mBank S.A. Group

IFRS Condensed Consolidated Financial Statements
for the third 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 third quarter of 2016.

SELECTED FINANCIAL DATA FOR THE GROUP		in PLN'000		in EUR'000	
		3 Quarters of 2016 period from 01.01.2016 to 30.09.2016	3 Quarters of 2015 period from 01.01.2015 to 30.09.2015	3 Quarters of 2016 period from 01.01.2016 to 30.09.2016	3 Quarters of 2015 period from 01.01.2015 to 30.09.2015
I.	Interest income	2 869 558	2 700 202	656 830	649 321
II.	Fee and commission income	1 121 625	1 051 898	256 735	252 951
III.	Net trading income	218 002	222 035	49 900	53 393
IV.	Operating profit	1 453 569	1 264 606	332 716	304 101
V.	Profit before income tax	1 217 432	1 261 889	278 665	303 448
VI.	Net profit attributable to Owners of mBank S.A.	926 765	991 760	212 133	238 490
VII.	Net profit attributable to non-controlling interests	2 636	3 007	603	723
VIII.	Net cash flows from operating activities	1 683 699	4 308 574	385 392	1 036 088
IX.	Net cash flows from investing activities	(29 030)	221 181	(6 645)	53 188
X.	Net cash flows from financing activities	3 098 467	(1 831 267)	709 226	(440 367)
XI.	Net increase / decrease in cash and cash equivalents	4 753 136	2 698 488	1 087 973	648 909
XII.	Basic earnings per share (in PLN/EUR)	21.94	23.49	5.02	5.65
XIII.	Diluted earnings per share (in PLN/EUR)	21.93	23.48	5.02	5.65
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		
		30.09.2016	31.12.2015	30.09.2015	30.09.2016	31.12.2015	30.09.2015
I.	Total assets	129 780 723	123 523 021	125 750 143	30 097 570	28 985 808	29 667 849
II.	Amounts due to the Central Bank	-	-	1	-	-	0
III.	Amounts due to other banks	11 562 896	12 019 331	14 783 138	2 681 562	2 820 446	3 487 741
IV.	Amounts due to customers	85 188 225	81 140 866	78 545 901	19 756 082	19 040 447	18 531 095
V.	Equity attributable to Owners of mBank S.A.	12 935 287	12 242 346	11 890 334	2 999 835	2 872 779	2 805 250
VI.	Non-controlling interests	35 254	32 618	32 743	8 176	7 654	7 725
VII.	Share capital	169 117	168 956	168 954	39 220	39 647	39 861
VIII.	Number of shares	42 279 255	42 238 924	42 238 537	42 279 255	42 238 924	42 238 537
IX.	Book value per share (in PLN/EUR)	305.95	289.84	281.50	70.95	68.01	66.41
X.	Total capital ratio	18.61	17.25	16.99	18.61	17.25	16.99

SELECTED FINANCIAL DATA FOR THE BANK		in PLN'000		in EUR'000	
		3 Quarters of 2016 period from 01.01.2016 to 30.09.2016	3 Quarters of 2015 period from 01.01.2015 to 30.09.2015	3 Quarters of 2016 period from 01.01.2016 to 30.09.2016	3 Quarters of 2015 period from 01.01.2015 to 30.09.2015
I.	Interest income	2 514 981	2 424 261	575 669	582 965
II.	Fee and commission income	892 983	803 401	204 400	193 195
III.	Net trading income	221 930	224 512	50 799	53 989
IV.	Operating profit	1 311 544	1 181 116	300 207	284 025
V.	Profit before income tax	1 160 337	1 212 671	265 596	291 613
VI.	Net profit	922 184	991 757	211 084	238 489
VII.	Net cash flows from operating activities	1 642 380	5 161 218	375 934	1 241 125
VIII.	Net cash flows from investing activities	172 481	177 785	39 480	42 752
IX.	Net cash flows from financing activities	2 652 804	(2 762 773)	607 216	(664 368)
X.	Net increase / decrease in cash and cash equivalents	4 467 665	2 576 230	1 022 630	619 509
XI.	Basic earnings per share (in PLN/EUR)	21.83	23.49	5.00	5.65
XII.	Diluted earnings per share (in PLN/EUR)	21.82	23.48	4.99	5.65
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		
		30.09.2016	31.12.2015	30.09.2015	30.09.2016	31.12.2015	30.09.2015
I.	Total assets	124 466 288	119 115 370	121 744 774	28 865 095	27 951 512	28 722 874
II.	Amounts due to the Central Bank	-	-	1	0	-	0
III.	Amounts due to other banks	11 568 125	12 183 191	14 760 865	2 682 775	2 858 897	3 482 486
IV.	Amounts due to customers	92 456 191	85 924 151	85 794 168	21 441 603	20 162 889	20 241 157
V.	Own equity	12 931 101	12 242 347	11 890 335	2 998 864	2 872 779	2 805 251
VI.	Share capital	169 117	168 956	168 954	39 220	39 647	39 861
VII.	Number of shares	42 279 255	42 238 924	42 238 537	42 279 255	42 238 924	42 238 537
VIII.	Book value per share (in PLN/EUR)	305.85	289.84	281.50	70.93	68.01	66.41
IX.	Total capital ratio	22.18	20.18	20.07	22.18	20.18	20.07

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

- for items of the statement of financial position – exchange rate announced by the National Bank of Poland as at 30 September 2016: EUR 1 = 4.3120, 31 December 2015: EUR 1 = PLN 4.2615 and 30 September 2015: EUR 1 = PLN 4.2386.

- for items of the income statement – exchange rate calculated as the arithmetic mean of exchange rates announced by the National Bank of Poland as at the end of each month of the three quarters of 2016 and 2015: EUR 1 = PLN 4.3688 and EUR 1 = PLN 4.1585 respectively.

Introduction

The results of mBank Group in Q3 2016 reflect difficult operating conditions under which financial entities have been operating in Poland. The factors which have an adverse impact on the current profitability of the Polish banking sector include in particular: historically low interest rates, reduced interchange fees, negative sentiment towards capital markets, new restructuring law, high capital requirements and finally banking tax. A positive impact on the economy and the banking sector had the increasing household income driven by the 500+ child benefits and wage growth. In Q3 2016, mBank Group's income decreased quarter on quarter due to the one-off event in the previous quarter, i.e. settlement of the takeover of Visa Europe by Visa Inc. At the same time, core income increased quarter on quarter thanks to positive trends both in net interest income and net fee and commission income, and consequently, was at a historical high.

mBank Group generated a profit before tax of PLN 309.6 million in Q3 2016, which represents a decrease by 38.8% compared with Q2 2016. Net profit attributable to the shareholders of mBank fell by 40.7% quarter on quarter to PLN 230.5 million.

The main factors determining changes in the Group's financial results in Q3 2016 were as follows:

- **Lower income** at PLN 1,038.7 million, i.e. -13.7% compared with Q2 2016, mainly due to the one-off income booked in the previous quarter. Net interest income went up by PLN 34.3 million, i.e. 5.0%, while net fee and commission income rose by PLN 24.7 million, i.e. 11.8%, compared with Q2 2016. Net trading income grew as well and was up by PLN 14.9 million, i.e. 25.0% quarter on quarter.

- **Increase in operating expenses** (including amortisation) by 1.9% compared with Q2 to PLN 499.9 million was triggered by an increase in material costs by PLN 24.4 million, i.e. 15.4%, coupled with lower amortisation (by PLN 10.7 million, i.e. 16.9%).

- **Net impairment losses on loans and advances** rose to PLN 139.5 million due to an increase in provisions in the corporate segment. As a consequence the cost of risk reached 69 basis points in Q3 2016, compared with 59 basis points a quarter earlier.

- **Tax on balance sheet items of the Group** remained almost unchanged compared with Q2 and amounted to PLN 89.8 million.

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

    - **increase in the retail customer base** to 5,250 thousand (+104 thousand customers compared with the end of June);

    - **increase in the number of corporate customers** to 20,695 customers (+475 customers compared with the end of June).

As at the end of September 2016, net loans and advances stood at PLN 81,009.6 million and were up by PLN 234.8 million, i.e. 0.3% compared with the end of June (excluding reverse repo/buy-sell-back transactions and the FX effect, the value of loans and advances went up by 1.6%).

In Q3 2016 the value of customer deposits remained almost unchanged compared with the previous quarter and totalled PLN 85,188.2 million with amounts due to individuals rising by 2.6% in the reporting period and amounts due to corporate clients going down by 3.7% compared to the end of June.

As a result of the changes discussed above, the loan to deposit ratio of mBank Group stood at 95.1%.

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

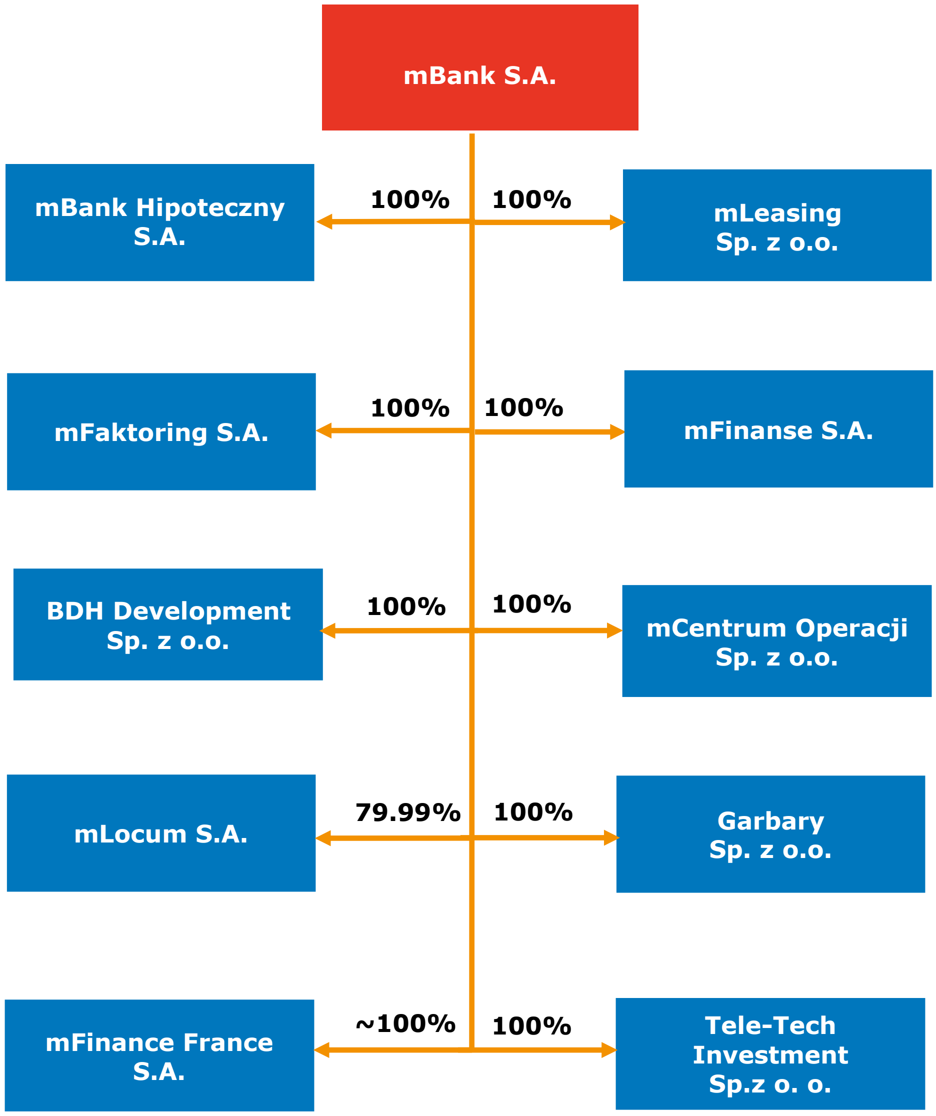
- Gross ROE of 10.2% (compared with 16.7% in Q2);
- Net ROE of 7.6% (compared with 12.8% in Q2).

mBank Group's capital ratios increased due to the inclusion of 50% of Q2 net profit into Common Equity Tier 1 capital. As at the end of September 2016, the total capital ratio stood at 18.6% and the Common Equity Tier 1 ratio at 15.9%.

Composition of mBank Group

On September 30, 2016, Aspiro – a company providing financial services - changed its name to mFinanse. The change resulted from the Group's strategy, according to which all subsidiaries within mBank Group use the prefix „m" in the name.

Consequently, mBank Group (consolidated subsidiaries) as at September 30, 2016, was composed as presented on the diagram below.



Awards and distinctions

In Q3 2016 the Bank received a number of awards which were the best reward not only for its business development, but also for strengthening mBank's image as a sought-after employer.

Newsweek's Friendly Bank 2016

In the fifteenth edition of "Newsweek Friendly Bank" mBank ranked top in the Mobile Banking category. Auditors gave the highest score i.a. for accessibility and navigation of the bank application and effectiveness of this communication channel.

The mobile application "Orange Finanse", a project implemented by mBank in cooperation with its strategic partner, Orange Polska, ranked second in the Mobile Banking category.

mBank ranked first by Forbes

mBank also received "**The Best Bank for Companies**" title by Forbes monthly magazine. In this prestigious ranking Forbes grants score for the best banking products and services dedicated to SMEs. In addition, "mystery shopper" surveys on services quality are being conducted.

mBank named the best digital bank in Poland

mBank was named **the Best Digital Bank in Poland** by Global Finance and distinguished in **the Best Online Treasury Services** category in this edition of the annual contest.

When selecting the leading digital banking providers, the jury took into account in particular the following criteria: strategy of acquisition and service of clients using digital services, an increase in the number of online services users, the product offer as well as the functionality and design of Internet and mobile platforms.

mBank ranked first in the EB Stars

In the seventh edition of the Employer Branding Stars contest, organized by HRstandard, aimed at finding leading companies as regards creating the employer image in Poland, mBank ranked first for its image and recruitment campaign "Get a Taste for Career at mBank" ("Zasmakuj kariery w mBanku") and for the best recruitment materials in the "Banking Talents" ("Bankowe Talenty") campaign.

