**	**676 418**
- sales to external clients	176 978	183 364	315 228	848	676 418	
- sales to other segments	3 630	(101 532)	97 346	556	-	
Net fee and commission income	**88 507**	**(891)**	**119 902**	**4 227**	**211 745**	**211 745**
Dividend income	**-**	**-**	**-**	**-**	**-**	**-**
Trading income	**57 198**	**2 935**	**24 052**	**(98)**	**84 087**	**84 087**
Gains less losses from investment securities, investments in subsidiaries and associates	**(442)**	**3 869**	**-**	**-**	**3 427**	**3 427**
The share in the profits (losses) of joint ventures	**-**	**-**	**-**	**(40)**	**(40)**	**(40)**
Other operating income	**13 943**	**125**	**23 421**	**56 598**	**94 087**	**94 087**
Net impairment losses on loans and advances	**(3 655)**	**(333)**	**(64 725)**	**193**	**(68 520)**	**(68 520)**
Overhead costs	**(157 008)**	**(23 241)**	**(237 945)**	**(8 851)**	**(427 045)**	**(427 045)**
Amortisation	**(17 577)**	**(2 147)**	**(33 249)**	**(754)**	**(53 727)**	**(53 727)**
Other operating expenses	**(6 993)**	**(21)**	**(12 256)**	**(41 551)**	**(60 821)**	**(60 821)**
Operating profit	**154 581**	**62 128**	**231 774**	**11 128**	**459 611**	**459 611**
Taxes on Group balance sheet items	**(21 414)**	**(4 276)**	**(31 240)**	**(372)**	**(57 302)**	**(57 302)**
Gross profit of the segment	**133 167**	**57 852**	**200 534**	**10 756**	**402 309**	**402 309**
Income tax					(92 804)	(92 804)
Net profit attributable to Owners of mBank S.A.					307 782	307 782
Net profit attributable to non-controlling interests					1 723	1 723
Assets of the segment	**34 167 525**	**40 325 020**	**47 815 555**	**960 280**	**123 268 380**	**123 268 380**
Liabilities of the segment	**28 544 811**	**31 854 108**	**49 176 165**	**1 065 899**	**110 640 983**	**110 640 983**
Other items of the segment						
Expenditures incurred on fixed assets and intangible assets	26 215	1 662	12 533	559	40 969	

Business segment reporting on the activities of mBank S.A. Group
for the period from 1 January to 31 December 2015
(PLN'000)

	Corporates & Financial Markets		Retail Banking (including Private Banking)	Other	Total figure for the Group	Statement of financial position reconciliation/ income statement reconciliation
	Corporate and Investment Banking	Financial Markets				
Net interest income	**755 179**	**191 746**	**1 565 578**	**(1 130)**	**2 511 373**	**2 511 373**
- sales to external clients	749 959	607 685	1 151 618	2 111	2 511 373	
- sales to other segments	5 220	(415 939)	413 960	(3 241)	-	
Net fee and commission income	**376 722**	**(1 804)**	**507 286**	**14 972**	**897 176**	**897 176**
Dividend income	**14 226**	**139**	**77**	**3 098**	**17 540**	**17 540**
Trading income	**215 769**	**(17 419)**	**95 671**	**(1 086)**	**292 935**	**292 935**
Gains less losses from investment securities, investments in subsidiaries and associates	**19 138**	**5 802**	**194 032**	**95 436**	**314 408**	**314 408**
The share in the profits (losses) of joint ventures	**-**	**-**	**-**	**(141)**	**(141)**	**(141)**
Other operating income	**65 254**	**708**	**52 168**	**127 729**	**245 859**	**245 859**
Net impairment losses on loans and advances	**(177 783)**	**(754)**	**(224 262)**	**(18 423)**	**(421 222)**	**(421 222)**
Overhead costs	**(620 795)**	**(89 550)**	**(964 778)**	**(175 823)**	**(1 850 946)**	**(1 850 946)**
Amortisation	**(74 939)**	**(8 552)**	**(112 638)**	**(3 521)**	**(199 650)**	**(199 650)**
Other operating expenses	**(35 345)**	**(150)**	**(48 816)**	**(101 516)**	**(185 827)**	**(185 827)**
Operating profit	**537 426**	**80 166**	**1 064 318**	**(60 405)**	**1 621 505**	**1 621 505**
Taxes on Group balance sheet items	**-**	**-**	**(3 650)**	**-**	**(3 650)**	**(3 650)**
Gross profit of the segment	**537 426**	**80 166**	**1 060 668**	**(60 405)**	**1 617 855**	**1 617 855**
Income tax					(313 727)	(313 727)
Net profit attributable to Owners of mBank S.A.					1 301 246	1 301 246
Net profit attributable to non-controlling interests					2 882	2 882
Assets of the segment	**35 057 604**	**41 162 527**	**46 210 195**	**1 092 695**	**123 523 021**	**123 523 021**
Liabilities of the segment	**30 224 844**	**33 481 611**	**46 866 764**	**674 838**	**111 248 057**	**111 248 057**
Other items of the segment						
Expenditures incurred on fixed assets and intangible assets	157 002	8 922	185 493	4 427	355 844	

Business segment reporting on the activities of mBank S.A. Group
for the period from 1 January to 31 March 2015
(PLN'000)

	Corporates & Financial Markets		Retail Banking (including Private Banking)	Other	Total figure for the Group	Statement of financial position reconciliation/ income statement reconciliation
	Corporate and Investment Banking	Financial Markets				
Net interest income	**179 812**	**23 456**	**385 042**	**(871)**	**587 439**	**587 439**
- sales to external clients	181 722	125 553	280 159	5	587 439	
- sales to other segments	(1 910)	(102 097)	104 883	(876)	-	
Net fee and commission income	**86 041**	**(543)**	**104 282**	**4 077**	**193 857**	**193 857**
Dividend income	**31**	**-**	**-**	**-**	**31**	**31**
Trading income	**53 865**	**24 477**	**24 997**	**(721)**	**102 618**	**102 618**
Gains less losses from investment securities, investments in subsidiaries and associates	**517**	**3 157**	**194 348**	**(3 014)**	**195 008**	**195 008**
Other operating income	**16 754**	**148**	**30 892**	**40 880**	**88 674**	**88 674**
Net impairment losses on loans and advances	**(30 727)**	**(50)**	**(63 184)**	**(6 010)**	**(99 971)**	**(99 971)**
Overhead costs	**(149 523)**	**(22 669)**	**(225 210)**	**(7 399)**	**(404 801)**	**(404 801)**
Amortisation	**(18 364)**	**(2 346)**	**(25 594)**	**(827)**	**(47 131)**	**(47 131)**
Other operating expenses	**(7 777)**	**(30)**	**(11 458)**	**(30 234)**	**(49 499)**	**(49 499)**
Operating profit	**130 629**	**25 600**	**414 115**	**(4 119)**	**566 225**	**566 225**
Taxes on Group balance sheet items	**-**	**-**	**(907)**	**-**	**(907)**	**(907)**
Gross profit of the segment	**130 629**	**25 600**	**413 208**	**(4 119)**	**565 318**	**565 318**
Income tax					(112 974)	(112 974)
Net profit attributable to Owners of mBank S.A.					450 936	450 936
Net profit attributable to non-controlling interests					1 408	1 408
Assets of the segment	**33 040 965**	**45 697 530**	**43 748 505**	**806 888**	**123 293 888**	**123 293 888**
Liabilities of the segment	**23 279 935**	**46 383 638**	**40 961 382**	**1 069 069**	**111 694 024**	**111 694 024**
Other items of the segment						
Expenditures incurred on fixed assets and intangible assets	25 101	756	15 387	815	42 059	

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Geographical areas reporting on the activities of mBank S.A. Group for the period	from 1 January to 31 March 2016			from 1 January to 31 December 2015			from 1 January to 31 March 2015		
	Poland	Foreign Countries	Total				Poland	Foreign Countries	Total
Net interest income	642 700	33 718	**676 418**	2 383 730	127 643	**2 511 373**	557 625	29 814	**587 439**
Net fee and commission income	209 938	1 807	**211 745**	871 654	25 522	**897 176**	188 324	5 533	**193 857**
Dividend income	-	-	**-**	17 540	-	**17 540**	31	-	**31**
Trading income	83 244	843	**84 087**	288 215	4 720	**292 935**	101 483	1 135	**102 618**
Gains less losses from investment securities, investments in subsidiaries and associates	3 427	-	**3 427**	314 408	-	**314 408**	195 008	-	**195 008**
The share in the profits (losses) of joint ventures	(40)	-	**(40)**	(141)	-	**(141)**	-	-	**-**
Other operating income	93 889	198	**94 087**	242 745	3 114	**245 859**	86 896	1 778	**88 674**
Net impairment losses on loans and advances	(67 522)	(998)	**(68 520)**	(411 834)	(9 388)	**(421 222)**	(97 591)	(2 380)	**(99 971)**
Overhead costs	(397 035)	(30 010)	**(427 045)**	(1 750 584)	(100 362)	**(1 850 946)**	(382 735)	(22 066)	**(404 801)**
Amortisation	(52 780)	(947)	**(53 727)**	(195 794)	(3 856)	**(199 650)**	(46 175)	(956)	**(47 131)**
Other operating expenses	(60 514)	(307)	**(60 821)**	(182 917)	(2 910)	**(185 827)**	(47 424)	(2 075)	**(49 499)**
Operating profit	455 307	4 304	**459 611**	1 577 022	44 483	**1 621 505**	555 442	10 783	**566 225**
Taxes on the Group balance sheet items	(53 542)	(3 760)	**(57 302)**	-	(3 650)	**(3 650)**	-	(907)	**(907)**
Gross profit of the segment	**401 765**	**544**	**402 309**	1 577 022	40 833	**1 617 855**	555 442	9 876	**565 318**
Income tax			(92 804)			(313 727)			(112 974)
Net profit attributable to Owners of mBank S.A.			307 782			1 301 246			450 936
Net profit attributable to non-controlling interests			1 723			2 882			1 408
Assets of the segment, including:	**119 151 000**	**4 117 380**	**123 268 380**	119 572 565	3 950 456	**123 523 021**	120 091 763	3 202 125	**123 293 888**
- tangible assets	1 225 026	9 734	1 234 760	1 253 137	10 434	**1 263 571**	1 154 311	10 332	**1 164 643**
- deferred income tax assets	348 762	4 624	353 386	366 088	-	**366 088**	299 379	4 381	**303 760**
Liabilities of the segment	**103 946 883**	**6 694 100**	**110 640 983**	104 825 293	6 422 764	**111 248 057**	106 061 590	5 632 434	**111 694 024**

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5. Net interest income

the period	from 01.01.2016 to 31.03.2016	from 01.01.2015 to 31.03.2015
Interest income		
Loans and advances including the unwind of the impairment provision discount	663 278	650 495
Investment securities	178 405	195 126
Cash and short-term placements	11 958	14 249
Trading debt securities	15 797	9 757
Interest income on derivatives classified into banking book	59 116	29 947
Interest income on derivatives concluded under the hedge accounting	11 959	9 272
Interest income on derivatives concluded under the cash flow hedge	3 854	2 274
Other	1 116	1 166
Total interest income	**945 483**	**912 286**
Interest expense		
Arising from amounts due to banks	(19 267)	(35 593)
Arising from amounts due to customers	(173 768)	(193 894)
Arising from issue of debt securities	(56 941)	(68 170)
Arising from subordinated liabilities	(16 741)	(24 736)
Other	(2 348)	(2 454)
Total interest expense	**(269 065)**	**(324 847)**

Interest income related to impaired financial assets amounted to PLN 22 654 thousand (31 March 2015: PLN 32 012 thousand).

6. Net fee and commission income

the period	from 01.01.2016 to 31.03.2016	from 01.01.2015 to 31.03.2015
Fee and commission income		
Payment cards-related fees	88 450	78 679
Credit-related fees and commissions	68 567	60 775
Commissions for agency service regarding sale of insurance products of external financial entities	36 777	25 476
Fees from brokerage activity and debt securities issue	26 009	26 800
Commissions from bank accounts	42 134	40 768
Commissions from money transfers	26 439	24 919
Commissions due to guarantees granted and trade finance commissions	13 503	11 722
Commissions for agency service regarding sale of other products of external financial entities	24 595	23 414
Commissions on trust and fiduciary activities	6 220	5 628
Fees from portfolio management services and other management-related fees	2 723	3 045
Fees from cash services	11 395	9 207
Other	5 098	4 094
Total fee and commission income	**351 910**	**314 527**

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the period	from 01.01.2016 to 31.03.2016	from 01.01.2015 to 31.03.2015
Fee and commission expense		
Payment cards-related fees	(54 590)	(47 199)
Commissions paid to external entities for sale of the Bank's products	(25 022)	(21 971)
Commissions paid for agency service regarding sale of insurance products of external financial entities	(1 426)	(4 206)
Discharged brokerage fees	(7 592)	(6 806)
Cash services	(8 731)	(6 118)
Fees to NBP and KIR	(1 889)	(1 783)
Other discharged fees	(40 915)	(32 587)
Total fee and commission expense	**(140 165)**	**(120 670)**

the period	from 01.01.2016 to 31.03.2016	from 01.01.2015 to 31.03.2015
Commissions for agency service regarding sale of insurance products of external financial entities		
- Income from insurance intermediation	36 777	21 346
- Income from insurance policies administration	-	4 130
Total commissions for agency service regarding sale of insurance products of external financial entities	**36 777**	**25 476**

7. Dividend income

the period	from 01.01.2016 to 31.03.2016	from 01.01.2015 to 31.03.2015
Trading securities	-	-
Securities available for sale	-	31
Total dividend income	**-**	**31**

8. Net trading income

the period	from 01.01.2016 to 31.03.2016	from 01.01.2015 to 31.03.2015
Foreign exchange result	**71 817**	**78 687**
Net exchange differences on translation	(52 091)	332 247
Net transaction gains/(losses)	123 908	(253 560)
Other net trading income and result on hedge accounting	**12 270**	**23 931**
Interest-bearing instruments	10 110	5 996
Equity instruments	746	2 225
Market risk instruments	1 434	1 095
Result on fair value hedge accounting, including:	3 673	14 480
- Net profit on hedged items	(70 617)	(28 766)
- Net profit on fair value hedging instruments	74 290	43 246
Ineffective portion of cash flow hedge	(3 693)	135
Total net trading income	**84 087**	**102 618**

"Foreign exchange result" includes profit/(loss) on spot transactions and forward contracts, options, futures and translation of assets and liabilities denominated in foreign currencies. "Interest-bearing instruments" include the profit/(loss) on money market instrument trading, swap contracts for interest rates, options and other derivative instruments. "Equity instruments" include the valuation and profit/(loss) on global trade in equity securities. "Market risk instruments" 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 and futures.

The Group applies fair value hedge accounting and cash flow hedge accounting. Detailed information on the hedge applied by the Group are included in Note 17 "Hedge accounting"

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9. Gains and losses from investment securities and investments in subsidiaries and associates

the period	from 01.01.2016 to 31.03.2016	from 01.01.2015 to 31.03.2015
Sale/redemption of financial assets available for sale	3 869	3 947
Gains less losses related to sale of subsidiaries and associates	-	191 051
Impairment of investments in subsidiaries	(442)	10
Total gains less losses from investment securities and investments in subsidiaries and associates	**3 427**	**195 008**

In 2016, the impairment of investments in subsidiaries applies to the Call Center Poland S.A. that was sold by the Group sold in the first quarter of 2016.

In 2015, the item "Gains less losses related to sale of subsidiaries and associates" includes mainly the profit on sale of BRE Ubezpieczenia TUiR S.A. shares in the amount of PLN 194 348 thousand.

10. Other operating income

the period	from 01.01.2016 to 31.03.2016	from 01.01.2015 to 31.03.2015
Income from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories	59 655	45 845
Income from insurance activity net	-	23 898
Income from services provided	8 250	5 573
Net income from operating lease	2 078	2 243
Income due to release of provisions for future commitments	394	1 685
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	1 531	442
Income from compensations, penalties and fines received	5	69
Other	22 174	8 919
Total other operating income	**94 087**	**88 674**

Income from sale or liquidation of tangible fixed assets, intangible assets as well as assets held for disposal comprises primarily income of the company mLocum S.A. from developer activity.

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

In 2015, net income from insurance activities include income realised by BRE Ubezpieczenia TUiR S.A. in the first quarter of 2015, i.e. until the sale of the company BRE Ubezpieczenia TUiR S.A. by mBank S.A. Group. This income included income from premiums, reinsurance and co-insurance activity, reduced by claims paid and costs of claims handling and adjusted by the changes in provisions for claims connected with the insurance activity conducted within mBank S.A. Group.

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

Net income from operating lease for the first quarter of 2016 and the first quarter of 2015 is presented below.

the period	from 01.01.2016 to 31.03.2016	from 01.01.2015 to 31.03.2015
Net income from operating lease, including:		
- Income from operating lease	13 551	13 635
- Depreciation cost of fixed assets provided under operating lease	(11 473)	(11 392)
Total net income from operating lease	**2 078**	**2 243**

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11. Net impairment losses on loans and advances

the period	from 01.01.2016 to 31.03.2016	from 01.01.2015 to 31.03.2015
Net impairment losses on amounts due from other banks	279	84
Net impairment losses on loans and advances to customers	(73 274)	(109 614)
Net impairment losses on off-balance sheet contingent liabilities due to customers	4 475	9 559
Total net impairment losses on loans and advances	**(68 520)**	**(99 971)**

12. Overhead costs

the period	from 01.01.2016 to 31.03.2016	from 01.01.2015 to 31.03.2015
Staff-related expenses	(217 862)	(208 590)
Material costs, including:	(160 879)	(151 429)
- logistics cost	(86 339)	(83 500)
- IT costs	(32 191)	(27 860)
- marketing costs	(27 770)	(25 359)
- consulting costs	(11 987)	(12 043)
- other material costs	(2 592)	(2 667)
Taxes and fees	(9 409)	(8 925)
Contributions and transfers to the Bank Guarantee Fund	(37 146)	(34 112)
Contributions to the Social Benefits Fund	(1 749)	(1 745)
Total overhead costs	**(427 045)**	**(404 801)**

Following the entry into force on 1 February 2016 of the Act on tax on certain financial institutions, in the comparative data for the period from 1 January to 31 March 2015 the Group reclassified the amount of PLN 907 thousand from overhead costs (from "Taxes and fees") to a new position "Taxes on the Group's balance sheet items" due to the tax paid by the mBank's branch in Slovakia on the total amount of liabilities.

Staff-related expenses for first quarter of 2016 and first quarter of 2015 are presented below.

the period	from 01.01.2016 to 31.03.2016	from 01.01.2015 to 31.03.2015
Wages and salaries	(176 720)	(165 965)
Social security expenses	(32 089)	(29 627)
Remuneration concerning share-based payments, including:	(3 363)	(6 804)
- share-based payments settled in mBank S.A. shares	(3 207)	(2 711)
- cash-settled share-based payments	(156)	(4 093)
Other staff expenses	(5 690)	(6 194)
Staff-related expenses, total	**(217 862)**	**(208 590)**

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13. Other operating expenses

the period	from 01.01.2016 to 31.03.2016	from 01.01.2015 to 31.03.2015
Costs arising from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories	(42 134)	(31 629)
Provisions for future commitments	(1 336)	(3 142)
Donations made	(2 515)	(2 534)
Compensation, penalties and fines paid	(53)	(2 133)
Costs arising from provisions created for other receivables (excluding loans and advances)	(70)	(417)
Costs of sale of services	(535)	(609)
Costs arising from receivables and liabilities recognised as prescribed, remitted and uncollectible	(88)	(82)
Impairment losses on non-financial assets	(788)	-
Other operating costs	(13 302)	(8 953)
Total other operating expenses	**(60 821)**	**(49 499)**

Costs arising from a sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories comprise primarily the expenses incurred by mLocum S.A. in connection with its developer activity.

Costs of services provided concern non-banking services.