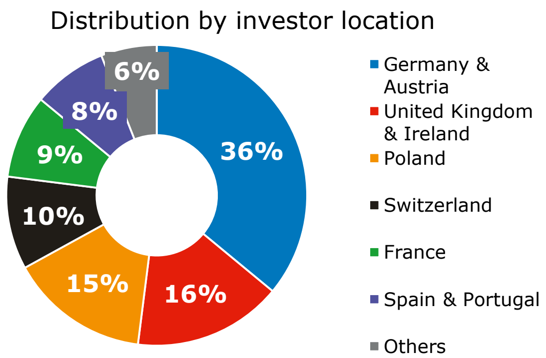
mBank's award-winning campaign was conducted in autumn 2015 and accompanied the recruitment to the next edition of the rotary internship programme. The jury recognized variety of communication channels used, non-standard tools and interesting image and visualization of the campaign.

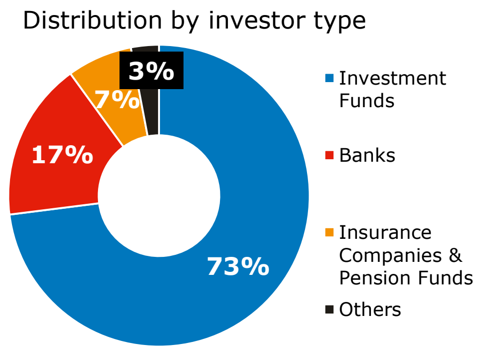
The contest aimed at determining leading companies as regards creating the employer image in Poland.

Bonds issued under the EMTN Programme

After the successful first eurobond issue in October 2012, issue of CHF bonds in October 2013 and further issues in 2014 under the EUR 3 billion EMTN Programme, on September 21, 2016, mBank via its foreign unit mFinance France S.A. issued a fifth tranche of Eurobonds with a nominal value of EUR 500 million, maturing in 2020. This 4-year transaction was priced at 1.398% per annum.

The issue was of significant interest to the European investors (135 investors), with a final order book size of EUR 1.3 billion. The transaction settlement date was September 26, 2016. The tranche was rated at "BBB" by both S&P Global Ratings and Fitch Ratings.

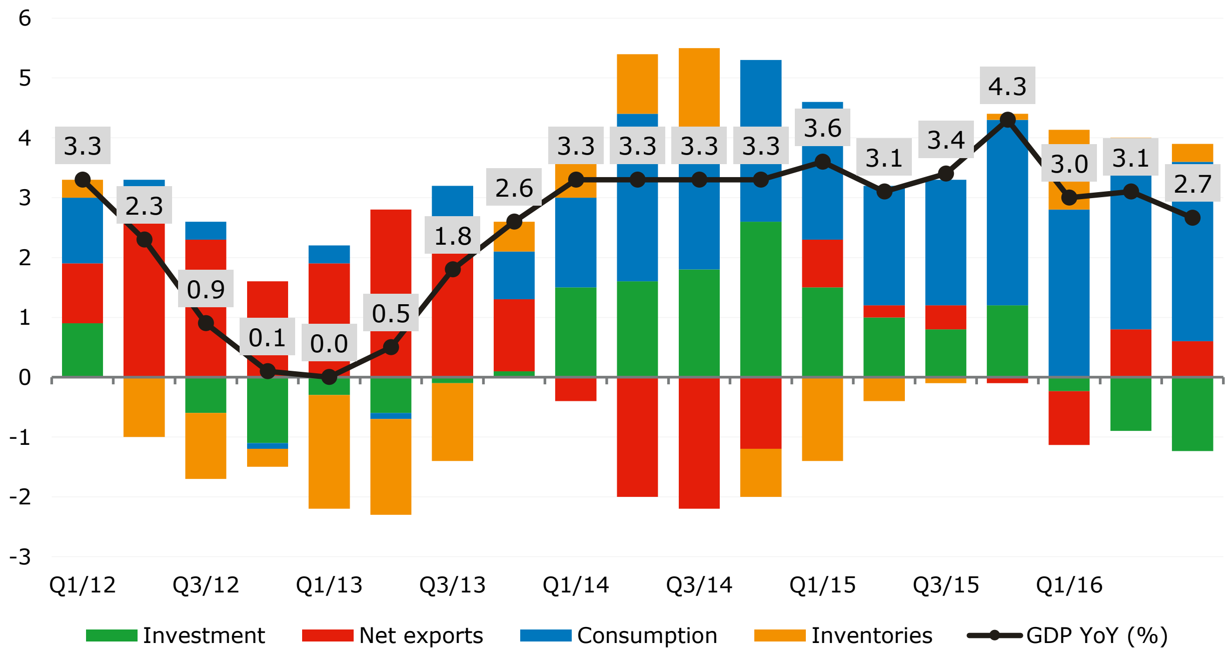




Macroeconomic environment in Q3 2016

Continuing economic slowdown in Q3 2016

Contrary to general expectations, economic growth did not accelerate in Q3 2016 from the 3% year on year reported in the first half of the year. Quite the opposite, in the Bank's opinion the available high-frequency data clearly show that economic growth fell to ca. 2.7% year on year from July to September. The slowdown was spurred by poor performance in the construction industry, sending overall activity in the sector down at a two-digit pace over the last few months, and by sluggish growth in industrial output.



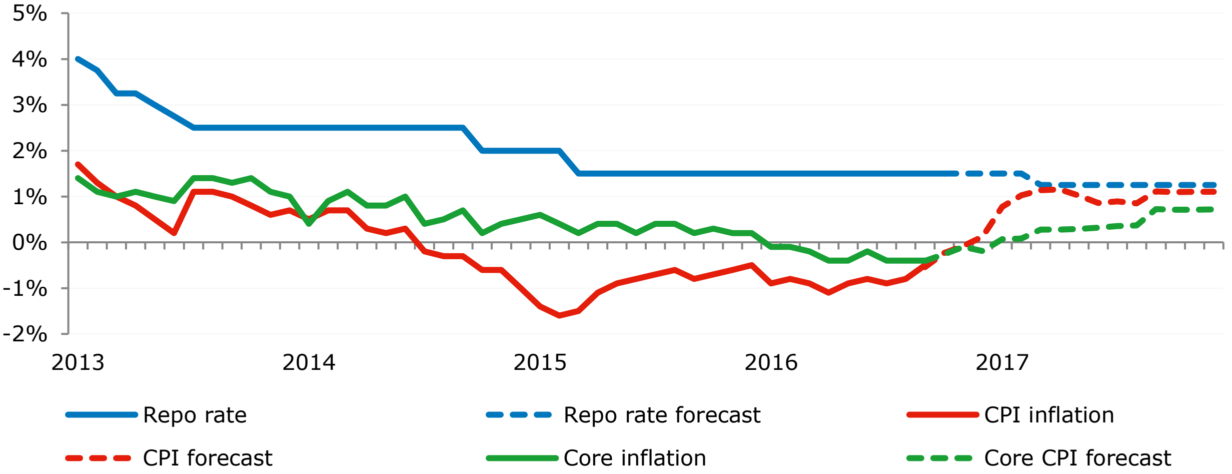
The GDP growth structure expected by the Bank is likely to resemble that reported in the previous quarters, but with the main focus shifting even more markedly towards private consumption. According to the Bank's estimates, households' spending rose by ca. 4% year on year in Q3 2016, driven predominantly by an abrupt growth in their real disposable income, from both gainful employment and social benefits (Q3 2016 was the first full quarter in which the 500+ child benefits were paid). Consumption is likely to grow even faster in the last quarter of the year amid households' confidence hitting record highs (expected improvement in financial standing and more ambitious spending plans) and accelerating retail sales, which clearly signal a pick-up in consumption growth. Nevertheless, the available data and research show that a sizeable portion of the new funds is being saved or spent on services and hence is not reflected in the monthly figures.

A deepening slowdown in investment activity has been the mirror image of the accelerating consumption. In the last several months the slump was plainly evident especially in the data on construction and assembly production. Sinking at a two-digit rate (-20% year on year in August) the construction activity hit its lowest since 2007. According to the Bank's estimates, the problems faced by the sector reduce the economic growth by approximately 0.7-0.8 percentage points and result from a severe downturn in rail, energy and local government investment. Over the last few months also non-construction investment in machines and equipment was on the decline with its contribution to the GDP shrinking systematically. However, not only public investment has slipped into stagnation. The Bank reckons that the nature and structure of the slowdown in investment show that there is no single factor underlying the slump, and therefore, a rebound will be uneven and slower than the government currently expects. At the year's end investments will be deep in the red.

The last few months were also marked by a slowdown in exports, which in July plunged by more than 5% year on year, hitting a 6-year low. Despite favourable exchange rate of the zloty (in basket terms the zloty has not been so weak since 2009), Polish exports have been clearly following a downward trend, which the Bank thinks is attributable to the state of the global economy. The slow global economic growth is accompanied by even slower rise in trade balance, which marks a structural change. Therefore, net exports will not be a growth driver in the coming months.

Low inflation and interest rates

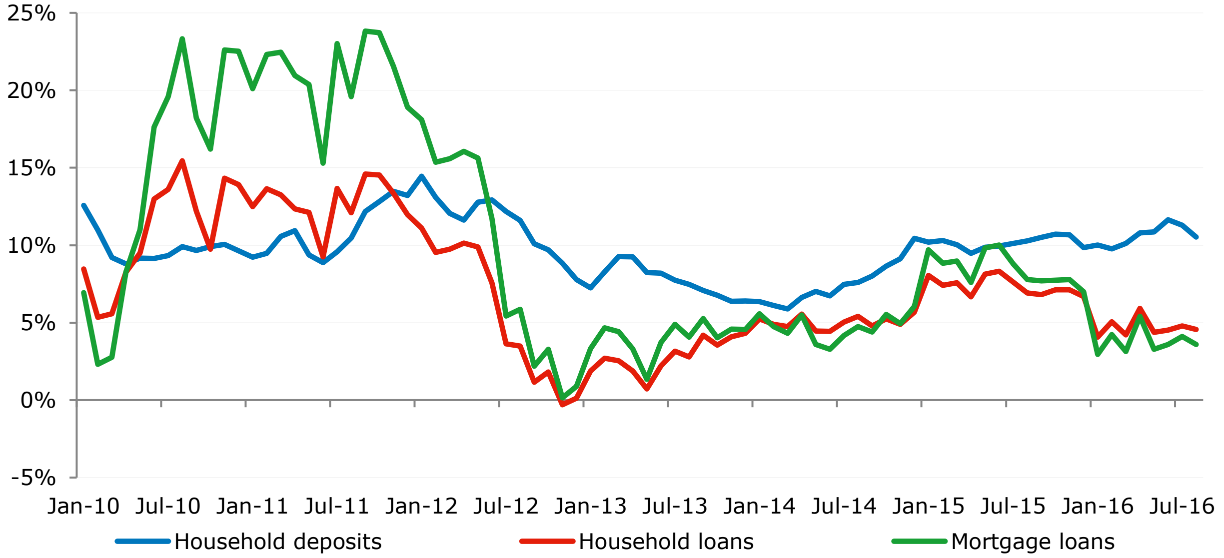
The last few months saw very low, negative inflation levels. Although inflation crept up in Q3 2016 from -0.8% in June to -0.5% in July, the increase was attributable solely to the base effects in the prices of energy carriers. Inflation excluding food and energy prices, which makes it a better indicator of the state of inflationary processes, also remained below zero, reaching a record low of -0.4% on numerous occasions. In the Bank's opinion, although the next few months will see inflation returning above zero, it will only be due to the fading impact of the base effect in oil prices, and consequently, in the prices of energy carriers. The pricing dynamics still remain acutely vulnerable.



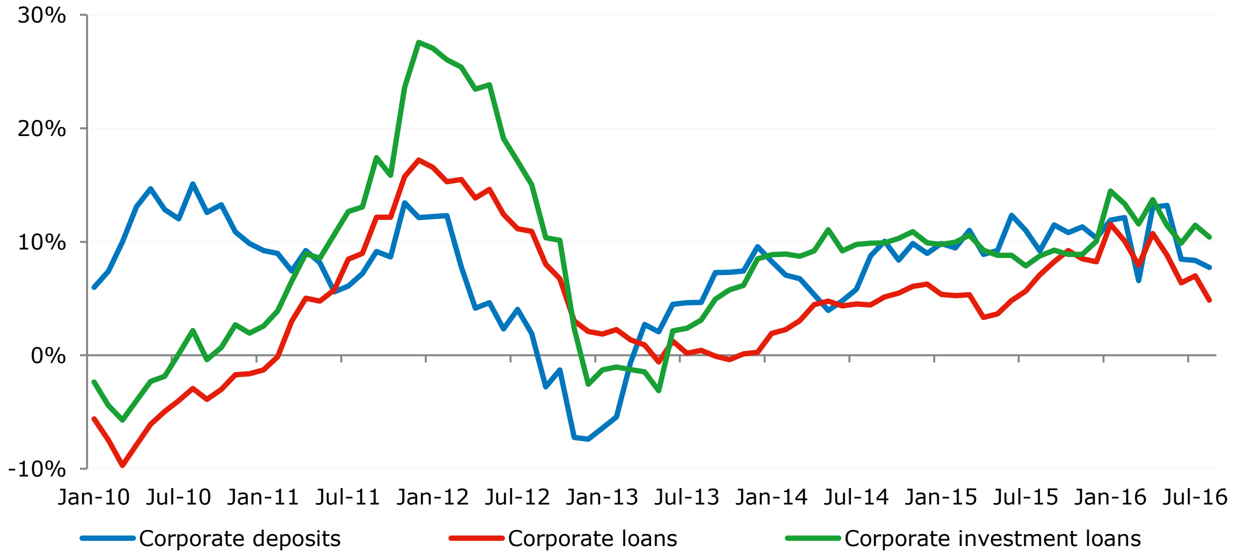
Despite sluggish economic growth and lingering negative inflation, Polish monetary policy was conservative and predictable over the last few months. The announcements of the Monetary Policy Council were dominated by a belief in a temporary nature of the economic slowdown (and predictions of an upcoming economic revival), absence of negative effects of deflation, and consequently, in optimum levels of interest rates. As a result, expectations of interest rate cuts had been first postponed and then almost totally vanished from the valuations of derivatives on the interest rate markets. Bearing in mind the present economic situation, the Bank thinks it was too hasty, as in the coming months the scale of negative surprises in the real economy will force the Monetary Policy Council to respond by starting another round of interest rate cuts.

Banking sector as the mirror of the real economy

The scale of lending saw a slowdown in Q3 2016; although lending to households remained flat at 4% year on year (excluding the FX effect), lending to enterprises continued a downward trend. In the last three months the value of these loans increased by ca. 5.0% year on year, which was below the Q2 average (7.0%). Although the slowdown coincided with the investment slump in Poland, the structure of lending does not seem to confirm that the investment slowdown is to be blamed for the reduction in lending growth, which in fact was triggered mainly by the stagnation in the category of overdraft facilities and working capital loans. In turn, the stable (yet historically low) growth in the value of loans to households is the product of two opposing tendencies: fast growth in consumer loans and diminishing growth in housing loans.



Q3 2016 was yet another quarter which saw deposits outpacing loans (indeed, the L/D ratio reached 1 for the first time in more than ten years). Predominantly, it was a consequence of fast rise in household deposits, driven by the 500+ child benefits and a robust growth in salaries. On the other hand, a much lower growth was observed in corporate deposits, which the Bank attributes mainly to the fading effects of the zloty's depreciation at the turn of 2015 and 2016: in H1 2016 the revenues and profits of exporters, and thus corporate deposits, were pushed up by the weak zloty.



Changes in recommendations of the Polish Financial Supervision Authority (PFSA) and other regulations affecting banks

Capital buffers on other systemically important institutions

In its announcement following the meeting held on October 4, 2016, the PFSA said that pursuant to Article 39 of the Act on Macroprudential Supervision of Financial System, having consulted the Financial Stability Committee, it had identified banks being other systemically important institutions (O-SII) and had ordered them to build up buffers ranging from 0.0% to 0.75%. The buffers apply on a stand-alone and consolidated basis and the PFSA's decision is immediately enforceable.

Regulation of the President of the Council of Ministers defining the time limits for making payments covering the costs of banking supervision, their amounts and calculation method

On September 1, 2016, the regulation defining the time limits for making payments covering the costs of banking supervision, their amounts and calculation method entered into force. Pursuant to the new regulation, banks will cover 16.5% of total costs of supervision over the capital market. Moreover, the regulation introduced a new, progressive system of settling the payments.

Act on Bank Guarantee Fund (BFG), Deposit Guarantee Scheme and Resolution

October 10, 2016 was the effective date of the Act on BFG, which considerably changed the operating conditions for the banking sector, among others, in the scope of financing the deposit guarantee scheme, preparing banks' recovery plans and reporting to the BFG. Based on the Act relevant regulations are issued, in particular Regulation of the Minister of Finance dated July 14, 2016, on Banks' Recovery Plans and Group Recovery Plans, and Regulation of the Minister of Finance dated September 26, 2016, on the Requirements for the Calculation Systems Operated by the Entities Covered by the Guarantee Scheme. Other draft regulations affecting various areas of operation are currently progressing through the legislative process.

Draft amendments to Recommendation S

On October 10, 2016, the PFSA presented the proposed amendments to Recommendation S, a best-practice guideline for the management of mortgage-backed credit exposures, for public consultations. Primarily, the amendments add provisions regarding fixed interest mortgage loans in order to develop a market for these products, enabling banks to better match the repricing dates of instruments on the assets and liabilities side of their balance sheets, improving the credit offer and protecting the interests of housing borrowers.

The works on amendments to Recommendation S continue simultaneously with consultations about the Bill on Mortgage Loan and Supervision of Mortgage Loan Intermediaries and Agents, implementing Directive 2014/17/EU of the European Parliament and of the Council of February 4, 2014, on credit agreements for consumers relating to residential immovable property. The directive aims to improve the level of consumer protection, develop a transparent and competitive market for mortgage loans, and govern the credit intermediation activities in the area of financing residential immovable property.

Draft amendments to Recommendation H

Public consultations about amendments to Recommendation H on internal control system in banks started on October 11, 2016. The amendments aim to bring the existing recommendation into compliance with the legal changes in the internal control area introduced, among others, by the amended Banking Law Act, Act on Operation of Cooperative Banks, their Affiliation, and Affiliating Banks, and draft Regulation of the Minister of Finance defining the detailed manner of operation of the risk management system and internal control system in banks.

Financial position of mBank Group in Q3 2016

Profit and Loss Account of mBank Group

mBank Group generated a profit before tax of PLN 309.6 million in Q3 2016, which represents a decrease by 38.8% compared to Q2 2016. Net profit attributable to the shareholders of mBank decreased by 40.7% quarter on quarter to PLN 230.5 million.

PLN M	Q3 2015	Q2 2016	Q3 2016	QoQ	YoY
Interest income	919.1	947.1	977.0	3.2%	6.3%
Interest expense	-277.3	-262.6	-258.3	-1.6%	-6.8%
Net interest income	**641.8**	**684.4**	**718.7**	**5.0%**	**12.0%**
Fee and commission income	371.9	365.3	404.4	10.7%	8.8%
Fee and commission expense	-136.3	-155.6	-170.1	9.3%	24.8%
Net fee and commission income	**235.6**	**209.7**	**234.4**	**11.8%**	**-0.5%**
Dividend income	14.3	2.6	0.4	-82.9%	-96.9%
Net trading income	84.1	59.5	74.4	25.0%	-11.5%
Gains less losses from investment securities. investments in subsidiaries and associates	-9.4	244.8	2.4	-99.0%	+/-
The share in profits (losses) of investments in joint ventures	-0.1	0.0	0.0	-60.4%	-66.7%
Other operating income	60.2	55.0	46.2	-16.2%	-23.3%
Other operating expenses	-46.6	-53.0	-37.8	-29.0%	-19.3%
Total income	**979.9**	**1 203.0**	**1 038.7**	**-13.7%**	**6.0%**
Net impairment losses on loans and advances	-111.0	-117.7	-139.5	18.4%	25.7%
Overhead costs and amortization	-463.3	-490.7	-499.9	1.9%	7.9%
Taxes on bank balance sheet items	-0.9	-89.0	-89.8	0.9%	x97
Profit before income tax	**404.7**	**505.5**	**309.6**	**-38.8%**	**-23.5%**
Income tax expense	-84.0	-116.3	-78.9	-32.2%	-6.1%
Net profit attributable to:	**320.7**	**389.2**	**230.7**	**-40.7%**	**-28.1%**
- Owners of mBank S.A.	**319.5**	**388.5**	**230.5**	**-40.7%**	**-27.9%**
- Non-controlling interests	1.2	0.7	0.2	-67.9%	-81.7%
ROA net	1.0%	1.2%	0.7%		
ROE gross	14.7%	16.7%	10.2%		
ROE net	11.6%	12.8%	7.6%		
Cost / Income ratio	47.3%	40.8%	48.1%		
Net interest margin	2.1%	2.3%	2.3%		
Common Equity Tier 1 ratio	14.1%	15.6%	15.9%		
Total capital ratio	17.0%	18.3%	18.6%		

Income of mBank Group

In Q3 2016, total income generated by mBank Group amounted to PLN 1,038.7 million and was by PLN 164.3 million or 13.7% lower than in Q2 2016. The decrease resulted mainly from the booking of proceeds from the takeover of Visa Europe Limited by Visa Inc. in Q2 2016.

Net interest income remained mBank Group's largest income source and reached PLN 718.7 million, which represents a 5.0% increase quarter on quarter.

Interest income in Q3 2016 increased by PLN 30.0 million, i.e. 3.2% quarter on quarter, and stood at PLN 977.0 million. Loans and advances remained the main source of interest income with a share of 71.7%. This income category grew by PLN 29.5 million, i.e. 4.4% quarter on quarter, and reached PLN 700.5 million. The increase in income was supported mainly by the changing structure of the credit portfolio with a growing share of non-mortgage loans, which generate higher margins. Income on investment securities grew also (+PLN 4.6 million, i.e. 2.6%), driven by a higher number of days in the quarter as well as a better structure of the portfolio (higher share of government bonds).

At the same time, interest cost decreased by PLN 4.3 million, i.e. 1.6% quarter on quarter, to PLN 258.3 million. In Q3 2016, interest cost paid to clients fell by PLN 6.6 million, i.e. 4.0%, due to an outflow of higher-interest corporate deposits. In the remaining categories of interest costs there was no major change compared with Q2 2016.

Net interest margin of mBank Group remained flat at 2.3% in Q3 2016 quarter on quarter and increased from 2.1% in Q3 2015.

Net fee and commission income in Q3 2016 was higher by PLN 24.7 million, i.e. 11.8% quarter on quarter, and stood at PLN 234.4 million.

Fee and commission income grew by PLN 39.1 million, i.e. 10.7% quarter on quarter, to PLN 404.4 million. The highest growth was reported in credit-related fees and commissions, which increased by PLN 14.7 million, i.e. 21.1%. Card-related commissions, being the largest contributor to fee and commission income, grew by PLN 13.8 million, i.e. 17.2%, along with the rising number of cashless transactions in the holiday period (the number and value of cashless transactions made by retail clients increased by 5.1% and 4.8%, respectively). At the same time, net fee income on payment cards also saw a massive rise (+PLN 10.3 million, i.e. 43.1%). Reduced activity of clients and the lack of IPO were the main reasons behind lower net income from brokerage activity (-PLN 0.9 million, i.e. 5.2%).

Fee and commission expense in Q3 2016 stood at PLN 170.1 million, which represents an increase by PLN 14.5 million, i.e. 9.3% quarter on quarter due to a minor increase in several cost categories, including commissions paid to external entities for agency service regarding the sale of the Bank's products, brokerage fees and other expenses.

Dividend income in Q3 2016 stood at PLN 0.4 million compared with PLN 2.6 million in Q2 2016 and PLN 14.3 million in Q3 2015 when the Bank received dividends from PZU.

Net trading income in the reporting period amounted to PLN 74.4 million and was higher by PLN 14.9 million, i.e. 25.0% quarter on quarter. The increase was driven by higher FX result, which grew by PLN 16.1 million. On the other hand, other net trading income was negative and decreased by PLN 1.2 million.

Gains less losses from investment securities and investments in subsidiaries and associates stood at PLN 2.4 million compared with PLN 244.8 million in Q2 2016 when the takeover of Visa Europe Limited by Visa Inc. was posted in the amount of PLN 251.7 million.

Net other operating income (other operating income net of other operating expenses) increased in Q3 2016 to PLN 8.4 million from PLN 2.1 million in Q2 2016.

Costs of mBank Group

In Q3 2016, total overhead costs of mBank Group (including amortisation) stood at PLN 499.9 million and were up by 1.9% quarter on quarter. Higher overhead costs were attributable to a rise in material costs, while amortisation fell and returned to a normalised level.

PLN M	Q3 2015	Q2 2016	Q3 2016	QoQ change	YoY change
Staff-related expenses	-217.0	-218.9	-219.5	0.3%	1.2%
Material costs. including	-156.5	-158.8	-183.3	15.4%	17.1%
- logistic costs	-79.1	-82.4	-84.9	3.0%	7.4%
- IT costs	-33.9	-33.9	-40.9	20.7%	20.6%
- marketing costs	-27.6	-29.7	-34.8	17.2%	25.8%
- consulting services costs	-14.7	-10.9	-18.4	68.0%	25.2%
- other material costs	-1.2	-1.9	-4.3	130.3%	257.7%
Taxes and fees	-3.3	-10.7	-4.2	-60.7%	29.4%
Contributions and transfer to the Bank Guarantee Fund	-34.1	-37.0	-38.3	3.5%	12.4%
Contributions to the Social Benefits Fund	-2.2	-1.9	-1.9	1.3%	-16.6%
Other	0.0	0.0	0.0	-	-
Amortization	-50.2	-63.4	-52.7	-16.9%	4.9%
Total overhead costs and amortization	**-463.3**	**-490.7**	**-499.9**	**1.9%**	**7.9%**
Cost / Income ratio	47.3%	40.8%	48.1%	-	-
Employment (FTE)	6,490	6,529	6,497	-0.5%	0.1%

In Q3 2016, staff-related expenses remained stable quarter on quarter. Wages and salaries increased by PLN 4.3 million, amid a slight increase in social insurance expenses (+PLN 1.9 million) and other categories of staff-related expenses. The headcount in mBank Group fell by 32 FTEs in the reporting period.

Material costs in Q3 2016 grew by PLN 24.4 million, i.e. 15.4% quarter on quarter. In the reporting period consulting services costs, IT costs and marketing costs increased, which was connected with the implementation of projects aimed to boost future income in the Group.

Amortisation dropped by 16.9% quarter on quarter to PLN 52.7 million, which marks a return to a normalised level. In Q2 2016, the Bank wrote off the unused IT system functionalities, which led to a considerable growth in amortisation.

The cost to income ratio stood at 48.1% at the end of Q3 2016 compared with 40.8% in Q2 2016 (51.6% upon excluding the takeover of Visa Europe by Visa Inc.).

Net impairment losses on loans and advances

Net impairment losses on loans and advances in mBank Group reached PLN 139.5 million in Q3 2016, which represents an increase by PLN 21.7 million, i.e. 18.4%, quarter on quarter. The rise is attributable to higher provisions in the corporate segment.

PLN M	Q3 2015	Q2 2016	Q3 2016	QoQ change	YoY change
Retail Banking	65.6	75.6	74.4	-1.6%	13.4%
Corporates and Financial Markets	25.3	43.0	61.1	42.0%	141.8%
Other	20.1	-0.9	4.0	-5x	-80.4%
Total net impairment losses on loans and advances	**111.0**	**117.7**	**139.5**	**18.4%**	**25.7%**

Net impairment losses on loans and advances in the Retail Banking were stable compared to the previous quarter and amounted to PLN 74.4 million, (PLN 75.6 million in Q2 2016).

Net impairment losses on loans and advances in Corporates and Financial Markets amounted to PLN 61.1 million, i.e. by PLN 18.1 million higher than in Q2 2016. The increase resulted mainly from the creation of provisions for several corporate clients who submitted an application for a restructuring process to the court. The new Restructuring Law as of May 15, 2015, which came into force on January 1, 2016, entitles the debtor to ask i.a. to prolong the repayment period and reduce the debt.

Consolidated statement of financial position

The balance sheet total of mBank Group stood at PLN 129,780.7 million at the end of Q3 2016 and increased by 0.8% compared with the end of June 2016.