14. Earnings per share

Earnings per share for 3 months – mBank S.A. Group consolidated data

the period	from 01.01.2016 to 31.03.2016	from 01.01.2015 to 31.03.2015
Basic:		
Net profit attributable to Owners of mBank S.A.	307 782	450 936
Weighted average number of ordinary shares	42 238 924	42 210 129
Net basic profit per share (in PLN per share)	**7.29**	**10.68**
Diluted:		
Net profit attributable to Owners of mBank S.A., applied for calculation of diluted earnings per share	307 782	450 936
Weighted average number of ordinary shares	42 238 924	42 210 129
Adjustments for:		
- share options	56 375	47 823
Weighted average number of ordinary shares for calculation of diluted earnings per share	42 295 299	42 257 952
Diluted earnings per share (in PLN per share)	**7.28**	**10.67**

Earnings per share for 3 months – mBank S.A. stand-alone data

the period	from 01.01.2016 to 31.03.2016	from 01.01.2015 to 31.03.2015
Basic:		
Net profit	303 491	450 309
Weighted average number of ordinary shares	42 238 924	42 210 129
Net basic profit per share (in PLN per share)	**7.19**	**10.67**
Diluted:		
Net profit applied for calculation of diluted earnings per share	303 491	450 309
Weighted average number of ordinary shares	42 238 924	42 210 129
Adjustments for:		
- share options	56 375	47 823
Weighted average number of ordinary shares for calculation of diluted earnings per share	42 295 299	42 257 952
Diluted earnings per share (in PLN per share)	**7.18**	**10.66**

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15. Trading securities

	31.03.2016			31.12.2015			31.03.2015		
	Trading securities without pledge	Pledged trading securities	Total trading securities	Trading securities without pledge	Pledged trading securities	Total trading securities	Trading securities without pledge	Pledged trading securities	Total trading securities
Debt securities:	**2 389 947**	**452 978**	**2 842 925**	**533 998**	**16 697**	**550 695**	**481 312**	**1 543 281**	**2 024 593**
Issued by government	2 117 453	452 978	2 570 431	161 795	16 697	178 492	29 258	1 543 281	1 572 539
- government bonds	2 117 453	449 510	2 566 963	161 795	16 697	178 492	29 258	1 543 281	1 572 539
- treasury bills	-	3 468	3 468	-	-	-	-	-	-
Other debt securities	272 494	-	272 494	372 203	-	372 203	452 054	-	452 054
- bank's bonds	160 752	-	160 752	248 156	-	248 156	355 312	-	355 312
- deposit certificates	35 196	-	35 196	73 124	-	73 124	-	-	-
- corporate bonds	76 546	-	76 546	50 923	-	50 923	96 742	-	96 742
Equity securities:	**6 885**	**-**	**6 885**	**6 846**	**-**	**6 846**	**18 490**	**-**	**18 490**
- listed	4 232	-	4 232	4 192	-	4 192	12 618	-	12 618
- unlisted	2 653	-	2 653	2 654	-	2 654	5 872	-	5 872
Total debt and equity securities:	**2 396 832**	**452 978**	**2 849 810**	**540 844**	**16 697**	**557 541**	**499 802**	**1 543 281**	**2 043 083**

16. Derivative financial instruments

	31.03.2016		31.12.2015		31.03.2015	
	assets	liabilities	assets	liabilities	assets	liabilities
Held for trading derivative financial instruments classified into banking book	361 722	51 583	199 861	114 081	161 575	380 578
Held for trading derivative financial instruments classified into trading book	2 135 639	2 304 056	2 952 012	3 057 543	4 427 366	4 455 804
Derivative financial instruments held for fair value hedging	246 441	103	146 694	2 014	62 231	1 257
Derivative financial instruments held for cash flow hedging	55 368	96	50 761	-	173 399	609
Total derivative financial instruments assets/liabilities	**2 799 170**	**2 355 838**	**3 349 328**	**3 173 638**	**4 824 571**	**4 838 248**

The Group uses the following derivative instruments for economic hedging and for other purposes:

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.

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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17. Derivatives held for hedges

The Group applies fair value hedge accounting for:

- Part of the portfolio of fixed interest rate mortgage loans granted by foreign branches of the Bank in the Czech Republic. An Interest Rate Swap is the hedging instrument changing the fixed interest rate to a variable interest rate;
- Eurobonds issued by mFinance France, subsidiary of mBank. An Interest Rate Swap is the hedging instrument changing the fixed interest rate to a variable interest rate;
- Mortgage bonds issued by mBank Hipoteczny, subsidiary of mBank. An Interest Rate Swap is the hedging instrument changing the fixed interest rate to a variable interest rate.

In all cases described above, the risk of changes in interest rates is the only type of risk hedged within hedge accounting applied by the Group. The result of the valuation of hedged items and hedging instruments is presented in the position "Other net trading income and result on hedge accounting" in Note 8.

The Group applies cash flow hedge accounting of the part of loans at a variable interest rate indexed to the market rate, granted by the Bank. An Interest Rate Swap is the hedging instrument changing the variable interest rate to a fixed interest rate. The interest rate risk is the hedged risk within applied by the Group cash flow hedge accounting. The ineffective portion of the gains or losses on the hedging instrument is presented in Note 8 "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 April 2016 to August 2018 is the period in which the cash flows are expected, and when they are expected to have an impact on the result.

The fair value equal to book value of derivatives hedging both the fair value and cash flow was presented in Note 16 "Derivative Financial Instruments".

Total result on fair value hedge accounting recognised in the income statement

	31.03.2016	31.03.2015
Interest income on derivatives concluded under the fair value hedge (Note 5)	11 959	9 272
Net profit on hedged items (Note 8)	(70 617)	(28 766)
Net profit on fair value hedging instruments (Note 8)	74 290	43 246
Total result on fair value hedging instruments recognised in the income statement	**15 632**	**23 752**

The following note presents other comprehensive income due to cash flow hedges as at 31 March 2016 and as at 31 March 2015.

	31.03.2016	31.03.2015
Other comprehensive income from cash flow hedge at the beginning of the period (gross)	1 060	5 008
Gains/losses rocognised in the comprehensive income during the reporting period (gross)	1 608	3 709
Amount included as interest income in the income statement during the reporting period	3 854	2 274
Ineffective portion of cash flow hedge recognised in the income statement	(3 693)	135
Accumulated other comprehensive income at the end of the reporting period (gross)	2 507	6 308
Deferred tax due to accumulated other comprehensive income at the end of the reporting period	(476)	(1 199)
Accumulated net other comprehensive income at the end of the reporting period	2 031	5 109
Impact on other comprehensive income in the reporting period (gross)	1 447	1 300
Deferred tax on cash flow hedges	(275)	(247)
Impact on other comprehensive income in the reporting period (net)	1 172	1 053

Total result on cash flow hedge accounting recognised in the income statement

	31.03.2016	31.03.2015
Interest income on derivatives concluded under the cash flow hedge (Note 5)	3 854	2 274
Ineffective portion of cash flow hedge (Note 8)	(3 693)	135
Total result on cash flow hedging instruments recognised in the income statement	**161**	**2 409**

18. Loans and advances to customers

	31.03.2016	31.12.2015	31.03.2015
Loans and advances to individuals:	**46 511 010**	**46 258 683**	**43 787 510**
- current receivables	6 033 935	5 897 129	5 612 783
- term loans, including:	40 477 075	40 361 554	38 174 727
housing and mortgage loans	34 107 363	34 184 208	32 410 981
Loans and advances to corporate entities:	**32 805 430**	**33 446 644**	**35 339 970**
- current receivables	4 727 546	3 976 187	4 242 006
- term loans:	26 585 648	26 976 422	24 140 348
corporate & institutional enterprises	5 179 461	5 825 318	5 660 987
medium & small enterprises	21 406 187	21 151 104	18 479 361
- reverse repo / buy-sell-back transactions	4 002	1 031 029	5 612 272
- other	1 488 234	1 463 006	1 345 344
Loans and advances to public sector	**1 430 531**	**1 520 728**	**1 790 450**
Other receivables	**178 140**	**183 355**	**964 987**
Total (gross) loans and advances to customers	**80 925 111**	**81 409 410**	**81 882 917**
Provisions for loans and advances to customers (negative amount)	(2 984 333)	(2 975 864)	(2 905 865)
Total (net) loans and advances to customers	**77 940 778**	**78 433 546**	**78 977 052**
Short-term (up to 1 year)	25 937 174	26 169 938	28 111 838
Long-term (over 1 year)	52 003 604	52 263 608	50 865 214

Under the item "Loans and advances to individuals", the Group also presents loans to micro enterprises provided by Retail Banking of mBank S.A.

Loans to micro enterprises in the presented reporting periods amounted to respectively: 31 March 2016 – PLN 5 044 998 thousand, 31 December 2015 – PLN 4 846 128 thousand, 31 March 2015 – PLN 4 683 373 thousand.

The table below presents the currency structure of housing and mortgage loans granted to individual customers (without micro enterprises).

	31.03.2016	31.12.2015	31.03.2015
Housing and mortgage loans to individuals (in PLN 000's), including:	**34 107 363**	**34 184 208**	**32 410 981**
- PLN	8 462 919	8 120 780	6 106 429
- CHF	18 681 023	19 177 139	20 085 012
- EUR	3 988 353	4 001 819	3 819 481
- CZK	2 613 659	2 502 599	2 000 181
- USD	319 671	338 628	350 400
- Other currency	41 738	43 243	49 478
Housing and mortgage loans to individuals in original curriencies (main curriencies in 000's)			
- PLN	8 462 919	8 120 780	6 106 429
- CHF	4 785 098	4 868 035	5 135 518
- EUR	934 391	939 063	934 087
- CZK	16 563 112	15 869 366	13 460 168
- USD	85 042	86 803	91 908

Provisions for loans and advances

	31.03.2016	31.12.2015	31.03.2015
Incurred but not identified losses			
Gross balance sheet exposure	76 262 317	76 777 938	76 919 399
Impairment provisions for exposures analysed according to portfolio approach	(249 660)	(247 198)	(240 826)
Net balance sheet exposure	**76 012 657**	**76 530 740**	**76 678 573**
Receivables with impairment			
Gross balance sheet exposure	4 662 794	4 631 472	4 963 518
Provisions for receivables with impairment	(2 734 673)	(2 728 666)	(2 665 039)
Net balance sheet exposure	**1 928 121**	**1 902 806**	**2 298 479**

The table below presents the structure of concentration of mBank S.A. Group's exposures in particular sectors.

No.	Sectors	Principal exposure (in PLN thousand)	%	Principal exposure (in PLN thousand)	%	Principal exposure (in PLN thousand)	%
		31.03.2016		31.12.2015		31.03.2015	
1.	Household customers	46 511 010	57.47	46 258 683	56.82	43 787 510	53.48
2.	Real estate management	4 993 376	6.17	4 975 227	6.11	4 914 792	6.00
3.	Construction	3 706 513	4.58	3 743 369	4.60	3 009 534	3.68
4.	Wholesale trade	3 461 760	4.28	3 141 017	3.86	3 059 483	3.74
5.	Retail trade	2 332 823	2.88	2 244 062	2.76	2 391 433	2.92
6.	Transport and logistics	1 914 756	2.37	1 858 064	2.28	1 804 851	2.20
7.	Food sector	1 885 931	2.33	1 899 778	2.33	1 644 905	2.01
8.	Fuels and chemicals	1 777 753	2.20	1 789 636	2.20	1 681 413	2.05
9.	Metals	1 448 945	1.79	1 395 689	1.71	1 335 295	1.63
10.	Forestry	1 404 027	1.74	1 552 832	1.91	1 293 507	1.58
11.	Information and communication	1 143 229	1.41	1 032 953	1.27	1 236 330	1.51
12.	Public administration	1 086 111	1.34	1 161 955	1.43	1 462 814	1.79
13.	Financial activities	969 659	1.20	934 170	1.15	600 929	0.73
14.	Services	814 156	1.01	538 987	0.66	444 169	0.54
15.	Power, power and heating distribution	811 148	1.00	1 472 862	1.81	1 295 173	1.58
16.	Scientific and technical activities	748 995	0.93	734 330	0.90	619 568	0.76
17.	Hotels and restaurants	652 204	0.81	645 710	0.79	454 738	0.56
18.	Motorization	550 676	0.68	489 478	0.60	491 591	0.60
19.	Electronics and household equipment	535 812	0.66	517 183	0.64	410 831	0.50
20.	Mining	487 463	0.60	498 312	0.61	407 317	0.50
21.	Industry	442 708	0.55	438 525	0.54	447 460	0.55
22.	Municipal services	404 393	0.50	369 308	0.45	295 263	0.36
23.	Arts, entertainment	312 633	0.39	448 834	0.55	423 047	0.52

As at 31 March 2016, the total exposure of the Group in the above sectors (excluding household customers) amounted to 39.42% of the credit portfolio (31 December 2015 – 39.16%, 31 March 2015 – 36.31%).