Assets of mBank Group

PLN M	30.09.2015	30.06.2016	30.09.2016	QoQ change	YoY change
Cash and balances with Central Bank	4,630.9	6,433.2	5,859.5	-8.9%	26.5%
Loans and advances to banks	2,793.8	1,680.8	2,920.7	73.8%	4.5%
Trading securities	2,561.1	3,233.2	4,177.2	29.2%	63.1%
Derivative financial instruments	3,737.7	2,411.5	2,087.4	-13.4%	-44.2%
Net loans and advances to customers	79,407.2	80,774.8	81,009.6	0.3%	2.0%
Investment securities	30,026.1	31,644.3	31,257.9	-1.2%	4.1%
Intangible assets	477.2	503.6	501.9	-0.3%	5.2%
Tangible assets	692.6	722.8	710.3	-1.7%	2.5%
Other assets	1,423.5	1,329.3	1,256.2	-5.5%	-11.8%
Total assets	**125,750.1**	**128,733.5**	**129,780.7**	**0.8%**	**3.2%**

Loans and advances to customers were the largest asset category of mBank Group at the end of Q3 2016. Their share in total assets decreased slightly to 62.4% from 62.7% at the end of June 2016. Net loans and advances to customers stood at PLN 81,009.6 million in Q3 2016 and increased by PLN 234.8 million, i.e. 0.3% quarter on quarter (excluding reverse repo / buy-sell-back transactions and the FX effect, loans and advances increased by 1.6%).

Gross loans and advances to corporate clients increased to PLN 34,528.0 million, i.e. by PLN 591.1 million or 1.7% quarter on quarter (excluding reverse repo / buy-sell-back transactions and the FX effect, loans and advances to corporate clients increased by 2.9%).

The volume of loans to individuals went down by PLN 153.0 million, i.e. 0.3% quarter on quarter, to PLN 48,119.2 million. Mortgage and housing loans fell by 1.7% quarter on quarter due to lower sales volumes, appreciation of PLN and regular repayments of CHF-denominated loans by mBank's clients. In Q3 2016, mBank Group sold PLN 693.9 million of mortgage loans and PLN 1,557.0 million of non-mortgage loans. Excluding the FX effect, loans to retail clients rose by approximately 0.9%.

In Q3 2016 gross loans and advances to the public sector decreased by PLN 46.8 million, i.e. by 3.5%. The value of those loans stood at PLN 1,310.2 million at the end of September 2016.

Investment securities were the Bank's second largest asset category at the end of Q3 2016 and stood at PLN 31,257.9 million, accounting for 24.1% of total assets, down by PLN 386.4 million, i.e. 1.2% quarter on quarter.

mBank Group's total liabilities and equity

PLN M	30.09.2015	30.06.2016	30.09.2016	QoQ change	YoY change
Amounts due to other banks	14,783.1	12,058.2	11,562.9	-4.1%	-21.8%
Derivative financial instruments	3,380.5	2,157.2	1,766.6	-18.1%	-47.7%
Amounts due to customers	78,545.9	85,302.3	85,188.2	-0.1%	8.5%
Debt securities in issue	11,280.9	10,115.5	12,192.2	20.5%	8.1%
Subordinated liabilities	3,785.3	3,910.5	3,851.4	-1.5%	1.7%
Other liabilities	2,051.4	2,392.8	2,248.9	-6.0%	9.6%
Total Liabilities	**113,827.1**	**115,936.5**	**116,810.2**	**0.8%**	**2.6%**
Total Equity	**11,923.0**	**12,797.0**	**12,970.5**	**1.4%**	**8.8%**
Total Liabilities and Equity	**125,750.1**	**128,733.5**	**129,780.7**	**0.8%**	**3.2%**

In Q3 2016 amounts due to customers, which are the Group's principal source of funding, remained almost unchanged compared with the previous quarter (-0.1%). The share of amounts due to customers in total liabilities and equity reached 65.6%, compared with 66.3% at the end of Q2 2016.

Amounts due to corporate clients decreased by PLN 1,290.2 million, i.e. 3.7% compared with Q2 2016, and stood at PLN 33,829.0 million at the end of Q3 2016. The change was driven mainly by a shift in pricing policy for term deposits. Amounts due to retail clients increased by PLN 1,282.4 million, i.e. 2.6% to PLN 50,734.9 million in the reporting period. The increase was driven mainly by growing term deposit volumes. Amounts due to the public sector stood at PLN 624.3 million, down by PLN 106.3 million, i.e. 14.5%.

Amounts due to other banks stood at PLN 11,562.9 million at the end of Q3 2016, accounting for 8.9% of total liabilities and equity of mBank Group. Compared with Q2 2016, amounts due to other banks dropped by PLN 495.3 million, i.e. 4.1%, which was primarily attributable to a lower balance of repo / sell-buy-back transactions and appreciation of PLN. A loan from Commerzbank in the amount of CHF 50 million was also repaid in the reporting period.

The share of equity in total liabilities and equity of mBank Group remained almost unchanged compared with the previous quarter and stood at 10.0% (against 9.9% at the end of Q2 2016).

Quality of the loan portfolio of mBank Group

As of September 30, 2016, the volume of non-performing loans (NPL), was slightly higher than at the end of June 2016. NPL ratio increased quarter on quarter to 5.9%.

PLN M	30.09.2015	30.06.2016	30.09.2016	QoQ change	YoY change
Provisions for receivables with impairment	2,775.2	2,834.0	2,946.7	4.0%	6.2%
Impairment provisions for exposures analysed according to portfolio approach	266.6	253.4	242.5	-4.3%	-9.0%
Provisions for receivables	**3,041.8**	**3,087.4**	**3,189.2**	**3.3%**	**4.8%**
Receivables with impairment	**4,857.1**	**4,845.5**	**4,949.0**	**2.1%**	**1.9%**
NPL ratio	5.9%	5.8%	5.9%		
Coverage ratio	62.6%	63.7%	64.4%		

Provisions for loans and advances to customers increased by PLN 101.9 million quarter on quarter to PLN 3,189.2 million. At the same time, the provision for IBNI (Incurred But Not Identified) losses dropped from PLN 253.4 million to PLN 242.5 million in Q3 2016.

The coverage ratio (including IBNI provisions) increased from 63.7% to 64.4% quarter on quarter.

Performance of segments and the business lines

In Q3 2016, the segment of Retail Banking had the largest contribution to the profit before tax of mBank Group, which reached 65.9%, compared with 77.6% in Q2 2016. The contribution of the Corporate and Investment Banking segment was 21.7% and the contribution of Financial Markets was 9.6%.

PLN M	Q3 2015	Q2 2016	Q3 2016	QoQ change	YoY change	% share
Retail Banking	226.5	392.2	203.9	-48.0%	-10.0%	65.9%
Corporate and Investment Banking	152.5	109.4	67.1	-38.6%	-56.0%	21.7%
Financial Markets	37.8	3.2	29.7	8x	-21.5%	9.6%
Other	-12.1	0.7	8.9	10x	-173.9%	2.8%
Profit before tax of mBank Group	**404.7**	**505.5**	**309.6**	**-38.8%**	**-23.5%**	**100.0%**

Retail Banking

Summary of segment results

In Q3 2016, the Retail Banking segment generated a profit before tax of PLN 203.9 million, which represents a decrease by PLN 188.3 million, i.e. 48.0% quarter on quarter. The result in Q2 2016 was driven by the settlement of the takeover of Visa Europe Limited by Visa Inc. (net of the impact of this one-off event, the result of the segment in Q2 2016 amounted to PLN 161.7 million, which means that the recurrent income in Q3 increased by 26.1%).

PLN M	Q3 2015	Q2 2016	Q3 2016	QoQ change	YoY change
Net interest income	395.2	425.9	456.4	7.2%	15.5%
Net fee and commission income	141.9	118.9	136.5	14.9%	-3.8%
Dividend income	0.1	0.0	0.0	-100.0%	-100.0%
Net trading income	24.8	26.5	24.5	-7.6%	-1.1%
Gains less losses from investment securities, investments in subsidiaries and associates	0.0	230.5	-0.1	-/+%	-
Net other operating income	-8.4	-8.3	-9.8	18.5%	16.1%
Total income	553.5	793.5	607.5	-23.4%	9.7%
Net impairment losses on loans and advances	-65.6	-75.6	-74.4	-1.6%	13.4%
Overhead costs and amortization	-260.6	-277.6	-280.3	1.0%	7.6%
Taxes on bank balance sheet items	-0.9	-48.1	-48.9	1.5%	52x
Profit before tax of Retail Banking	**226.5**	**392.2**	**203.9**	**-48.0%**	**-10.0%**

The profit before tax of the Retail Banking segment in Q3 2016 was predominantly driven by:

- **Decrease in total income** by PLN 186.0 million, i.e. 23.4% quarter on quarter, to PLN 607.5 million. Net of the gains from the Visa transaction in Q2, total income in Q3 2016 was up by PLN 44.5 million, i.e. 7.9%. Net interest income increased by PLN 30.5 million, i.e. 7.2%, mainly thanks to growing share of non-mortgage loans in the loan portfolio. Net fee and commission income was up by PLN 17.6 million, i.e. 14.9%, as a result of higher payment card commissions and higher commissions for agency service regarding the sale of other products of external financial entities.

- **Minor increase in overhead costs and amortisation** by PLN 2.7 million, i.e. 1.0% quarter on quarter, to PLN 280.3 million, mainly owing to increased costs of marketing campaigns and lower amortisation costs.

- **Slight decrease in net impairment losses on loans and advances** by 1.6% quarter on quarter.

- **Tax on the Group's balance sheet items** at PLN 48.9 million, similar to Q2.

Summary of activity of the Retail Banking sector (mBank and mBank Hipoteczny)

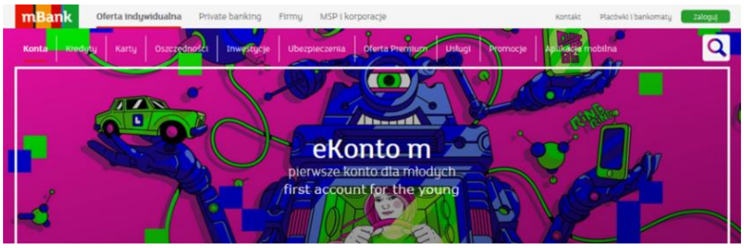
thou.	30.09.2015	30.06.2016	30.09.2016	QoQ change	YoY change
Number of retail clients, including:	**4 864.0**	**5 146.3**	**5 250.3**	**2.0%**	**7.9%**
Poland	4 055.4	4 280.4	4 372.8	2.2%	7.8%
Foreign branches	808.6	865.9	877.5	1.3%	8.5%
The Czech Republic	565.6	607.4	617.3	1.6%	9.1%
Slovakia	243.0	258.4	260.1	0.7%	7.1%
PLN M					
Loans to retail clients, including:	**45 244.2**	**48 220.8**	**48 081.9**	**-0.3%**	**6.3%**
Poland	**41 692.6**	**43 962.3**	**43 893.6**	**-0.2%**	**5.3%**
mortgage loans	32 908.5	34 156.7	33 439.7	-2.1%	1.6%
non-mortgage loans	8 784.0	9 805.6	10 453.9	6.6%	19.0%
Foreign branches	**3 551.6**	**4 258.5**	**4 188.3**	**-1.6%**	**17.9%**
The Czech Republic	2 721.1	3 261.5	3 229.6	-1.0%	18.7%
Slovakia	830.5	997.0	958.7	-3.8%	15.4%
Deposits of retail clients, including:	**41 812.4**	**49 546.0**	**50 923.2**	**2.8%**	**21.8%**
Poland	**35 679.0**	**42 222.1**	**43 635.6**	**3.3%**	**22.3%**
Foreign branches	**6 133.4**	**7 323.9**	**7 287.6**	**-0.5%**	**18.8%**
The Czech Republic	4 294.2	5 246.0	5 248.7	0.1%	22.2%
Slovakia	1 839.2	2 077.9	2 038.9	-1.9%	10.9%
Investment funds (Poland)	**5 825.9**	**5 510.1**	**5 860.4**	**6.4%**	**0.6%**
thou.					
Credit cards, including	**331.3**	**335.7**	**338.2**	**0.8%**	**2.1%**
Poland	302.9	304.4	307.3	1.0%	1.5%
Foreign branches	28.4	31.3	30.9	-1.1%	8.7%
Debit cards, including:	**3 212.9**	**3 283.9**	**3 365.5**	**2.5%**	**4.7%**
Poland	2 677.8	2 739.5	2 814.7	2.7%	5.1%
Foreign branches	535.1	544.4	550.7	1.2%	2.9%

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

	30.09.2015	30.06.2016	30.09.2016
Distribution network			
Light branches within "One Network" Project	7	12	14
Advisory Centres	2	4	6
mBank (former Multibank)	127	121	116
mKiosks (incl. Partner Kiosks)	79	84	88
Aspiro Financial Centres	23	22	20
Czech Republic & Slovakia	36	36	36

Retail Banking (including Private Banking) in Poland

In Q3 2016, the number of retail banking clients of mBank in Poland rose by 92.4 thousand quarter on quarter. At the same time, the number of accounts (including Orange Finanse) was rising dynamically to reach 3.9 million in Q3 2016.



In the discussed period, the Bank was continuing efforts to simplify its personal accounts offer. The changes consisted in the withdrawal of eKonto for the young and izzyKonto. In place of the aforementioned accounts a single eKonto m account dedicated to the young segment was launched, whose pricing and functionalities develop along with its holder. Apart from the account, the new offer for young clients includes also a complete range of special products and services, including in particular:

- Picture Card with an option to personalise the card design;
- dedicated mSaver account;
- range of discounts and rebates dedicated to young clients.

The launch of the new offer was supported by a special promotional campaign under which clients could win attractive prizes, such as smartphones and cash for car fuel or driving lessons, coupled with a wide-ranging advertising campaign run among others in the TV channels favoured by the young and in close cooperation with the YouTubers popular among the young audience.

Moreover, a new stage of the promotional offer addressed to individuals was launched, combining account interest and moneyback.

In the insurance area, the Bank offered a new product, individual term life insurance, which is sold in the network of mBank and mFinanse.

Conscious clients with greater experience in investment products who accept higher investment risk were offered an expanded range of investment products following mBank's participation in the public offering of Investment Certificates of Trigon Polskie Perły, a closed-end investment fund, in Q3 2016.

Moreover, in the reporting period mBank's offer of loans for SME topped the Forbes ranking, with special praise given to the start-up loan.

Cooperation with Orange

In Q3 2016, mBank continued its cooperation with Orange and worked on developing the product offer as part of the Orange Finanse project. Since the project's launch in October 2014, Orange Finanse has acquired more than 300 thousand clients, including 18.7 thousand in Q3 2016 alone.

The changes consisted in the introduction of new deposits (a deposit for new funds and a retention deposit), more attractive method for calculating interest on the Savings Account, option to pay bills using the Direct Debit in on-line banking and free withdrawals from all ATMs in Poland. In addition, starting from September, the clients of Orange Finanse, just like mBank clients, can use the Payment Assistant, which is a unique solution on the Polish market, sending text messages reminding clients of upcoming transfers.

In September, Orange Finanse ranked second in the mobile banking category of the Newsweek's Friendly Bank ranking.

Mobile application

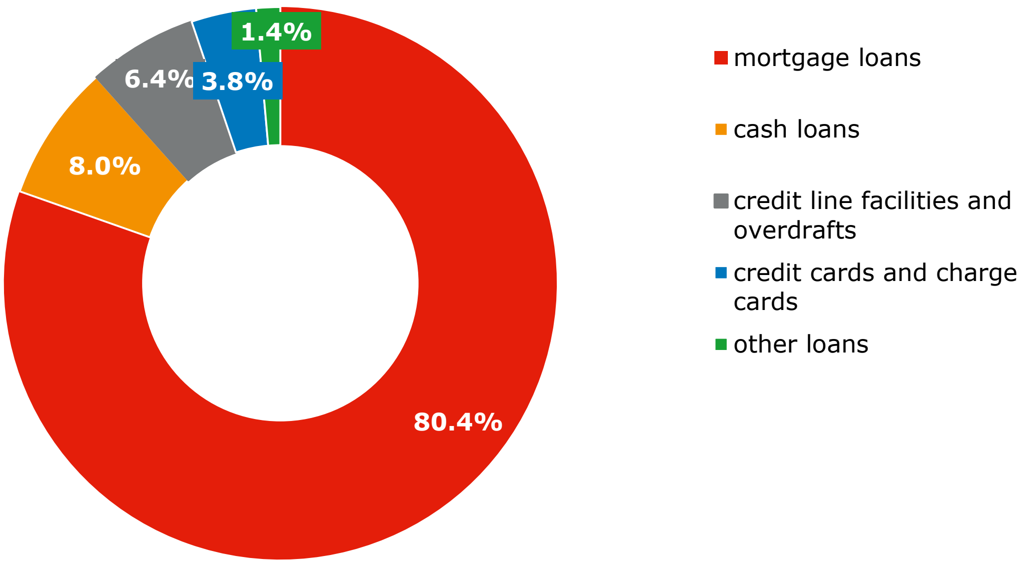
Q3 2016 was marked by continuing development of the Bank's mobile application. In September, mBank clients were offered a new functionality: the Payment Assistant. Based on an analysis of a client's back transactions, the Bank identifies cyclical operations and presents them in the form of ready-to-order transfers, which require only one click to complete. At the same time, the client is notified of all regular payments via push messages in the mobile application. In the coming months, the Bank will continue works on optimising the algorithm and transferring this functionality to on-line banking.

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 September 2016:

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



New sales of loans reached PLN 2 009.4 million in Q3 2016, including PLN 1 435.6 million, i.e. 71.4%, of non-mortgage loans (-9.2% quarter on quarter). The sales of mortgage loans in Q3 2016 stood at PLN 573.8 million (including mBH), which represents an increase by 7.0% quarter on quarter.

Q3 2016 was another consecutive quarter when the portfolio of non-mortgage loans to households grew dynamically, by PLN 648.3 million, i.e. 6.6% quarter on quarter. The portfolio of mortgage loans stood at PLN 33,439.7 million and was down by PLN 717.1 million, i.e. 2.1% quarter on quarter.

The NPL ratio of the mortgage loan portfolio remained stable quarter on quarter, and stood at 3.8% at the end of September 2016.

Deposits and investment funds

As far as deposit products are concerned, in Q3 2016 clients were particularly interested in safe products with a predetermined and guaranteed rate of return (term deposits with fixed interest rates) and products combining security with high liquidity (savings accounts). In the area of investment products clients were especially interested in solutions offering capital protection (e.g. structured products) or investment funds posing low investment risk (money market funds and bond funds).

Thanks to the Bank's intensive acquisition efforts, the balance of savings products at the Bank rose by 3.7% compared with Q2 2016.

Cards

In the payment cards area, the Bank's primary focus has been on increasing the share of transactions made by mBank's payment cards in the total number of transactions on the market.

In Q3 2016, mBank's retail clients made card transactions worth PLN 6.8 billion, which represents an increase by 4.8% quarter on quarter and 19.9% year on year. The average card transaction amount remained flat compared with Q2 2016 while the number of cashless transactions grew by 5.1% quarter on quarter.

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

In Q3 2016 in the Czech Republic and Slovakia mBank acquired 11.6 thousand clients (out of which 1.7 thousand clients in Slovakia, and 9.9 thousand clients on the Czech market).

The bank's offer, similarly to the polish market, was extended with a new account dedicated to the young segment, whose pricing and functionalities will develop along with its holder.

Moreover, mBank's mobile application has once again been appreciated, this time with the Golden PCNews award, as one of the best on the Slovak market, while mBank in the Czech Republic received the title "Superbrand 2016", becoming one of the strongest brands on the local market.

Loans and deposits

In Q3 2016, the loan portfolio of mBank clients in the Czech Republic and Slovakia fell by PLN 70.2 million, i.e. 1.0% quarter on quarter.

The sales of both non-mortgage and mortgage loans decreased quarter on quarter by respectively 8.9% and 47.3% amounting to PLN 121.4 million of non-mortgage loans and PLN 120.1 million of mortgage loans.

The deposit base slightly decreased by PLN 36.3 million or 0.5% quarter on quarter.

Corporates and Financial Markets

Corporate and Investment Banking

Summary of segment results

In Q3 2016, the Corporate and Investment Banking segment generated a profit before tax of PLN 67.1 million, which represents a decrease by PLN 42.3 million, i.e. 38.6% quarter on quarter.

PLN M	Q3 2015	Q2 2016	Q3 2016	QoQ change	YoY change
Net interest income	189.5	182.6	189.4	3.7%	0.0%
Net fee and commission income	88.6	89.4	93.9	5.0%	6.0%
Dividend income	14.2	0.0	0.0	-	-
Net trading income	53.8	68.7	56.1	-18.3%	4.4%
Gains less losses from investment securities, investments in subsidiaries and associates	-5.9	21.4	0.0	-	-
Net other operating income	8.1	1.7	5.8	247.6%	-29.2%
Total income	348.2	363.8	345.2	-5.1%	-0.9%
Net impairment losses on loans and advances	-24.6	-43.6	-60.9	39.5%	147.2%
Overhead costs and amortization	-171.2	-178.2	-184.1	3.3%	7.6%
Taxes on bank balance sheet items	0.0	-32.6	-33.1	1.4%	-
Profit before tax of Corporate and Investment Banking	**152.5**	**109.4**	**67.1**	**-38.6%**	**-56.0%**

In Q3 2016, the profit before tax of the Corporate and Investment Banking segment was predominantly driven by:

- **Decrease in total income** which amounted to PLN 345.2 million, compared with PLN 363.8 million in Q2 2016. Increased income from the core business was noted - net interest income went up by PLN 6.8 million, i.e. 3.7%, while net fee and commission income was higher by PLN 4.5 million, i.e. 5.0%. Net trading income decreased by PLN 12.6 million, i.e. 18.3%, as a result of lower other net trading income and result on hedge accounting, as well as lower FX result. Income of the segment in Q2 was additionally driven by the posting of the takeover of Visa Europe Limited by Visa Inc.

- **Increase in overhead costs (including amortisation)** by PLN 5.9 million, i.e. 3.3% quarter on quarter, to PLN 184.1 million as a result of higher material costs.

- **Increase in net impairment losses on loans and advances** by PLN 17.2 million to PLN 60.9 million. The provisions for a few corporate exposures increased due to the entry into force of new Restructuring Law on January 1, 2016. Under the law the debtor is entitled to apply for an extension of the repayment date and a debt reduction.

- **Tax on the Group's balance sheet items** at PLN 33.1 million, similar to Q2.

Activity of the Corporate and Investment Banking segment (Bank)

	30.09.2015	30.06.2016	30.09.2016	QoQ change	YoY change
Number of corporate clients	**19,086**	**20,220**	**20,695**	**2.3%**	**8.4%**
K1	1,931	2,138	2,149	**0.5%**	**11.3%**
K2	5,609	5,883	5,987	**1.8%**	**6.7%**
K3	11,546	12,199	12,559	**3.0%**	**8.8%**
PLN M					
Loans to corporate clients, including	**24,166.2**	**21,332.2**	**21,501.0**	**0.8%**	**-11.0%**
K1	6,379.2	5,603.7	5,506.5	**-1.7%**	**-13.7%**
K2	12,206.0	12,650.5	12,926.4	**2.2%**	**5.9%**
K3	2,892.4	2,946.3	2,953.9	**0.3%**	**2.1%**
Reverse repo/buy sell back transactions	2,663.9	2.9	0.0	**-**	**-**
Other	24.7	128.8	114.2	**-11.3%**	**362.3%**
Deposits of corporate clients, including	**31,619.7**	**30,550.3**	**29,382.4**	**-3.8%**	**-7.1%**
K1	15,589.1	13,328.8	10,741.7	**-19.4%**	**-31.1%**
K2	9,582.8	10,769.0	11,203.2	**4.0%**	**16.9%**
K3	4,214.4	5,219.3	5,474.6	**4.9%**	**29.9%**
Repo transactions	2,181.0	769.1	1,551.4	**101.7%**	**-28.9%**
Other	52.4	464.1	411.5	**-11.3%**	**685.3%**
Distribution network	**47**	**45**	**45**		
Corporate branches	29	29	29		
Corporate offices	18	16	16		

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.

The Bank continues to pursue intensified acquisition and sales activities, which in 2016 has resulted in record-high acquisition of corporate clients - the corporate client base has increased by 1,126 companies since the beginning of the year. Over 60% of them are clients of the small and medium-sized enterprises (SMEs) segment, in which the Bank consistently strives to strengthen its position by targeted development of its offer.

Due to cooperation with Orange Finanse, Orange Finanse retail clients (individual and business) may use the eZgoda (electronic consent) service. Clients submit their eZgoda on the same basis as existing clients of mBank's retail branches. Therefore, the list of potential payers under eZgoda direct debit has been expanded for corporate clients.

Moreover, in Q3 2016 mBank concluded an agreement on participation in the Inkart system operated by the National Clearing House (by becoming its member in the role of an acquirer). Inkart is a system that allows clearing of card transactions, which is to be transformed into a country-wide system of the Polish payment card.

In addition, this year Global Finance, a prestigious financial magazine, once again distinguished mBank in the contest "World's Best Corporate/Institutional Digital Banks". mBank received an award for the best digital bank in Poland for corporate banking clients. In the same edition of the contest, mPlatforma Walutowa (FX mPlatform) was named the best transaction platform for currency exchange dedicated to corporate banking clients in the CEE region ("Best Online Treasury Services in CEE").

Development of the Corporate Banking offer

Loans

The value of loans granted by mBank to corporate clients (excluding reverse repo transactions) amounted to PLN 21,501.0 million at the end of Q3 2016, which represents an increase by 0.8%, compared with the end of June 2016 (PLN 21,329.3 million), and remained at a similar level compared with the end of Q3 2015 (PLN 21,502.2 million).

The value of loans granted to enterprises amounted to PLN 20,363.8 million at the end of Q3 2016 and was by 1.5% higher than at the end of June 2016 (PLN 20,069.5 million) and by 4.1% higher than at the end of Q3 2015 (PLN 19,568.8 million).

The value of loans to enterprises (NBP category, enabling comparison with the banking sector results) at the end of September 2016 increased by 2.2% quarter on quarter and 5.3% year on year. The share of mBank's lending to enterprises in the lending of the entire banking sector was at 6.2% at the end of September 2016 compared with 6.3% at the end of June 2016 and at the end of September 2015. At the end of Q3 2016, the loan-to-deposit ratio for enterprises in the Bank stood at 82.6% and and was significantly lower than the market ratio of 126.8%.

The value of loans granted to local governments amounted to PLN 770.9 million at the end of September 2016 compared with PLN 810.6 million at the end of June 2016 and PLN 1,039.8 million at the end of Q3 2015.

Deposits

The value of corporate deposits gathered by mBank (excluding repo transactions) amounted to PLN 27,831.0 million at the end of September 2016, which represents a decrease by 6.5%, compared with the end of June 2016 (PLN 29,781.2 million) and by 5.5%, compared with the end of Q3 2015 (PLN 29,438.8 million).

The value of mBank's current deposits of corporate clients amounted to PLN 9,059.4 million at the end of Q3 2016 and was at a stable level compared to the end of June 2016 (PLN 9,065.0 million) and increased by 18.0% compared to the end of September 2015 (PLN 7,676.7 million).

The value of deposits of enterprises amounted to PLN 24,662.5 million at the end of September 2016, which represents a decrease by 3.8% compared with the end of June 2016 (PLN 25,638.7 million) and stands at a similar level compared with the end of Q3 2015 (PLN 24,644.3 million).

The value of deposits of enterprises (NBP category, enabling the comparison to banking sector results) at the end of September 2016 increased by 0.6% compared to the end of June 2016 and by 5.8% year on year. The share of mBank in deposits placed by enterprises reached 9.6% at the end of September 2016, compared with 10.0% at the end of June 2016 and 10.1% at the end of September 2015.

The value of deposits of local governments amounted to PLN 191.9 million at the end of September 2016 compared with PLN 193.2 million at the end of June 2016 and PLN 819.0 million at the end of September 2015.