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19. Investment securities

	31.03.2016			31.12.2015			31.03.2015		
	Investment securities without pledge	Pledged investment securities	Total investment securities	Investment securities without pledge	Pledged investment securities	Total investment securities	Investment securities without pledge	Pledged investment securities	Total investment securities
Debt securities	**25 730 874**	**5 689 473**	**31 420 347**	**25 141 089**	**5 396 481**	**30 537 570**	**22 513 750**	**5 663 908**	**28 177 658**
Issued by government	22 706 513	5 689 473	28 395 986	16 842 144	5 396 481	22 238 625	18 051 052	5 663 908	23 714 960
- government bonds	20 852 960	5 689 473	26 542 433	16 842 144	5 396 481	22 238 625	18 051 052	5 663 908	23 714 960
- treasury bills	1 853 553	-	1 853 553	-	-	-	-	-	-
Issued by central bank	2 199 923	-	2 199 923	7 442 384	-	7 442 384	3 979 510	-	3 979 510
Other debt securities	824 438	-	824 438	856 561	-	856 561	483 188	-	483 188
- bank's bonds	209 846	-	209 846	233 158	-	233 158	50 737	-	50 737
- corporate bonds	574 367	-	574 367	583 456	-	583 456	389 870	-	389 870
- communal bonds	40 225	-	40 225	39 947	-	39 947	42 581	-	42 581
Equity securities:	**198 124**	**-**	**198 124**	**199 379**	**-**	**199 379**	**264 415**	**-**	**264 415**
Listed	-	-	-	-	-	-	233 130	-	233 130
Unlisted	198 124	-	198 124	199 379	-	199 379	31 285	-	31 285
Total debt and equity securities:	**25 928 998**	**5 689 473**	**31 618 471**	**25 340 468**	**5 396 481**	**30 736 949**	**22 778 165**	**5 663 908**	**28 442 073**
Short-term (up to 1 year)	7 852 114	101 050	7 953 164	11 196 419	90 975	11 287 394	7 912 154	493 850	8 406 004
Long-term (over 1 year)	18 076 884	5 588 423	23 665 307	14 144 049	5 305 506	19 449 555	14 866 011	5 170 058	20 036 069

The above note includes government bonds pledged under the Bank Guarantee Fund (BFG), government bonds pledged as sell-buy-back transactions, government bonds pledged as collateral for the loans received from the European Investment Bank and government bonds pledged as collateral for deposit placed by the customer.

The value of equity securities presented above includes provisions for impairment of PLN 11 457 thousand (31 December 2015: PLN 19 754 thousand, 31 March 2015: PLN 11 997 thousand).

As at 31 March 2016, equity securities include fair value of shares of Visa Europe Ltd in the amount of PLN 167 514 thousand (31 December 2015: PLN 167 243 thousand).

As at 31 March 2015, listed equity securities include fair value of PZU S.A. shares in the amount of PLN 231 380 thousand. As at 31 March 2016 and as at 31 December 2015, the Group did not have any PZU shares.

20. Intangible assets

	31.03.2016	31.12.2015	31.03.2015
Development costs	-	-	1
Goodwill	3 532	3 532	3 532
Patents, licences and similar assets, including:	325 749	347 357	350 464
- computer software	236 816	249 964	258 257
Other intangible assets	11 354	5 154	5 998
Intangible assets under development	171 846	163 006	98 190
Total intangible assets	**512 481**	**519 049**	**458 185**

21. Tangible assets

	31.03.2016	31.12.2015	31.03.2015
Tangible assets, including:	675 572	660 017	639 477
- land	1 335	1 335	1 335
- buildings and structures	192 310	193 652	201 100
- equipment	171 271	149 573	123 958
- vehicles	231 016	231 210	221 359
- other fixed assets	79 640	84 247	91 725
Fixed assets under construction	46 707	84 505	66 981
Total tangible assets	**722 279**	**744 522**	**706 458**

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22. Amounts due to customers

	31.03.2016	31.12.2015	31.03.2015
Individual customers:	**47 835 448**	**46 117 051**	**39 693 233**
Current accounts	33 513 853	32 468 053	28 862 710
Term deposits	14 272 175	13 604 623	10 686 951
Other liabilities:	49 420	44 375	143 572
- liabilities in respect of cash collaterals	22 851	22 205	21 171
- other	26 569	22 170	122 401
Corporate customers:	**32 617 774**	**34 423 929**	**30 816 379**
Current accounts	16 327 155	16 800 113	15 083 548
Term deposits	11 221 635	12 209 975	6 653 441
Loans and advances received	3 632 563	3 634 064	3 494 191
Repo transactions	846 583	1 093 712	5 073 777
Other liabilities:	589 838	686 065	511 422
- liabilities in respect of cash collaterals	467 130	566 645	404 016
- other	122 708	119 420	107 406
Public sector customers:	**680 629**	**599 886**	**1 351 402**
Current accounts	349 974	468 038	442 533
Term deposits	327 876	131 104	907 061
Other liabilities:	2 779	744	1 808
- liabilities in respect of cash collaterals	-	-	125
- other	2 779	744	1 683
Total amounts due to customers	**81 133 851**	**81 140 866**	**71 861 014**
Short-term (up to 1 year)	75 714 867	74 696 817	66 406 980
Long-term (over 1 year)	5 418 984	6 444 049	5 454 034

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

In the presented reporting periods the value of liabilities in respect of current accounts and term deposits accepted from micro enterprises amounted to respectively: 31 March 2016: PLN 3 820 237 thousand, 31 December 2015: PLN 4 111 261 thousand, 31 March 2015: PLN 3 103 963 thousand).

23. Provisions

	31.03.2016	31.12.2015	31.03.2015
For off-balance sheet granted contingent liabilities *	41 148	45 606	39 871
For legal proceedings	100 069	99 582	92 872
Other	27 821	80 228	29 628
Total provisions	**169 038**	**225 416**	**162 371**

* includes valuation of financial guarantees

As at 31 December 2015 the item "Other" includes provisions in the amount of PLN 52 077 thousand relating to the payments to be made by mBank and mBank Hipoteczny to the Borrowers Support Fund. The payments were made in February 2016.

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Movements in the provisions

	31.03.2016	31.12.2015	31.03.2015
As at the beginning of the period (by type)	**225 416**	**176 881**	**176 881**
For off-balance sheet granted contingent liabilities	45 606	49 613	49 613
For legal proceedings	99 582	96 933	96 933
Other	80 228	30 335	30 335
Change in the period (due to)	**(56 378)**	**48 535**	**(14 510)**
- increase of provisions	25 656	215 357	33 229
- release of provisions	(29 642)	(150 761)	(41 180)
- write-offs	(667)	(16 167)	(6 376)
- reclassification	(51 727)	37	37
- foreign exchange differences	2	69	(220)
As at the end of the period (by type)	**169 038**	**225 416**	**162 371**
For off-balance sheet granted contingent liabilities	41 148	45 606	39 871
For legal proceedings	100 069	99 582	92 872
Other	27 821	80 228	29 628

24. Assets and provisions for deferred income tax

Deferred income tax assets	31.03.2016	31.12.2015	31.03.2015
As at the beginning of the period	**778 252**	**645 554**	**645 554**
Changes recognized in the income statement	55 494	112 886	55 603
Changes recognized in other comprehensive income	(11 728)	4 621	(10 509)
Other changes	36	15 191	(85)
As at the end of the period	**822 054**	**778 252**	**690 563**

Provisions for deferred income tax	31.03.2016	31.12.2015	31.03.2015
As at the beginning of the period	**(413 145)**	**(382 923)**	**(382 923)**
Changes recognized in the income statement	(89 928)	(17 887)	(5 124)
Changes recognized in other comprehensive income	(227)	524	65
Other changes	-	(12 859)	-
As at the end of the period	**(503 300)**	**(413 145)**	**(387 982)**

Income tax	31.03.2016	31.12.2015	31.03.2015
Current income tax	(58 370)	(408 726)	(163 454)
Deferred income tax recognised in the income statement	(34 434)	94 999	50 480
Income tax recognised in the income statement	**(92 804)**	**(313 727)**	**(112 974)**
Recognised in other comprehensive income	(23 130)	47 704	(115 115)
Total income tax	**(115 934)**	**(266 023)**	**(228 089)**

25. Fair value of financial 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.

The main and the most advantageous markets must be both available to the Group.

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 (currency or interest rates) 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.

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.

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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.

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.

	31.03.2016		31.12.2015		31.03.2015	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Financial assets						
Loans and advances to banks	**1 120 253**	**1 119 744**	**1 897 334**	**1 895 673**	**4 052 272**	**4 045 868**
Loans and advances to customers	**77 940 778**	**78 416 369**	**78 433 546**	**78 962 651**	**78 977 052**	**79 878 600**
Loans and advances to individuals	**44 966 678**	**45 833 435**	**44 726 181**	**45 635 346**	**42 214 566**	**43 358 374**
current accounts	5 368 247	5 396 759	5 214 087	5 283 808	4 974 659	5 066 227
term loans including:	39 598 431	40 436 676	39 512 094	40 351 538	37 239 907	38 292 147
- housing and mortgage loans	33 601 733	34 333 473	33 692 879	34 412 912	31 809 297	32 704 674
Loans and advances to corporate entities	**31 366 442**	**30 982 363**	**32 004 393**	**31 635 612**	**34 008 333**	**33 771 991**
current accounts	4 527 523	4 481 019	3 771 327	3 737 886	3 992 809	3 969 711
term loans	25 394 626	25 057 051	25 788 441	25 453 099	23 065 040	22 851 796
- corporate & institutional enterprises	4 998 897	4 926 522	5 667 803	5 591 521	5 470 849	5 417 377
- medium & small enterprises	20 395 729	20 130 529	20 120 638	19 861 578	17 594 191	17 434 419
reverse repo / buy sell back transactions	4 002	4 002	1 031 029	1 031 029	5 612 272	5 612 272
other	1 440 291	1 440 291	1 413 596	1 413 598	1 338 212	1 338 212
Loans and advances to public sector	**1 429 519**	**1 422 432**	**1 519 617**	**1 508 337**	**1 789 166**	**1 783 248**
Other receivables	**178 139**	**178 139**	**183 355**	**183 355**	**964 987**	**964 987**
Financial liabilities						
Amounts due to other banks	**10 972 444**	**10 710 835**	**12 019 331**	**11 813 534**	**17 839 428**	**17 610 410**
Amounts due to customers	**81 133 851**	**81 288 460**	**81 140 866**	**81 266 808**	**71 861 014**	**72 024 517**
Debt securities in issue	**9 697 975**	**9 642 852**	**8 946 195**	**8 890 686**	**10 382 134**	**10 398 093**
Subordinated liabilities	**3 801 673**	**3 708 384**	**3 827 315**	**3 919 644**	**4 436 572**	**4 395 398**

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 present 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.

Available for sale financial assets. Listed available for sale financial instruments held by the Group are valued at fair value. The fair value of debt securities not listed at an active market is calculated using current interest rates taking into account credit spreads for an appropriate issuer.

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

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

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

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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.

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

31.03.2016	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				
TRADING SECURITIES	**2 849 810**	**2 575 647**	**2 653**	**271 510**
Debt securities	**2 842 925**	**2 571 415**	**-**	**271 510**
- government bonds	2 566 963	2 566 963	-	-
- treasury bills	3 468	3 468	-	-
- deposit certificates	35 196	-	-	35 196
- banks bonds	160 752	984	-	159 768
- corporate bonds	76 546	-	-	76 546
Equity securities	**6 885**	**4 232**	**2 653**	**-**
- listed	4 232	4 232	-	-
- unlisted	2 653	-	2 653	-
DERIVATIVE FINANCIAL INSTRUMENTS	**2 799 170**	**-**	**2 798 273**	**897**
Derivative financial instruments held for trading	**2 497 361**	**-**	**2 496 464**	**897**
- interest rate derivatives	1 933 106	-	1 933 106	-
- foreign exchange derivatives	534 905	-	534 008	897
- market risks derivatives	29 350	-	29 350	-
Derivative financial instruments held for hedging	**301 809**	**-**	**301 809**	**-**
- derivatives designated as fair value hedges	246 441	-	246 441	-
- derivatives designated as cash flow hedges	55 368	-	55 368	-
INVESTMENT SECURITIES	**31 618 471**	**28 437 034**	**2 199 923**	**981 514**
Debt securities	**31 420 347**	**28 436 211**	**2 199 923**	**784 213**
- government bonds	26 542 433	26 542 433	-	-
- treasury bills	1 853 553	1 853 553	-	-
- money bills	2 199 923	-	2 199 923	-
- banks bonds	209 846	-	-	209 846
- corporate bonds	574 367	-	-	574 367
- communal bonds	40 225	40 225	-	-
Equity securities	**198 124**	**823**	**-**	**197 301**
- unlisted	198 124	823	-	197 301
TOTAL FINANCIAL ASSETS	**37 267 451**	**31 012 681**	**5 000 849**	**1 253 921**

31.03.2016	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
FINANCIAL LIABILITIES				
Derivative financial instruments	**2 355 838**	**-**	**2 355 838**	**-**
Derivative financial instruments held for trading	**2 355 639**	**-**	**2 355 639**	**-**
- interest rate derivatives	1 952 997	-	1 952 997	-
- foreign exchange derivatives	377 286	-	377 286	-
- market risks derivatives	25 356	-	25 356	-
Derivative financial instruments held for hedging	**199**	**-**	**199**	**-**
- derivatives designated as fair value hedges	103	-	103	-
- derivatives designated as cash flow hedges	96	-	96	-
Total financial liabilities	**2 355 838**	**-**	**2 355 838**	**-**
TOTAL RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS	**37 267 451**	**31 012 681**	**5 000 849**	**1 253 921**
FINANCIAL LIABILITIES	**2 355 838**	**-**	**2 355 838**	**-**

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Assets Measured at Fair Value Based on Level 3 - changes in the period from 1 January to 31 March of 2016	Debt trading securities	Derivative financial instruments	Debt investment securities	Equity investment securities
As at the beginning of the period	**371 229**	**420**	**816 614**	**198 624**
Gains and losses for the period:	781	477	(13 328)	(166)
Recognised in profit or loss:	781	477	2 594	-
Net trading income	*781*	*477*	-	-
Gains less losses from investment securities, investments in subsidiaries and associates	-	-	*2 594*	-
Recognised in other comprehensive income:	-	-	*(15 922)*	*(166)*
Available for sale financial assets	-	-	*(15 922)*	*(166)*
Purchases	452 153	-	50 703	392
Redemptions	(67 634)	-	-	-
Sales	(995 689)	-	(219 476)	(1 562)
Issues	510 670	-	149 700	-
Settlements	-	-	-	13
As at the end of the period	**271 510**	**897**	**784 213**	**197 301**

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 Financial Market Risk 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.

31.12.2015	Including:	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS				
TRADING SECURITIES	**557 541**	**183 658**	**2 654**	**371 229**
Debt securities	**550 695**	**179 466**	**-**	**371 229**
- government bonds	178 492	178 492	-	-
- deposit certificates	73 124	-	-	73 124
- banks bonds	248 156	974	-	247 182
- corporate bonds	50 923	-	-	50 923
Equity securities	**6 846**	**4 192**	**2 654**	**-**
- listed	4 192	4 192	-	-
- unlisted	2 654	-	2 654	-
DERIVATIVE FINANCIAL INSTRUMENTS	**3 349 328**	**-**	**3 348 908**	**420**
Derivative financial instruments held for trading	**3 151 873**	**-**	**3 151 453**	**420**
- interest rate derivatives	2 783 388	-	2 783 388	-
- foreign exchange derivatives	348 317	-	348 317	-
- market risks derivatives	20 168	-	19 748	420
Derivative financial instruments held for hedging	**197 455**	**-**	**197 455**	**-**
- derivatives designated as fair value hedges	146 694	-	146 694	-
- derivatives designated as cash flow hedges	50 761	-	50 761	-
INVESTMENT SECURITIES	**30 736 949**	**22 279 327**	**7 442 384**	**1 015 238**
Debt securities	**30 537 570**	**22 278 572**	**7 442 384**	**816 614**
- government bonds	22 238 625	22 238 625	-	-
- money bills	7 442 384	-	7 442 384	-
- banks bonds	233 158	-	-	233 158
- corporate bonds	583 456	-	-	583 456
- communal bonds	39 947	39 947	-	-
Equity securities	**199 379**	**755**	**-**	**198 624**
- unlisted	199 379	755	-	198 624
TOTAL FINANCIAL ASSETS	**34 643 818**	**22 462 985**	**10 793 946**	**1 386 887**

IFRS Condensed Consolidated Financial Statements for the first quarter of 2016 PLN (000's)

31.12.2014	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
FINANCIAL LIABILITIES				
Derivative financial instruments	**3 173 638**	**-**	**3 173 638**	**-**
Derivative financial instruments held for trading	**3 171 624**	**-**	**3 171 624**	**-**
- interest rate derivatives	2 811 493	-	2 811 493	-
- foreign exchange derivatives	342 407	-	342 407	-
- market risks derivatives	17 724	-	17 724	-
Derivative financial instruments held for hedging	**2 014**	**-**	**2 014**	**-**
- derivatives designated as fair value hedges	2 014	-	2 014	-
Total financial liabilities	**3 173 638**	**-**	**3 173 638**	**-**
TOTAL RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS	**34 643 818**	**22 462 985**	**10 793 946**	**1 386 887**
FINANCIAL LIABILITIES	**3 173 638**	**-**	**3 173 638**	**-**

Assets Measured at Fair Value Based on Level 3 - changes in the period from 1 January to 31 December of 2015	Debt trading securities	Equity trading securities	Derivative financial instruments	Debt investment securities	Equity investment securities
As at the beginning of the period	**527 067**	**22**	**469**	**309 761**	**30 696**
Gains and losses for the period:	931	(18)	(49)	14 312	160 974
Recognised in profit or loss:	931	(18)	(49)	3 967	1 827
Net trading income	*931*	*(18)*	*(49)*	*-*	*99*
Gains less losses from investment securities, investments in subsidiaries and associates	-	-	-	*3 967*	*1 728*
Recognised in other comprehensive income:	-	-	-	*10 345*	*159 147*
Available for sale financial assets	-	-	-	*10 345*	*159 147*
Purchases	1 870 076	-	-	308 663	9 850
Redemptions	(281 307)	-	-	(49 980)	-
Sales	(7 594 537)	-	-	(984 211)	(2 753)
Issues	5 848 999	-	-	1 218 069	-
Settlements	-	-	-	-	(381)
Transfers into Level 3	-	-	-	-	238
Transfers out of Level 3	-	(4)	-	-	-
As at the end of the period	**371 229**	**-**	**420**	**816 614**	**198 624**

Transfers between levels in 2015	Transfer into level 1	Transfer out of level 1	Transfer into level 2	Transfer out of level 2
Investment securities	**4**	**(238)**	**-**	**-**
Equity securities	4	(238)	-	-

In 2015, one transfer has been observed from level 1 to level 3 of fair value hierarchy which resulted from the liquidation process of the issuer.

Moreover, in 2015 there has been observed one transfer from level 3 to level 1 of fair value hierarchy which resulted from the effect of valuation techniques revision applied to minority stakes of low value held by the Bank.