De minimis guarantees

The Bank continued to perform the Portfolio Guarantee Line De Minimis (PLD) Agreement as part of the government's "Supporting Entrepreneurship through BGK Sureties and Guarantees" programme with an allocated limit for guarantees at 1,630.0 million. The amount drawn under the limit reached PLN 1,492.5 million as of September 30, 2016.

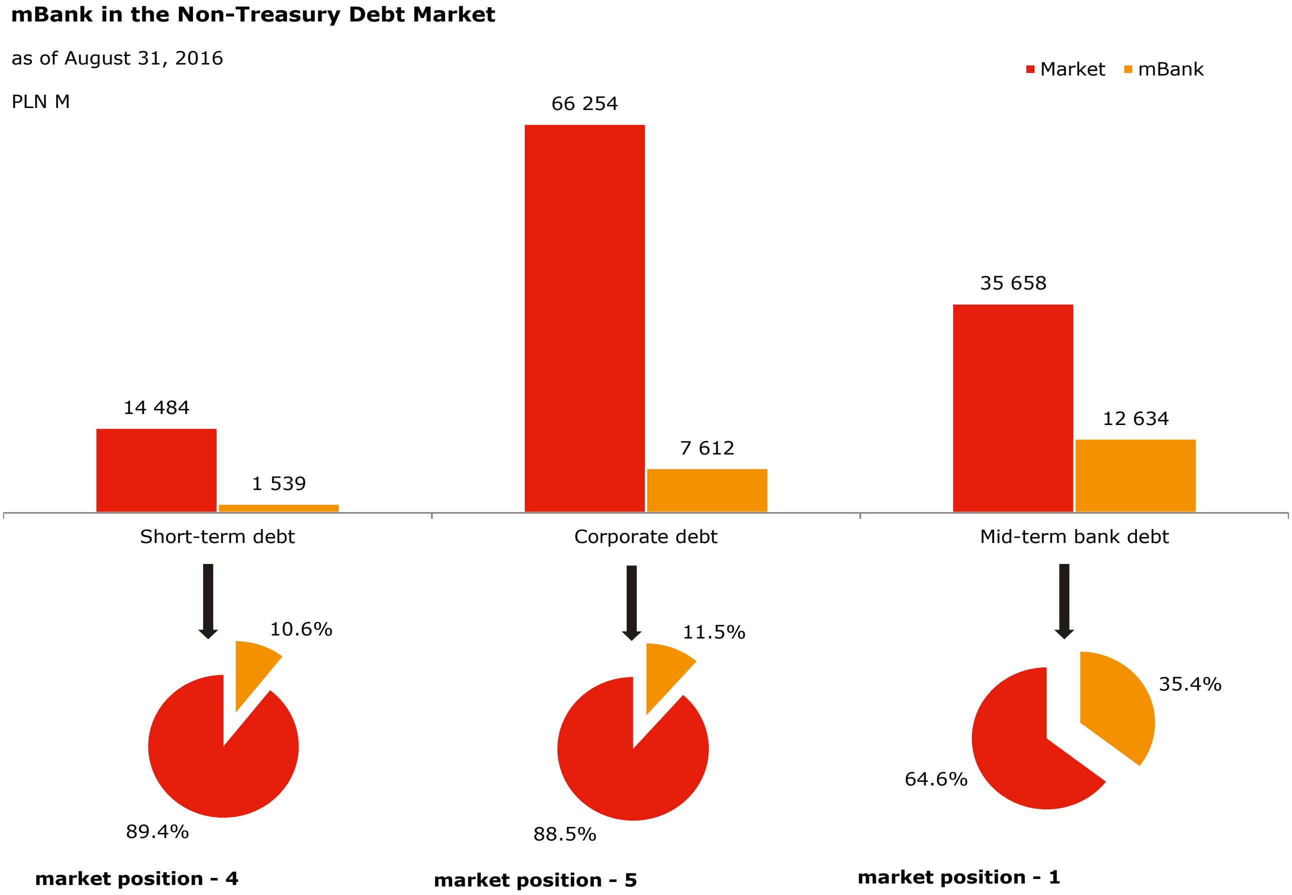
Moreover, based on the agreement signed with Bank Gospodarstwa Krajowego, mBank offers loans backed by guarantees financed from the pool of the Innovative Economy Operational Programme to innovative clients from the SME sector. The guarantees will be funded from the PLN 250 million pool and the guarantee limit for mBank stands at PLN 15 million.

The guarantees enable micro-firms and small and medium-sized enterprises to finance their innovative projects.

At the same time, mBank continued to offer the portfolio guarantee line with a counter-guarantee provided by the European Investment Bank under the COSME programme. The BGK guarantee limit for mBank stands at PLN 120 million. COSME is a European Union programme supporting the competitiveness of enterprises in 2014-2020 with a budget of EUR 2.3 billion. The main purpose of the programme is to stimulate lending and capital investments among SMEs.

Issuing debt securities for corporate clients

The share of mBank in the non-treasury debt market at the end of August 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 12.5 billion, compared to PLN 12.2 billion at the end of June 2016. The largest issues arranged by mBank in Q3 2016 included the issue of bonds of PLN 100 million for Credit Agricole Bank Polska, the issue of covered bonds of mBank Hipoteczny at the value of EUR 13 million and the issue of bonds of PLN 20 million for Volkswagen Bank Polska.

The Bank was ranked fifth on the growing market of corporate bonds, with a market share of 11.5% (at the end of August 2016). A number of new major issues were executed, i.e. for Kruk S.A. (EUR 20 million), Polnord S.A. (PLN 20 million), LC Corp (PLN 15 million), EFL (PLN 10 million), EGB Investment (PLN 10 million). The value of corporate bonds issued and unredeemed amounted to circa PLN 7.6 billion at the end of August 2016 compared to PLN 7.3 billion at the end of June 2016.

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 Q3 2016 increased by 20.4% year on year;
- the number of outgoing foreign transfers increased by 15.5% in Q3 2016 year on year; the number of incoming foreign transfers increased by 13.5% in Q3 2016 year on year; the number of SEPA (Single Euro Payments Area) transfers grew by 23.8% in the discussed period;
- the number of direct debit increased by 17.6% in Q3 2016 year on year;
- the total number of corporate cards issued increased by 12.1% year on year;
- as at the end of September 2016, mBank issued 360.9 thousand corporate pre-paid cards, which represents an 109.8% increase year on year;
- the number of mBank CompanyNet system users rose by 11.1% compared with Q3 2015. Currently, there are 92.9 thousand active authorizations allowing the entitled employees of clients to cooperate with mBank.

<u>Financial Markets</u>

Summary of segment results

In Q3 2016, the Financial Markets segment generated a profit before tax of PLN 29.7 million, which represents an increase by PLN 26.5 million quarter on quarter.

PLN M	Q3 2015	Q2 2016	Q3 2016	QoQ change	YoY change
Net interest income	57.8	74.6	71.5	-4.1%	23.7%
Net fee and commission income	-0.2	-0.8	-1.6	98.6%	7x
Dividend income	0.0	0.0	0.4	-	-
Net trading income	5.7	-39.4	-7.9	-80.0%	-/+
Gains less losses from investment securities, investments in subsidiaries and associates	-3.5	0.5	2.5	386.6%	-/+
Net other operating income	0.4	0.3	-0.4	-261.0%	-/+
Total income	60.2	35.1	64.5	83.5%	7.0%
Net impairment losses on loans and advances	-0.7	0.6	-0.3	-/+	-62.0%
Overhead costs and amortization	-21.7	-25.1	-27.5	9.9%	26.4%
Taxes on bank balance sheet items	0.0	-7.5	-7.0	-5.8	-
Profit before tax of Financial Markets	**37.8**	**3.2**	**29.7**	**8x**	**-21.5%**

The profit before tax of the Financial Markets segment in Q3 2016 was predominantly driven by:

- **Increase in total income** by PLN 29.3 million quarter on quarter to PLN 64.5 million as the net trading income increased by PLN 31.5 million (reduction of negative net trading income to PLN -7.9 million). It resulted from an increase in FX result, as well as lower other trading loss due to the valuation of interest rate derivatives.

- **Slight growth in overhead costs (including amortisation)** which amounted to PLN 27.5 million, compared with PLN 25.1 million in Q2 2016 (i.e. +9.9%).

- **Tax on the Group's balance sheet items** at PLN 7.0 million, similar to Q2.

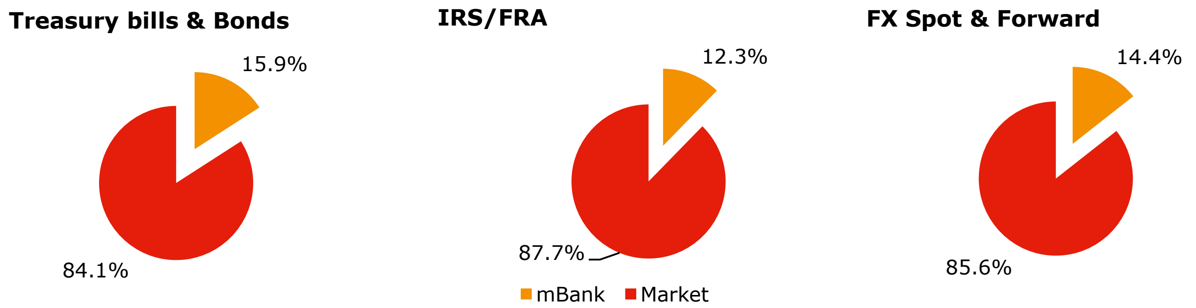
Activity of Financial Markets segment

Q3 2016 in the Financial Markets segment was marked by slightly shrinking trading volumes of FX transactions with corporate clients. Sales decreased by 2.1% and stood at PLN 19.5 billion compared with PLN 19.7 billion in Q2 2016.

The lower sales were accompanied by a slight fall in the number of clients who actively concluded transactions. In Q3 2016, the number of active clients dropped by 23 quarter on quarter and stood at 3,268. The number of clients who conclude derivative transactions shrank as well (down by 12 quarter on quarter).

In the area of commodity derivatives, Q3 2016 was marked by a growing number of active clients and further increase in generated margins.

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



Subsidiaries of mBank Group

Summary of results of mBank Group's subsidiaries

In Q3 2016, the consolidated profits before tax generated by mBank Group subsidiaries amounted to PLN 69.5 million, compared with PLN 79.7 million a quarter earlier. The quarter-on quarter decrease by 12.7% resulted mainly from changes in the Group's organisational structure and integration of Dom Maklerski mBanku and mWealth Management with mBank, as well as from weaker performance of mFaktoring and mLocum.

Compared with Q2 2016, mBank Hipoteczny more than quadrupled its results.

The table below presents the profit before tax of the subsidiaries in Q3 2016, compared with Q2 2016.

(PLN M)	Q2 2016	Q3 2016	QoQ change
mLeasing	20.8	20.3	-2.4%
mBank Hipoteczny	1.6	8.3	426.1%
mLocum	4.3	1.3	-69.1%
mWealth Management[1]	3.5	-	-
mFaktoring	5.0	1.4	-71.2%
Dom Maklerski mBanku[1]	-0.4	-	-
mFinanse (f. Aspiro)	41.9	40.2	-3.9%
Other[2]	3.0	-2.0	+/-
Total	**79.7**	**69.5**	-12.7%

[1] *Companies were integrated into the organizational structure of mBank as of May 20, 2016*

[2] *Other subsidiaries include mFinance France, mCentrum Operacji, BDH Development, Garbary, and Tele-Tech Investment*

Business activities of selected subsidiaries

On September 30, 2016, Aspiro changed its name to mFinanse.

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

In Q3 2016 the company recorded an increase of the sales of mortgage loans by 19.8% compared to Q2 2016 (PLN 290.0 million in Q3 2016, compared with PLN 242.9 million in the previous quarter).

In Q3 2016, the company's profit from selling car loans dedicated to car dealers remained stable compared to Q2 2016 (PLN 71.0 million in Q3 compared to PLN 73.7 million in Q2 2016). In addition, Q3 2016 was marked by improving sales volumes in the area of car leasing.

In Q3 2016, the profit before tax of mFinanse stood at PLN 40.2 million compared to PLN 41.9 million a quarter earlier, mainly driven by the area of insurance, where the company acts as an insurance agent.

mLeasing ranks third in Poland in terms of the value of new contracts signed in Q3 2016. Owing to the fact that in 2016 Idea Bank inked an agreement allowing it to take over Getin Leasing Group in the next three years, for the first time ever the Polish Leasing Association presented consolidated results of these companies as at the end of 2016, which had previously been presented individually. Idea Getin Leasing Group ranked first in terms of new business volume both in Q3 2016 and as at the end of Q3 2016, thus pushing mLeasing from the second to third place in the new business classification.

The total value of contracts signed in Q3 2016 amounted to PLN 1,027.0 million against PLN 1,065.8 million in Q2 2016, which represents a decrease by 3.6% quarter on quarter.

The value of new movable assets purchased by mLeasing in Q3 2016 stood at PLN 1,021.3 million, giving it a 7.4% share in the market. The immovables held by the subsidiary were worth PLN 5.7 million, securing it a market share of 3.9%.

In Q3 2016, mLeasing generated a profit before tax of PLN 20.3 million, down by 2.4% quarter on quarter. The decrease was driven mainly by higher operating costs and risk costs, which were not fully compensated by rising income.

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

mBank Hipoteczny

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

At the beginning of September mBank Hipoteczny ultimately became the only provider of housing loans to individuals in Poland in mBank Group. This decision is an effect of the transformation of the Group's approach to funding mortgage loans started in 2013. Lending in the retail area is now financed by the issuance of covered bonds, which increase the share of long-term liabilities in the balance sheet with every issued tranche. Upon obtaining the PFSA's approval for the prospectus of its new programme with a total nominal value of up to PLN 15 billion on August 26, 2016, mBank Hipoteczny placed a tranche of 10-year covered bonds worth EUR 13 million. In addition, mBank Hipoteczny issued covered bonds with a nominal value of EUR 70 million in a private placement. 28 September was the maturity date of the last series of public covered bonds. Including the issues organised in H1 2016, mBank Hipoteczny achieved 58.5% of its annual target of PLN 1.75 billion.

As of September 30, 2016, the total value of new covered bonds issued by mBank Hipoteczny and the outstanding covered bonds on the market amounted to PLN 4,765.4 million.