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31.03.2015	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				
TRADING SECURITIES	**2 043 083**	**1 586 159**	**5 867**	**451 057**
Debt securities	**2 024 593**	**1 573 541**	**-**	**451 052**
- government bonds	1 572 539	1 572 539	-	-
- banks bonds	355 312	1 002	-	354 310
- corporate bonds	96 742	-	-	96 742
Equity securities	**18 490**	**12 618**	**5 867**	**5**
- listed	12 618	12 618	-	-
- unlisted	5 872	-	5 867	5
DERIVATIVE FINANCIAL INSTRUMENTS	**4 824 571**	**-**	**4 822 855**	**1 716**
Derivative financial instruments held for trading	**4 588 941**	**-**	**4 587 225**	**1 716**
- interest rate derivatives	4 181 639	-	4 181 639	-
- foreign exchange derivatives	394 794	-	394 794	-
- market risks derivatives	12 508	-	10 792	1 716
Derivative financial instruments held for hedging	**235 630**	**-**	**235 630**	**-**
- derivatives designated as fair value hedges	62 231	-	62 231	-
- derivatives designated as cash flow hedges	173 399	-	173 399	-
INVESTMENT SECURITIES	**28 442 073**	**23 991 692**	**3 979 510**	**470 871**
Debt securities	**28 177 658**	**23 757 541**	**3 979 510**	**440 607**
- government bonds	23 714 960	23 714 960	-	-
- money bills	3 979 510	-	3 979 510	-
- banks bonds	50 737	-	-	50 737
- corporate bonds	389 870	-	-	389 870
- communal bonds	42 581	42 581	-	-
Equity securities	**264 415**	**234 151**	**-**	**30 264**
- listed	233 130	233 130	-	-
- unlisted	31 285	1 021	-	30 264
TOTAL FINANCIAL ASSETS	**35 309 727**	**25 577 851**	**8 808 232**	**923 644**

31.03.2015	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
FINANCIAL LIABILITIES				
Derivative financial instruments	**4 838 248**	**-**	**4 837 262**	**986**
Derivative financial instruments held for trading	**4 836 382**	**-**	**4 835 396**	**986**
- interest rate derivatives	4 123 395	-	4 123 395	-
- foreign exchange derivatives	696 779	-	696 779	-
- market risks derivatives	16 208	-	15 222	986
Derivative financial instruments held for hedging	**1 866**	**-**	**1 866**	**-**
- derivatives designated as fair value hedges	1 257	-	1 257	-
- derivatives designated as cash flow hedges	609	-	609	-
Total financial liabilities	**4 838 248**	**-**	**4 837 262**	**986**

TOTAL RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS	**35 309 727**	**25 577 851**	**8 808 232**	**923 644**
FINANCIAL LIABILITIES	**4 838 248**	**-**	**4 837 262**	**986**

Assets Measured at Fair Value Based on Level 3 - changes in period from 1 January to 31 March of 2015	Debt trading securities	Equity trading securities	Derivative financial instruments	Debt investment securities	Equity investment securities
As at the beginning of the period	**527 067**	**22**	**469**	**309 761**	**30 696**
Gains and losses for the period:	2 208	(17)	1 247	4 780	(20)
Recognised in profit or loss:	2 208	(17)	1 247	-	(20)
Net trading income	*2 208*	*(17)*	*1 247*	-	-
Gains less losses from investment securities, investments in subsidiaries and associates	-	-	-	-	*(20)*
Recognised in other comprehensive income:	-	-	-	*4 780*	-
Available for sale financial assets	-	-	-	*4 780*	-
Purchases	462 787	-	-	9 832	-
Redemptions	(2 500)	-	-	(49 980)	(16)
Sales	(2 723 403)	-	-	(36 982)	(396)
Issues	2 184 893	-	-	203 196	-
As at the end of the period	**451 052**	**5**	**1 716**	**440 607**	**30 264**

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: valuation techniques based on observable market data;
- Level 3: valuation methods for which at least one significant input data is not based on observable market data.

Level 1

As at 31 March 2016, at level 1 of the fair value hierarchy, the Group has presented the fair value of held for trading government bonds and treasury bills in the amount of PLN 2 570 431 thousand (see Note 15) and the fair value of investment government bonds and treasury bills in the amount of PLN 28 395 986 thousand (see Note 19) (31 December 2015 respectively: PLN 178 492 thousand and 22 238 625 thousand, 31 March 2015 respectively: PLN 1 572 539 thousand and PLN 23 714 960 thousand). Level 1 also includes the fair value of local government bonds in the amount of PLN 40 225 thousand (31 December 2015: PLN 39 947 thousand, 31 March 2015: PLN 42 581 thousand), and the fair value of bonds issued by banks in the amount of PLN 984 thousand (31 December 2015: PLN 974 thousand, 31 March 2015: PLN 1 002 thousand).

In addition, as at 31 March 2016 level 1 includes the value of the shares of listed companies in the amount of PLN 4 232 thousand (31 December 2015: PLN 4 192 thousand, 31 March 2015: PLN 245 748 thousand, including value of PZU S.A. shares in the amount of PLN 231 380 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 vale hierarchy includes the fair values of short term bills issued by NBP in the amount of PLN 2 199 923 thousand (31 December 2015: PLN 7 442 384 thousand, 31 March 2015: PLN 3 979 510 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 March 2016, 31 December 2015 and 31 March 2015, level 2 also includes the value of options referencing on the WIG 20 index, listed on the Stock Exchange. For the valuation of index options on WIG20 the Bank applied an internal model (based on a model for implied volatility) for which market data have been used as input parameters.

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 1 055 723 thousand (31 December 2015: PLN 1 187 843 thousand, 31 March 2015: PLN 891 659 thousand).

The above mentioned debt instruments are classified as level 3 because in addition to parameters which transform quotations taken directly from active and liquid financial markets (interest rate curves), their valuation uses credit spread estimated by the Bank by means of an internal credit risk model and reflects the credit risk of the issuer. The model uses parameters (e.g., rate of recovery from collateral, rating migrations, default ratio volatilities) which are not observed on active markets and hence were generated by statistical analysis.

Moreover, level 3 covers mainly the fair value of equity securities amounting to PLN 197 301 thousand (31 December 2015: PLN 198 624 thousand, 31 March 2015: PLN 30 269 thousand). As at 31 March 2016 this amount includes the value of Visa Europe Ltd shares in the amount of PLN 167 514 thousand (31 December 2015: PLN 167 243 thousand) which was valuated at fair value on the basis on information held by the Bank in connection with the takeover transaction of Visa Europe Ltd by Visa Inc. The other 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.

Selected explanatory information

1. Compliance with international financial reporting standards

The presented condensed consolidated report for the first quarter of 2016 fulfils the requirements of the International Accounting Standard (IAS) 34 "Interim Financial Reporting" relating to interim financial reports.

In addition, selected explanatory information provide additional information in accordance with Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equal information required by the law of other state, which is not a member state (Journal of Laws No. 33, item 259 with further amendments).

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

A detailed description of the accounting policy principles of the Group is presented under Note 2 and 3 of these condensed consolidated financial statements. The accounting policies were applied consistently over all periods presented in these condensed consolidated financial statements.

In the first quarter of 2016, the Bank changed its accounting policy concerning the valuation of subsidiaries, associates and joint ventures in the stand-alone financial statements. Starting from 1 January 2016, in connection with the entry into force of amendments of IAS 27, S*eparate financial statements*, the Bank changed the method of valuation of the above assets from the at cost method to the equity method. Stand-alone comparative data included in these financial statements has been accordingly restated. The impact of the above-mentioned changes in the accounting policies on the stand-alone comparative data has been presented under Note 2.34 "Comparative data".

3. Seasonal or cyclical nature of the business

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

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

- Act on tax on certain financial institutions

On 15 January 2016 the Polish Parliament adopted the "Act on tax on certain financial institutions". The Act came into force on 1 February 2016.

The Act regulates the taxation of the assets of certain financial institutions. In the case of the Bank, the tax base is the excess of the total value of assets, resulting from the trial balance determined on the basis of the general ledger records as of the last day of the month in accordance with the accounting standards applied by the Bank, above the amount of PLN 4 billion, reduced by the value of own funds and treasury securities. The tax rate introduced by the Act is 0.0366% of the tax base per month.

The cost of tax on certain financial institutions included in the results and equity of the Bank and the Group for the three months of 2016 amounted to PLN 53 845 thousand and PLN 56 348 thousand, respectively.

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

In the first quarter of 2016, events as indicated above did not occur in the Group.

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

In the first quarter of 2016, mBank Hipoteczny S.A. issued mortgage bonds in the amount of PLN 300 000 thousand and in the amount of EUR 50 000 thousand.

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

On 24 March 2016, the 29th Ordinary General Meeting of mBank S.A., adopted the resolution on division of the 2015 net profit which does not provide for the payment of dividend for the year 2015.

8. Significant events after the end of the first quarter of 2016, which are not reflected in the financial statements

Events as indicated above did not occur in the Group.

9. Effect of changes in the structure of the entity in the first quarter of 2016, including business combinations, acquisitions or disposal of subsidiaries, long-term investments, restructuring, and discontinuation of business activities

In the first quarter of 2016, the Group sold shares of mBank subsidiary, Call Center Poland S.A., for the price of PLN 2 000 thousand.

10. Changes in contingent liabilities and commitments

In the first quarter of 2016, there were no changes in contingent liabilities and commitments of credit nature, i.e., guarantees, letters of credit or unutilised loan amounts, other than resulting from current operating activities of the Group. There was no single case of granting of guarantees or any other contingent liability of any material value for the Group.

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

In the first quarter of 2016, events as indicated above did not occur in the Group.

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

In the first quarter of 2016, the Group has made revaluation write-off of other assets in the amount of PLN 1 004 thousand.

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

Data regarding write-offs on account of impairment of financial assets are presented under Note 9 and Note 11 of these condensed consolidated financial statements.

14. Reversals of provisions against restructuring costs

In the first quarter of 2016, events as indicated above did not occur in the Group.

15. Acquisitions and disposals of tangible fixed asset items

In the first quarter of 2016, there were no material transactions of acquisition or disposal of any tangible fixed assets, with the exception of typical lease and property development operations that are performed by the companies of the Group.

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

In the first quarter of 2016, events as indicated above did not occur in the Group.

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

In the first quarter of 2016, events as indicated above did not occur in the Group.

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

In the first quarter of 2016, events as indicated above did not occur in the Group.

19. Corrections of errors from previous reporting periods

In the first quarter of 2016, events as indicated above did not occur in the Group.

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

In the first quarter of 2016, events as indicated above did not occur in the Group.

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

mBank S.A. did not publish a performance forecast for the year 2016.

22. Registered share capital

The total number of ordinary shares as at 31 March 2016 was 42 238 924 shares (31 December 2015: 42 238 924, 31 March 2015: 42 210 157) at PLN 4 nominal value each (31 December 2015 and 31 March 2015: PLN 4). All issued shares were fully paid up.

REGISTERED SHARE CAPITAL (THE STRUCTURE) AS AT 31 MARCH 2016						
Share type	**Type of privilege**	**Type of limitation**	**Number of shares**	**Series / face value of issue in PLN**	**Paid up**	**Registered on**
ordinary bearer*	-	-	9 982 500	39 930 000	fully paid in cash	1986
ordinary registered*	-	-	17 500	70 000	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	-	-	-	-	fully paid in cash	2016
Total number of shares			**42 238 924**			
Total registered share capital				**168 955 696**		
Nominal value per share (PLN)		**4**				

* As at the end of the reporting period

23. Material share packages

In the first quarter of 2016, there were no changes in the holding of material share packages of the Bank.

Commerzbank AG is a shareholder holding over 5% of the share capital and votes at the General Meeting and as at 31 March 2016 it held 69.49% of the share capital and votes at the General Meeting of mBank S.A.