The issuing activity of mBH on the public market in Q3 2016 is summarized in the table below.

Volume	Currency	Date of issue	Maturity	Tenor (in years)	Coupon
13.0 million	EUR	28.09.2016	20.09.2026	10.0	Fixed (1.18%)

In Q3 2016, mBank Hipoteczny's gross loan portfolio totalled PLN 9.2 billion compared with PLN 8.5 billion at the end of Q2 2016, i.e. +8.2%. This growth resulted, in particular, from systematic growth in the portfolio of new mortgage loans for retail clients of the Group with sales reaching PLN 473.1 million in Q3 2016. The sales of commercial loans stood at PLN 232.0 million. Moreover, in pursuit of the mBank Group's strategy, in Q3 2016 mBank Hipoteczny acquired more receivables from mBank: retail mortgage loans worth PLN 157.8 million.

In Q3 2016, mBH reported a profit before tax of PLN 8.3 million compared with PLN 1.6 million in the previous quarter. The more than a fourfold increase in the profit before tax was mainly driven by higher net interest income (+11.8% quarter on quarter), lower impairment losses on loans and advances and decreased administrative costs.

mLocum

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.

The company sold 27 apartments in Q3 2016 under final agreements, i.e. -38 quarter on quarter (65 apartments sold in Q2 2016). Consequently, the company generated a profit before tax of PLN 1.3 million in Q3 2016 compared to PLN 4.3 million a quarter earlier.

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

Condensed consolidated income statement

	Note	3rd Quarter (current year) period from 01.07.2016 to 30.09.2016	3 Quarters (current year) period from 01.01.2016 to 30.09.2016	3rd Quarter (previous year) period from 01.07.2015 to 30.09.2015	3 Quarters (previous year) period from 01.01.2015 to 30.09.2015
Interest income	5	977 024	2 869 558	919 051	2 700 202
Interest expense	5	(258 312)	(789 985)	(277 298)	(865 462)
Net interest income		**718 712**	**2 079 573**	**641 753**	**1 834 740**
Fee and commission income	6	404 432	1 121 625	371 881	1 051 898
Fee and commission expense	6	(170 069)	(465 814)	(136 298)	(392 122)
Net fee and commission income		**234 363**	**655 811**	**235 583**	**659 776**
Dividend income	7	442	3 028	14 345	17 534
Net trading income, including:	8	74 402	218 002	84 105	222 035
Foreign exchange result		*82 162*	*220 044*	*67 825*	*212 512*
Other net trading income and result on hedge accounting		*(7 760)*	*(2 042)*	*16 280*	*9 523*
Gains less losses from investment securities, investments in subsidiaries and associates, including:	9	2 350	250 532	(9 372)	186 978
Gains less losses from investment securities		*2 347*	*250 971*	*(3 398)*	*2 776*
Gains less losses from investments in subsidiaries and associates		*3*	*(439)*	*(5 974)*	*184 202*
The share in the profits (losses) of joint ventures		(19)	(107)	(57)	(72)
Other operating income	10	46 157	195 325	60 175	194 487
Net impairment losses on loans and advances	11	(139 452)	(325 715)	(110 956)	(318 593)
Overhead costs	12	(447 196)	(1 301 570)	(413 084)	(1 253 130)
Amortisation		(52 691)	(169 788)	(50 213)	(146 511)
Other operating expenses	13	(37 660)	(151 522)	(46 669)	(132 638)
Operating profit		**399 408**	**1 453 569**	**405 610**	**1 264 606**
Taxes on the Group balance sheet items		(89 824)	(236 137)	(922)	(2 717)
Profit before income tax		**309 584**	**1 217 432**	**404 688**	**1 261 889**
Income tax expense	24	(78 883)	(288 031)	(83 974)	(267 122)
Net profit		**230 701**	**929 401**	**320 714**	**994 767**
Net profit attributable to:					
- Owners of mBank S.A.		230 479	926 765	319 501	991 760
- Non-controlling interests		222	2 636	1 213	3 007

Net profit attributable to Owners of mBank S.A.		**230 479**	**926 765**	**319 501**	**991 760**
Weighted average number of ordinary shares	14	**42 253 034**	**42 243 662**	**42 226 006**	**42 215 489**
Earnings per share (in PLN)	14	**5.45**	**21.94**	**7.57**	**23.49**
Weighted average number of ordinary shares for diluted earnings	14	**42 277 564**	**42 268 192**	**42 249 007**	**42 238 490**
Diluted earnings per share (in PLN)	14	**5.45**	**21.93**	**7.56**	**23.48**

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

Condensed consolidated statement of comprehensive income

	3rd Quarter (current year) period from 01.07.2016 to 30.09.2016	3 Quarters (current year) period from 01.01.2016 to 30.09.2016	3rd Quarter (previous year) period from 01.07.2015 to 30.09.2015	3 Quarters (previous year) period from 01.01.2015 to 30.09.2015
Net profit	**230 701**	**929 401**	**320 714**	**994 767**
Other comprehensive income net of tax, including:	**(59 186)**	**(241 473)**	**51 044**	**(155 510)**
Items that may be reclassified subsequently to the income statement				
Exchange differences on translation of foreign operations (net)	(1 363)	(1 170)	239	(5 042)
Change in valuation of available for sale financial assets (net)	(56 741)	(239 837)	45 012	(148 264)
Cash flows hedges (net)	(1 082)	(466)	5 793	(2 204)
Items that will not be reclassified to the income statement				
Actuarial gains and losses relating to post-employment benefits (net)	-	-	-	-
Total comprehensive income (net)	**171 515**	**687 928**	**371 758**	**839 257**
Total comprehensive income (net), attributable to:				
- Owners of mBank S.A.	171 293	685 292	370 545	836 250
- Non-controlling interests	222	2 636	1 213	3 007

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

Condensed consolidated statement of financial position

ASSETS	Note	30.09.2016	31.12.2015	30.09.2015
Cash and balances with the Central Bank		5 859 485	5 938 133	4 630 886
Loans and advances to banks		2 920 734	1 897 334	2 793 756
Trading securities	15	4 177 242	557 541	2 561 125
Derivative financial instruments	16	2 087 395	3 349 328	3 737 662
Loans and advances to customers	18	81 009 630	78 433 546	79 407 211
Hedge accounting adjustments related to fair value of hedged items		36	130	192
Investment securities	19	31 257 850	30 736 949	30 026 139
Investments in joint ventures		7 252	7 359	928
Intangible assets	20	501 917	519 049	477 160
Tangible assets	21	710 268	744 522	692 640
Current income tax assets		1 067	1 850	122
Deferred income tax assets	24	486 712	366 088	328 515
Other assets		761 135	971 192	1 093 807
Total assets		**129 780 723**	**123 523 021**	**125 750 143**

LIABILITIES AND EQUITY				
Liabilities				
Amounts due to the Central Bank		-	-	1
Amounts due to other banks		11 562 896	12 019 331	14 783 138
Derivative financial instruments	16	1 766 557	3 173 638	3 380 521
Amounts due to customers	22	85 188 225	81 140 866	78 545 901
Debt securities in issue		12 192 188	8 946 195	11 280 897
Hedge accounting adjustments related to fair value of hedged items		196 287	100 098	95 955
Other liabilities		1 796 089	1 764 091	1 774 468
Current income tax liabilities		70 449	50 126	14 369
Provisions for deferred income tax	24	910	981	997
Provisions	23	185 201	225 416	165 535
Subordinated liabilities		3 851 380	3 827 315	3 785 284
Total liabilities		**116 810 182**	**111 248 057**	**113 827 066**

Equity				
Equity attributable to Owners of mBank S.A.		**12 935 287**	**12 242 346**	**11 890 334**
Share capital:		**3 550 793**	**3 535 758**	**3 535 618**
- Registered share capital		169 117	168 956	168 954
- Share premium		3 381 676	3 366 802	3 366 664
Retained earnings:		**9 193 161**	**8 273 782**	**7 960 703**
- Profit from the previous years		8 266 396	6 972 536	6 968 943
- Profit for the current year		926 765	1 301 246	991 760
Other components of equity		**191 333**	**432 806**	**394 013**
Non-controlling interests		**35 254**	**32 618**	**32 743**
Total equity		**12 970 541**	**12 274 964**	**11 923 077**
Total liabilities and equity		**129 780 723**	**123 523 021**	**125 750 143**

Total capital ratio		**18.61**	**17.25**	**16.99**
Common Equity Tier 1 capital ratio		**15.88**	**14.29**	**14.09**
Book value		**12 935 287**	**12 242 346**	**11 890 334**
Number of shares		**42 279 255**	**42 238 924**	**42 238 537**
Book value per share (in PLN)		**305.95**	**289.84**	**281.50**

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

Condensed consolidated statement of changes in equity

Changes from 1 January to 30 September 2016

	Share capital		Retained earnings					Other components of equity				Equity attributable to Owners of mBank S.A., total	Non-controlling interests	Total equity
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	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 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	**-**	**-**	**-**	**-**	**-**	**-**	**926 765**	**(1 170)**	**(239 837)**	**(466)**	**-**	**685 292**	**2 636**	**687 928**
Transfer to general banking risk reserve	-	-	-	-	36 000	(36 000)	-	-	-	-	-	-	-	-
Transfer to reserve capital	-	-	61 087	-	-	(61 087)	-	-	-	-	-	-	-	-
Issue of shares	161	-	-	-	-	-	-	-	-	-	-	161	-	161
Stock option program for employees	-	14 874	-	(7 386)	-	-	-	-	-	-	-	7 488	-	7 488
- value of services provided by the employees	-	-	-	*7 488*	-	-	-	-	-	-	-	*7 488*	-	*7 488*
- settlement of exercised options	-	*14 874*	-	*(14 874)*	-	-	-	-	-	-	-	-	-	-
Equity as at 30 September 2016	**169 117**	**3 381 676**	**4 944 689**	**96 586**	**1 131 453**	**2 093 668**	**926 765**	**(7 596)**	**202 517**	**393**	**(3 981)**	**12 935 287**	**35 254**	**12 970 541**

Changes from 1 January to 31 December 2015

	Share capital		Retained earnings					Other components of equity				Equity attributable to Owners of mBank S.A., total	Non-controlling interests	Total equity
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	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 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**

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

Changes from 1 January to 30 September 2015

	Share capital		Retained earnings					Other components of equity				Equity attributable to Owners of mBank S.A., total	Non-controlling interests	Total equity
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year - 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 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	**-**	**-**	**-**	**-**	**-**	**-**	**991 760**	**(5 042)**	**(148 264)**	**(2 204)**	**-**	**836 250**	**3 007**	**839 257**
Transfer to general banking risk reserve	-	-	-	-	53 500	(53 500)	-	-	-	-	-	-	-	-
Transfer to supplementary capital	-	-	435 764	-	-	(435 764)	-	-	-	-	-	-	-	-
Issue of shares	114	-	-	-	-	-	-	-	-	-	-	114	-	114
Other changes	-	-	-	-	-	-	-	-	-	-	-	-	(2)	(2)
Stock option program for employees	-	11 601	-	(873)	-	-	-	-	-	-	-	10 728	-	10 728
- value of services provided by the employees	-	-	-	*10 728*	-	-	-	-	-	-	-	*10 728*	-	*10 728*
- settlement of exercised options	-	*11 601*	-	*(11 601)*	-	-	-	-	-	-	-	-	-	-
Equity as at 30 September 2015	**168 954**	**3 366 664**	**4 849 589**	**100 379**	**1 095 453**	**923 522**	**991 760**	**(6 807)**	**401 357**	**1 852**	**(2 389)**	**11 890 334**	**32 743**	**11 923 077**

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 30.09.2016	Period from 01.01.2015 to 30.09.2015
A. Cash flows from operating activities	**1 683 699**	**4 308 574**
Profit before income tax	**1 217 432**	**1 261 889**
Adjustments:	***466 267***	***3 046 685***
Income taxes paid	(332 947)	(177 834)
Amortisation, including amortisation of fixed assets provided under operating lease	205 182	180 770
Foreign exchange (gains) losses related to financing activities	156 979	1 385 725
(Gains) losses on investing activities	(253 311)	(189 551)
Impairment of investments in subsidiaries	8 119	5 964
Dividends received	(3 028)	(17 534)
Interest income (income statement)	(2 869 558)	(2 700 202)
Interest expense (income statement)	789 985	865 462
Interest received	2 821 211	2 636 194
Interest paid	(741 586)	(774 568)
Changes in loans and advances to banks	111 421	742 787
Changes in trading securities	56 778	5 409
Changes in assets and liabilities on derivative financial instruments	(69 272)	(207 540)
Changes in loans and advances to customers	(2 563 784)	(4 843 409)
Changes in investment securities	(618 132)	(2 554 377)
Changes in other assets	201 126	(278 871)
Changes in amounts due to other banks	(792 385)	2 551 491
Changes in amounts due to customers	3 732 137	5 857 067
Changes in debt securities in issue	628 061	25 554
Changes in provisions	(40 215)	(11 346)
Changes in other liabilities	39 486	545 494
Net cash generated from/(used in) operating activities	**1 683 699**	**4 308 574**
B.Cash flows from investing activities	**(29 030)**	**221 181**
Investing activity inflows	**226 939**	**467 858**
Disposal of shares in subsidiaries, net of cash disposed	2 000	427 424
Disposal of intangible assets and tangible fixed assets	22 879	22 900
Dividends received	3 028	17 534
Other investing inflows	199 032	-
Investing activity outflows	**255 969**	**246 677**
Acquisition of shares in subsidiaries	310	-
Purchase of intangible assets and tangible fixed assets	255 659	235 616
Other investing outflows	-	11 061
Net cash generated from/(used in) investing activities	**(29 030)**	**221 181**
C. Cash flows from financing activities	**3 098 467**	**(1 831 267)**
Financing activity inflows	**3 878 864**	**1 881 722**
Proceeds from loans and advances from other banks	570 635	180 475
Proceeds from other loans and advances	439 000	415 420
Issue of debt securities	2 869 068	1 285 713
Increase of subordinated liabilities	-	-
Issue of ordinary shares	161	114
Financing activity outflows	**780 397**	**3 712 989**
Repayments of loans and advances from other banks	311 884	2 408 337
Repayments of other loans and advances	12 844	12 655
Redemption of debt securities	350 000	450 000
Decrease of subordinated liabilities	-	637 661
Payments of financial lease liabilities	452	373
Interest paid from loans and advances received from other banks, subordinated liabilities and long term issue	105 217	203 963
Net cash generated from/(used in) financing activities	**3 098 467**	**(1 831 267)**
Net increase / decrease in cash and cash equivalents (A+B+C)	**4 753 136**	**2 698 488**
Effects of exchange rate changes on cash and cash equivalents	(10 989)	1 176
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	**11 398 529**	**7 411 169**