On 20 March 2015, the Bank received from ING Otwarty Fundusz Emerytalny (Fund) a notification that the total numbers of votes controlled at the General Meeting of mBank S.A. increased over 5%.

Prior to the acquisition, the Fund held 2 110 309 shares of mBank S.A., which constituted 4.99% of mBank S.A. share capital and entitled it to exercise 2 110 309 votes at the General Meeting of mBank S.A. On 18 March 2015, in the brokerage account of the Fund there were 2 130 699 shares of mBank S.A., representing 5.05% of the share capital of mBank S.A. The shares entitle to 2 130 699 votes at the General Meeting of mBank SA, which represent 5.05% of the total number of votes.

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

	Number of shares held as at the date of publishing the report for Q4 2015	Number of shares acquired from the date of publishing the report for Q4 2015 to the date of publishing the report for Q1 2016	Number of shares sold from the date of publishing the report for Q4 2015 to the date of publishing the report for Q1 2016	Number of shares held as at the date of publishing the report for Q1 2016
Management Board				
1. Cezary Stypułkowski	6 784	-	-	6 784
2. Lidia Jabłonowska-Luba	818	-	-	818
3. Przemysław Gdański	4 689	-	-	4 689
4. Joerg Hessenmueller	1 254	-	-	1 254
5. Hans-Dieter Kemler	-	-	-	-
6. Cezary Kocik	-	-	-	-
7. Jarosław Mastalerz	818	-	-	818

As at the date of publishing the report for the fourth quarter of 2015 and as at the date of publishing the report for the first quarter of 2016, the Members of the Management Board had no and they have no rights to Bank's shares.

As at the date of publishing the report for the fourth quarter of 2015, Mr. Wiesław Thor had 2 192 shares of mBank. As at the date of publishing the report for the first quarter of 2016, Mr. Wiesław Thor had no Bank shares, after sale transaction.

As at the date of publishing the report for the fourth quarter of 2015 and as at the date of publishing the report for the first quarter of 2016, the other Members of the Supervisory Board of mBank S.A. had neither Bank shares nor rights to Bank shares.

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

As at 31 March 2016, the Bank was not involved in any proceedings before a court, arbitration body, or public administration authority concerning liabilities of the Bank or its subsidiaries, which represent at least 10% of the Bank's equity. Moreover, the total value of claims concerning liabilities of the Bank or its subsidiary in all proceedings before a court, an arbitration body or a public administration authority as at 31 March 2016 was also not higher than 10% of the Bank's equity.

The Bank monitors the status of all legal proceedings brought against the Bank and the level of required provisions.

Report on major proceedings brought against the Bank

1. Lawsuit brought by Bank Pekao SA (previously BPH SA) against Garbary Sp. z o.o. ("Garbary")

   BPH brought the case to court on 17 February 2005. The value of the dispute was estimated at PLN 42 854 thousand. The purpose was to cancel actions related to the creation of Garbary and the contribution in kind. The dispute focuses on determination of the value of the right to perpetual usufruct of land and related buildings that ZM Pozmeat SA contributed in kind to Garbary as payment for a stake in ZM Pozmeat SA share capital worth PLN 100 000 thousand. On 6 June 2006, the District Court in Poznań issued a verdict according to which the claims were dismissed in their entirety. The claimant filed an appeal against that verdict. On 6 February 2007, the Court of Appeal dismissed the claimant's appeal. The claimant filed the last resort appeal against the ruling of the Court of Appeal. On 2 October 2007, the Supreme Court revoked the ruling of the Court of Appeal and referred the case back. After re-examining the case, the Court of Appeal dismissed the ruling of the District Court in Poznań on 4 March 2008 and referred the case back. On 16 September 2010, the District Court in Poznań dismissed the claim in whole. On 19 October 2010, BPH filed an appeal against the ruling in question. On 24 February 2011, the Court of Appeal made a decision on revoking the ruling and discontinuance of proceedings involving Bank Pekao S.A. (the Bank entered in the proceedings as successor of BPH) justified by lack of title to bring the action before the court on the side of the Bank. The case was returned to the court of the first instance where it was continued with the participation of Pekao SA (previously BPH SA) as the claimant. Bank Pekao SA (previously BPH SA) filed the last resort appeal against the aforesaid decision with the Supreme Court. On 25 April 2012, the Supreme Court revoked the aforesaid decision of the Court of Appeal and referred the case back. On 9 April 2014 the Court of Appeal changed the ruling of the District Court and considered the activities connected with setting up the company Garbary and contribution in kind as ineffective in relation to Bank Pekao SA (previously BPH SA). The Bank filed an annulment appeal to the Supreme Court from above mentioned judgment. On 5 August 2015 the Supreme Court issued a decision in which it has declined acceptance of the complaint for consideration.

Possibility of settlement of the dispute is being analyzed, with consideration of the legal conditions of efficient enforcement of the judgment.

2. Lawsuit brought by Bank Pekao SA (previously BPH SA) against the Bank and Tele-Tech Investment Sp. z o.o. ("TTI")

   On 17 November 2007, BPH brought to court a case for damages in the amount of PLN 34 880 thousand plus statutory interest from 20 November 2004 to the date of payment, due to alleged illegal actions such as the sale by ZM Pozmeat SA to TTI of all shares in the equity of Garbary Sp. z o.o. (previously Milenium Center Sp. z o.o.), an important part of its assets, while ZM Pozmeat SA was at risk of insolvency.

   In its reply to the claim, the Bank petitioned the Court for dismissing the claim on the grounds of there being no legal basis for allowing the claim. On 1 December 2009, the Court decided to suspend the case until the completion of Pozmeat's bankruptcy proceedings. On 26 January 2011, the court has decided to reinstate suspended proceedings due to the closing of the insolvency procedure. On 5 June 2012, the court once again decided to suspend the proceedings until the case filed by Bank Pekao SA (previously BPH SA) against Garbary Sp. z o.o. is finally settled. In November 2015, a decision to resume the suspended proceedings was made.

3. Claims of clients of Interbrok

   170 entities who were clients of Interbrok Investment E. Dróżdż i Spółka Spółka jawna (hereinafter referred to as Interbrok) called the Bank for amicable settlement in the total amount of PLN 385 520 thousand and via the District Court in Warsaw. In addition, 9 legal compensation suits have been delivered to the Bank. Eight of the nine suits where placed by former clients of Interbrok for the total amount of PLN 800 thousand with the reservation that the claims may be extended up to the total amount of PLN 5 950 thousand. Plaintiffs allege that the Bank aided in Interbrok's illegal activities, which caused damage to plaintiffs. Seven of the suits against mBank were dismissed on substantive grounds and thus ended with a valid court order. The eighth suit was dismissed on substantive grounds by the District Court. On 21 December 2010, the Court of Appeals revoked the judgment of the District Court and remanded the case to the District Court in Warsaw for re-examination. In the 9th case the value of the subject of litigation amounts to PLN 275 423 thousand together with statutory interest and legal costs. The amount set forth in the petition is to cover the receivables, acquired by the Plaintiff by way of assignment, due to parties aggrieved by Interbrok on account of the 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 aiding to commit the illicit act of Interbrok involving the pursuit of brokerage activity without a permit. At present, the case is being heard by the court of first instance.

   In all court cases the Bank moves for dismissal of the claims in entirety and objects to charges raised in the legal suits. The legal analysis of the abovementioned claims indicates that there are not significant grounds to state that the Bank bears liability in the case.

4. Class action against mBank S.A.

   On 4 February 2011, the Bank received a class action brought to the District Court in Łódź on 20 December 2010 by the Municipal Ombudsman who represents a group of 835 persons – retail clients of the Bank. The petitioners demand that a responsibility of the Bank is determined for improper performance of mortgage credit agreements. In particular, it was indicated that the Bank improperly applied provisions of the agreements concerning interest rates adjustment, namely that the Bank did not reduce interest rates on loans, although, according to the petitioners, it should have. The Bank rejects the above reasoning. On 18 February 2011, the Bank submitted a formal answer to the court, in which it applied for a dismissal of the claim as a whole.

   On 6 May 2011, the District Court in Łódź decided to reject the application of mBank S.A. for dismissing the claim and decided that the case will proceed as a class action. On 13 June 2011, mBank S.A. lodged a complaint against this decision with the Court of Appeal in Łódź. On 28 September 2011, the Court of Appeal dismissed the complaint of mBank S.A. Currently, the case proceeds as a class action. The time for joining the class ended in March 2012. As at 17 October 2012, the approved class consisted of 1 247 members. Moreover, the District Court in Łódź ruled against setting up a cash deposit for mBank S.A. requested by the Bank. The Bank lodged a complaint against this ruling. On 29 November 2012, the Court of Appeal in Łódź dismissed the Bank's complaint about setting up the cash deposit. The ruling is valid and the Plaintiff is not obliged to pay the cash deposit. The final response to the petition was sent in January 2013, while the Plaintiff replied to it in a pleading filed on 15 February 2013. By a decision dated 18 February 2013, the District Court in Łódź decided to refer the case to mediation. In a letter dated 26 February 2013, the Municipal Consumer Ombudsman raised an objection to the mediation. On 22 June 2013, a trial was conducted, and on 3 July 2013, the Court announced its judgment in which it took into account the action in its entirety acknowledging that the Bank improperly performed the agreement whereby the consumers sustained a loss. On 9 September 2013, the Bank filed an appeal against the aforementioned verdict. Under the sentence of 30 April 2014, the Court of Appeal in Łódź dismissed the appeal of mBank, upholding the decision of the District Court expressed in the appealed verdict. The aforementioned verdict is legally valid, however, after having received its written justification, mBank lodged an annulment appeal to the Supreme Court. The annulment appeal was brought by mBank on 3 October 2014. On 7 October 2014 the Court of Appeal in Łódź ceased the enforceability of the judgement of District Court in Łódź until consideration of Bank's annulment appeal. On 18 February 2015, the Supreme Court received the annulment appeal filed by mBank. On 14 May 2015, the Supreme Court revoked the judgments of the Court of Appeal in Łódź and remanded the case to the Court of Appeal in Łódź for re-examination. On 24 September 2015 the Court of Appeal in Łódź admitted evidence from an opinion of an expert in order to verify the correctness of adjustments made by mBank in mortgage loan interest rates subject to class action in the period of 1 January 2009 to 28 February 2010.

As at 31 March 2016, the Bank was not involved in any proceedings before a court, arbitration body, or public administration authority concerning receivables of the Bank or its subsidiaries, which represent at least 10% of the Bank's equity. The total value of claims concerning receivables of the Bank or its subsidiaries in all proceedings before a court, an arbitration body or a public administration authority underway at 31 March 2016 was also not higher than 10% of the Bank's equity.

Information regarding tax audits

On 29 January 2016 mLeasing received a notification of the intention to open an enquiry and an authorisation for the Head of the Treasury Control Office in Warsaw to conduct an enquiry into the reliability of the declared tax bases and the correctness of the calculation and payment of tax on goods and services for Q2 2014. The enquiry aims at determining whether the Company is an obligated institution under the Act of 16 November 2000 on Counteracting Money Laundering and Terrorism Financing; if mLeasing is given the status of an obligated institution, the enquiry will also cover its compliance with the obligations arising from the aforesaid act. The enquiry is in progress.

Within the period from 4 to 25 January 2016, Director of the Social Insurance Institution (Zakład Ubezpieczeń Społecznych) conducted an inspection in mLocum S.A. concerning, i.a. the correctness and accuracy of calculating the social security contributions, reporting to the social insurance and health insurance for the years 2012, 2013 and 2014. The audit did not identify any relevant irregularities.

From 1 December 2015 to 11 January 2016, the First Tax Office in Gdynia conducted a tax inspection in Apartamenty Molo Rybackie Sp. z o.o. (joint venture of mLocum S.A. and Dalmor) of the accuracy of settlement of tax on goods and services in October 2015 in connection with the declared VAT refund. The audit did not identify any irregularities.

Within the period from 9 June 2015 to 13 August 2015, the President of the capital city of Warsaw carried out tax audit in mLeasing Sp. z o.o. concerning real property tax in the scope of determining ownership, assets and the basis for collecting taxes on land, buildings and building structures located in the capital city of Warsaw. The audit covered the period from 1 January 2010 to 30 April 2015. The audit did not identify any relevant irregularities.

Within the period from 9 December 2014 to 2 April 2015, Director of the Treasury Control Office in Łódź (Urząd Kontroli Skarbowej w Łodzi) carried out audit proceedings in Aspiro S.A. concerning correctness of the settlement of value added tax for the year 2012. The audit did not identify any relevant irregularities.

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

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26. Off-balance sheet liabilities

Off-balance sheet liabilities as at 31 March 2016, 31 December 2015 and 31 March 2015 were as follows:

mBank Group consolidated data

	31.03.2016	31.12.2015	31.03.2015
1. 1. Contingent liabilities granted and received	**28 108 894**	**27 926 983**	**25 751 775**
Commitments granted	**26 339 011**	**26 180 428**	**24 142 673**
- financing	21 350 033	21 098 198	20 346 171
- guarantees and other financial facilities	4 988 648	5 081 900	3 796 172
- other commitments	330	330	330
Commitments received	**1 769 883**	**1 746 555**	**1 609 102**
- financial commitments	16 000	-	65 808
- guarantees	1 753 883	1 746 555	1 543 294
2. 2. Derivative financial instruments (nominal value of contracts)	**455 454 178**	**579 188 355**	**738 364 266**
Interest rate derivatives	365 772 901	494 009 390	664 477 949
Currency derivatives	83 039 131	81 124 026	72 059 833
Market risk derivatives	6 642 146	4 054 939	1 826 484
Total off-balance sheet items	**483 563 072**	**607 115 338**	**764 116 041**

mBank stand-alone data

	31.03.2016	31.12.2015	31.03.2015
1. Contingent liabilities granted and received	**31 650 593**	**31 424 087**	**30 922 492**
Commitments granted	**29 905 889**	**29 687 445**	**29 406 033**
- financing	19 790 103	19 479 561	18 620 266
- guarantees and other financial facilities	10 115 786	10 207 884	10 785 767
Commitments received	**1 744 704**	**1 736 642**	**1 516 459**
- financial commitments received	-	-	65 808
- guarantees received	1 744 704	1 736 642	1 450 651
2. Derivative financial instruments (nominal value of contracts)	**457 864 434**	**581 022 593**	**741 723 860**
Interest rate derivatives	366 459 894	494 681 050	666 735 179
Currency derivatives	84 762 394	82 286 604	73 162 694
Market risk derivatives	6 642 146	4 054 939	1 825 987
Total off-balance sheet items	**489 515 027**	**612 446 680**	**772 646 352**

27. Transactions with related entities

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

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

The amounts of transactions with related entities, i.e., balances of receivables and liabilities and related costs and income as at 31 March 2016, 31 December 2015 and 31 March 2015 were as follows.

PLN (000's)	mBank S.A. subsidiaries not consolidated by the acquisition method			Commerzbank AG Group		
As at the end of the period	**31.03.2016**	**31.12.2015**	**31.03.2015**	**31.03.2016**	**31.12.2015**	**31.03.2015**
Statement of Financial Position						
Assets	-	13 153	109 077	586 808	613 844	978 477
Liabilities	192	1 248	282	13 737 525	13 478 374	17 394 903
Income Statement						
Interest income	-	32	2 206	34 942	175 657	46 773
Interest expense	(1)	(4)	(1)	(39 549)	(230 191)	(79 217)
Fee and commission income	4	44	17	-	-	-
Other operating income	17	72	17	6	20	-
Overhead costs, amortisation and other operating expenses	-	(1)	-	(2 533)	(9 285)	(2 196)
Contingent liabilities granted and received						
Contingent liabilities granted	1 510	1 514	1 050	1 265 493	1 379 203	1 236 412
Contingent liabilities received	-	-	-	846 414	618 758	745 546

28. Credit and loan guarantees, other guarantees granted in excess of 10% of the equity

As at 31 March 2016, the Bank's exposure under guarantees granted in excess of 10% of own funds related to the guarantee payment of all amounts to be paid in respect of debt securities issued by mFinance France S.A. (mFF), a subsidiary of the mBank S.A.

On 25 September 2013, mFF issued tranche of Eurobonds with nominal value of CHF 200 000 thousand maturing on 8 October 2018. In this case, the guarantee was granted on 25 September 2013 for the duration of the Programme, i.e. to 8 October 2018.

On 22 November 2013, mFF issued next tranche of Eurobonds with nominal value of CZK 500 000 thousand maturing on 6 December 2018. In this case, the guarantee was granted on 22 November 2013 for the duration of the Programme, i.e. to 6 December 2018.

On 24 March 2014, mFF issued next tranche of Eurobonds with nominal value of EUR 500 000 thousand maturing on 1 April 2019. In this case, the guarantee was granted on 24 March 2014 for the duration of the Programme, i.e. to 1 April 2019.

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

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

- Resignation of the member of the Management Board of mBank S.A.

On 12 April 2016, mBank S.A. received from Mr. Joerg Hessenmueller information about his resignation from the post of the Vice President of the Management Board, Chief Financial Officer taking effect as of 30 June 2016. The reason for the resignation of Mr. Hessenmueller is taking up new responsibilities within the Commerzbank Group.

- Changes in the Supervisory Board of mBank S.A.

On 16 March 2016 the Bank received a letter from Mr. Martin Blessing, Member of the Bank's Supervisory Board and Member of the Executive Committee with a resignation from the aforementioned positions. The resignation is to take effect as of 30 April 2016.

On 24 March 2016, the Supervisory Board of mBank S.A. adopted a resolution appointing Mr. Michael Mandel as a member of the Supervisory Board with effect as of 1 May 2016. He will replace Mr. Martin Blessing until the end of a current term of the Management Board (ie. the date of the General Meeting of the Bank approving the financial statements of the Bank for the year 2016).

30. Factors affecting the results in the coming quarter

Entering into force on 1 February 2016 of the "Act on tax on certain financial institutions", specified in the item 29 above will have a significant negative impact on the financial results of the Bank and the Group in Q2 2016.

31. Other information

- Proposals concerning foreign currency mortgage loans restructuring

Some proposals of restructuring of foreign currency mortgage loans for individuals have been discussed recently, including the solutions presented by the Chancellery of the President of the Republic of Poland. The solutions proposed so far are under discussion and their final form is not known yet. Therefore, at the moment, the Bank is not able to estimate reliably either the implementation probability of the discussed solutions or the potential impact of the final solutions on the consolidated financial statements of the Group.

- Recommendations of the Polish Financial Supervision Authority (KNF) regarding additional capital requirements and retaining the entire profit earned by the Bank during the period from 1 January to 31 December 2015 in the Bank's own funds

On 16 March 2016, mBank S.A. received a letter from the KNF with information regarding review of the additional capital requirement associated with the risk of the foreign currency mortgage loan portfolio for households at the consolidated level, respectively: for the Common Equity Tier 1 capital ratio reduction from 3.29 p.p. to 2.79 p.p. and for the total capital ratio decrease from 4.39 p.p. to 3.72 p.p. Therefore, at the end of 2015 the Bank's capital ratios on a consolidated level should be at least: the Common Equity Tier 1 capital ratio 11.79% and total capital ratio 15.72%. Beginning 1 January 2016 the Bank's capital ratios on a consolidated level should be at least: the Common Equity Tier 1 capital ratio 13.04% and the total capital ratio 16.97%. Capital ratios at the stand-alone level for the above mentioned periods remain unchanged and should be at least: at the end of 2015 the Common Equity Tier 1 capital ratio 12.29%, the total capital ratio 16.39% and from 1 January 2016 the Common Equity Tier 1 capital ratio 13.54% and the total capital ratio 17.64%. The above-described reduction of capital requirements on a consolidated level results from taking into account lower share of the foreign currency mortgage loan portfolio for households in the mBank Group balance sheet compared with the stand-alone balance sheet of the Bank and it is not the result of the change in the KNF's assessment of the risks associated with the foreign currency mortgage loans portfolio for households. As at 31 March 2016 the Bank meets the requirements of the KNF at both stand-alone and consolidated basis.

Additionally KNF has recommended an increase of the Bank's own funds by retaining the entire profit earned by the Bank during the period from 1 January to 31 December 2015. On 24 March 2016 the Ordinary General Meeting of mBank S.A. adopted a resolution in which it was decided that the Bank's net profit for the year 2015 in the amount of PLN 1 271 449 406.95 will be allocated in the amount of PLN 30 000 000.00 to the general banking risk reserve of mBank, while the amount of PLN 1 241 449 406.95 will remain undivided.

- Update of terms of the takeover of Visa Europe Limited (Visa Europe) by Visa Inc. transaction

On 21 April 2016 the Bank received an information regarding the planned adjustments in the settlement structure of intended takeover of Visa Europe by Visa Inc. The revised terms of the agreement provide for an additional guaranteed cash payment of €1.87 billion (including interest) on top of previously announced EUR 11.5 billion. This is formed from a further €750m in upfront consideration and an additional cash payment of €1.12 billion (including interest) payable in three years and replaces previously planned earn-out which amounted to a maximum of EUR 4.7 billion (conditional upon achieving of certain net revenues by Visa Europe) to be paid in 2020. The revised deal remains subject to final regulatory approvals. The final amounts allocated to individual participants of the transaction will be known prior to its finalization. Closing date was initially planned in second quarter of 2016, however, due to recent changes it may be delayed to third quarter of 2016.