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

mBank S.A. stand-alone financial information

Income statement

	Note	3rd Quarter (current year) period from 01.07.2016 to 30.09.2016	3 Quarters (current year) period from 01.01.2016 to 30.09.2016	3rd Quarter (previous year) period from 01.07.2015 to 30.09.2015 - restated	3 Quarters (previous year) period from 01.01.2015 to 30.09.2015 - restated
Interest income		855 001	2 514 981	817 222	2 424 261
Interest expense		(229 685)	(706 524)	(256 751)	(803 379)
Net interest income		**625 316**	**1 808 457**	**560 471**	**1 620 882**
Fee and commission income		333 232	892 983	271 522	803 401
Fee and commission expense		(149 151)	(413 475)	(118 134)	(339 183)
Net fee and commission income		**184 081**	**479 508**	**153 388**	**464 218**
Dividend income		442	133 940	14 287	135 247
Net trading income, including:		78 066	221 930	85 309	224 512
Foreign exchange result		*82 502*	*218 299*	*67 797*	*210 687*
Other net trading income and result on hedge accounting		*(4 436)*	*3 631*	*17 512*	*13 825*
Gains less losses from investment securities, investments in subsidiaries and associates, including:		2 350	250 707	(11 149)	153 934
Gains less losses from investment securities		*2 347*	*251 146*	*(3 398)*	*2 776*
Gains less losses from investments in subsidiaries and associates		*3*	*(439)*	*(7 751)*	*151 158*
Other operating income		17 091	52 170	13 770	38 859
Net impairment losses on loans and advances		(127 561)	(295 508)	(72 066)	(246 566)
Overhead costs		(390 741)	(1 106 934)	(347 736)	(1 046 300)
Amortisation		(47 235)	(151 843)	(43 164)	(125 692)
Other operating expenses		(26 211)	(80 883)	(13 616)	(37 978)
Operating profit		**315 598**	**1 311 544**	**339 494**	**1 181 116**
Taxes on the Bank's balance sheet items		(84 809)	(224 674)	(922)	(2 717)
Share in profits (losses) of entities under the equity method		53 468	73 467	51 102	34 272
Profit before income tax		**284 257**	**1 160 337**	**389 674**	**1 212 671**
Income tax expense		(60 986)	(238 153)	(70 205)	(220 914)
Net profit		**223 271**	**922 184**	**319 469**	**991 757**

Net profit		**223 271**	**922 184**	**319 469**	**991 757**
Weighted average number of ordinary shares	14	**42 253 034**	**42 243 662**	**42 226 006**	**42 215 489**
Earnings per share (in PLN)	14	**5.28**	**21.83**	**7.57**	**23.49**
Weighted average number of ordinary shares for diluted earnings	14	**42 277 564**	**42 268 192**	**42 249 007**	**42 238 490**
Diluted earnings per share (in PLN)	14	**5.28**	**21.82**	**7.56**	**23.48**

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

	3rd Quarter (current year) period from 01.07.2016 to 30.09.2016	3 Quarters (current year) period from 01.01.2016 to 30.09.2016	3rd Quarter (previous year) period from 01.07.2015 to 30.09.2015 - restated	3 Quarters (previous year) period from 01.01.2015 to 30.09.2015 - restated
Net profit	**223 271**	**922 184**	**319 469**	**991 757**
Other comprehensive income net of tax, including:	**(58 885)**	**(241 075)**	**51 074**	**(155 509)**
Items that may be reclassified subsequently to the income statement				
Exchange differences on translation of foreign operations (net)	(1 254)	(1 170)	230	295
Change in valuation of available for sale financial assets (net)	(56 724)	(239 296)	48 024	(145 723)
Cash flow hedges (net)	(1 082)	(466)	5 793	(2 204)
Share in other comprehensive income of entities under the equity method (net)	175	(143)	(2 973)	(7 877)
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	**164 386**	**681 109**	**370 543**	**836 248**

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	30.09.2016	31.12.2015 - restated	30.09.2015 - restated	01.01.2015 - restated
Cash and balances with the Central Bank	5 819 523	5 930 611	4 625 504	3 046 817
Loans and advances to banks	6 530 792	4 981 321	5 573 849	5 648 047
Trading securities	4 281 538	558 590	2 677 184	1 251 064
Derivative financial instruments	2 087 394	3 350 746	3 757 229	4 874 882
Loans and advances to customers	72 110 630	71 284 102	72 625 277	69 529 868
Hedge accounting adjustments related to fair value of hedged items	36	130	192	461
Investment securities	30 568 532	29 982 642	29 570 532	27 246 034
Investments in subsidiaries	1 762 442	1 758 247	1 758 569	1 580 226
Non-current assets held for sale	-	-	-	31 063
Intangible assets	463 718	473 816	434 972	425 078
Tangible assets	440 008	484 867	439 445	468 822
Current income tax assets	1 067	-	-	60 211
Deferred income tax assets	107 085	31 279	9 339	15 144
Other assets	293 523	279 019	272 682	199 405
Total assets	**124 466 288**	**119 115 370**	**121 744 774**	**114 377 122**

LIABILITIES AND EQUITY				
Liabilities				
Amounts due to the Central Bank	-	-	1	-
Amounts due to other banks	11 568 125	12 183 191	14 760 865	13 384 224
Derivative financial instruments	1 830 202	3 203 918	3 408 665	4 755 856
Amounts due to customers	92 456 191	85 924 151	85 794 168	79 312 266
Hedge accounting adjustments related to fair value of hedged items	148 386	78 568	74 920	77 619
Debt securities in issue	-	-	389 409	386 423
Other liabilities	1 448 331	1 386 264	1 463 914	1 112 805
Current income tax liabilities	47 440	44 190	11 670	-
Provisions for deferred income tax	83	82	82	82
Provisions	185 049	225 344	165 462	176 878
Subordinated liabilities	3 851 380	3 827 315	3 785 283	4 127 724
Total liabilities	**111 535 187**	**106 873 023**	**109 854 439**	**103 333 877**
Equity				
Share capital:	**3 550 793**	**3 535 758**	**3 535 618**	**3 523 903**
- Registered share capital	169 117	168 956	168 954	168 840
- Share premium	3 381 676	3 366 802	3 366 664	3 355 063
Retained earnings:	**9 188 441**	**8 273 647**	**7 960 578**	**6 969 694**
- Profit for the previous year	8 266 257	6 972 414	6 968 821	6 969 694
- Net profit for the current year	922 184	1 301 233	991 757	-
Other components of equity	**191 867**	**432 942**	**394 139**	**549 648**
Total equity	**12 931 101**	**12 242 347**	**11 890 335**	**11 043 245**
Total liabilities and equity	**124 466 288**	**119 115 370**	**121 744 774**	**114 377 122**

Total capital ratio	**22.18**	**20.18**	**20.07**	**16.95**
Common Equity Tier 1 capital ratio	**18.98**	**16.70**	**16.64**	**14.06**
Book value	**12 931 101**	**12 242 347**	**11 890 335**	**11 043 245**
Number of shares	**42 279 255**	**42 238 924**	**42 238 537**	**42 210 057**
Book value per share (in PLN)	**305.85**	**289.84**	**281.50**	**261.63**

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

mBank S.A. stand-alone financial information

Statement of changes in equity

Changes from 1 January to 30 September 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
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	-	**-**	**-**	**-**	**-**	**-**	**922 184**	**(1 170)**	**(239 296)**	**(466)**	**-**	**(143)**	**681 109**
Transfer to general banking risk reserve	-	-	-	-	30 000	(30 000)	-	-	-	-	-	-	-
Issue of shares	161	-	-	-	-	-	-	-	-	-	-	-	161
Other changes	-	-	-	-	-	(4)	-	-	-	-	-	-	(4)
Stock option program for employees	-	14 874	-	(7 386)	-	-	-	-	-	-	-	-	7 488
- value of services provided by the employees	-	-	-	*7 488*	-	-	-	-	-	-	-	-	*7 488*
- settlement of exercised options	-	*14 874*	-	*(14 874)*	-	-	-	-	-	-	-	-	-
Equity as at 30 September 2016	**169 117**	**3 381 676**	**4 384 011**	**25 590**	**1 095 143**	**2 761 513**	**922 184**	**(7 460)**	**202 462**	**393**	**(3 850)**	**322**	**12 931 101**

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**

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

Changes from 1 January to 30 September 2015

	Share capital		Retained earnings					Other components of equity					Total equity
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	Exchange differences on translation of foreign operations	Valuation of 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	
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	**-**	**-**	**-**	**-**	**-**	**-**	**991 757**	**295**	**(145 723)**	**(2 204)**	**-**	**(7 877)**	**836 248**
Transfer to general banking risk reserve	-	-	-	-	50 000	(50 000)	-	-	-	-	-	-	-
Transfer to supplementary capital	-	-	406 523	-	-	(406 523)	-	-	-	-	-	-	-
Issue of shares	114	-	-	-	-	-	-	-	-	-	-	-	114
Stock option program for employees	-	11 601	-	(873)	-	-	-	-	-	-	-	-	10 728
- value of services provided by the employees	-	-	-	*10 728*	-	-	-	-	-	-	-	-	*10 728*
- settlement of exercised options	-	*11 601*	-	*(11 601)*	-	-	-	-	-	-	-	-	-
Equity as at 30 September 2015 - restated	**168 954**	**3 366 664**	**4 384 011**	**29 383**	**1 065 143**	**1 490 284**	**991 757**	**(6 679)**	**408 227**	**1 852**	**(2 332)**	**(6 929)**	**11 890 335**

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

mBank S.A. stand-alone financial information

Statement of cash flows

	Period from 01.01.2016 to 30.09.2016	Period from 01.01.2015 to 30.09.2015 - restated
A. Cash flows from operating activities	**1 642 380**	**5 161 218**
Profit before income tax	**1 160 337**	**1 212 671**
Adjustments:	***482 043***	***3 948 547***
Income taxes paid	(256 196)	(59 154)
Amortisation	151 843	125 692
Foreign exchange (gains) losses related to financing activities	156 979	1 385 482
(Gains) losses on investing activities	(328 518)	(199 044)
Impairment of investments in subsidiaries	8 119	13 205
Dividends received	(133 940)	(135 247)
Interest income (income statement)	(2 514 981)	(2 424 261)
Interest expense (income statement)	706 524	803 379
Interest received	2 500 139	2 376 921
Interest paid	(706 834)	(788 411)
Changes in loans and advances to banks	(710 331)	(460 440)
Changes in trading securities	(45 972)	62 779
Changes in assets and liabilities on derivative financial instruments	(39 771)	(166 593)
Changes in loans and advances to customers	(744 952)	(3 018 142)
Changes in investment securities	(644 914)	(2 571 344)
Changes in other assets	(18 801)	(44 409)
Changes in amounts due to other banks	(1 027 500)	2 433 037
Changes in amounts due to customers	4 080 836	6 221 307
Changes in debt securities in issue	-	9 801
Changes in provisions	(40 295)	(11 416)
Changes in other liabilities	90 608	395 405
Net cash generated from/(used in) operating activities	**1 642 380**	**5 161 218**
B.Cash flows from investing activities	**172 481**	**177 785**
Investing activity inflows	**335 109**	**345 896**
Disposal of shares in subsidiaries, net of cash disposed	2 000	28 036
Disposal of intangible assets and tangible fixed assets	137	113
Dividends received	133 940	135 247
Other investing inflows	199 032	182 500
Investing activity outflows	**162 628**	**168 111**
Purchase of intangible assets and tangible fixed assets	162 628	158 050
Other investing outflows	-	10 061
Net cash generated from/(used in) investing activities	**172 481**	**177 785**
C. Cash flows from financing activities	**2 652 804**	**(2 762 773)**
Financing activity inflows	**3 165 796**	**596 009**
Proceeds from loans and advances from other banks	570 635	180 475
Proceeds from other loans and advances	439 000	415 420
Issue of ordinary shares	161	114
Security deposit due to issue of Eurobonds	2 156 000	-
Financing activity outflows	**512 992**	**3 358 782**
Repayments of loans and advances from other banks	287 545	2 406 197
Repayments of other loans and advances	12 844	12 655
Acquisition of shares in subsidiaries - increase of involvement	100 360	140 000
Decrease of subordinated liabilities	-	637 661
Payments of financial lease liabilities	7 026	6 863
Interest paid from loans and advances received from other banks, subordinated liabilities and long term issue	105 217	155 406
Net cash generated from/(used in) financing activities	**2 652 804**	**(2 762 773)**
Net increase / decrease in cash and cash equivalents (A+B+C)	**4 467 665**	**2 576 230**
Effects of exchange rate changes on cash and cash equivalents	(10 989)	1 394
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	**11 349 107**	**7 340 229**

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 30 September 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 30 September 2016 the headcount of mBank S.A. amounted to 5 322 FTEs (Full Time Equivalents) and of the Group to 6 497 FTEs (30 September 2015: Bank to 5 101 FTEs, Group 6 490 FTEs).

As at 30 September 2016 the employment in mBank S.A. was 6 264 persons and in the Group 8 320 persons (30 September 2015: Bank 6 289 persons, Group 8 539 persons).

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

Corporates and Financial Markets Segment, including:

Corporate and Investment Banking

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

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

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

On 30 September 2016, the Company Aspiro S.A. changed its name to mFinanse S.A.

On 20 May 2016, there was a division of Dom Maklerski mBanku S.A. ("mDM") and mWealth Management S.A. ("mWM"), the Group entities.

The division of mDM was effected in accordance with the procedure specified in Art. 529 § 1.1 of the Commercial Companies Code ("CCC"), i.e. through a transfer to:

- the Bank of a part of the assets and liabilities of mDM in the form of an organised part of the enterprise of mDM connected with the provision of brokerage services;
- mCentrum Operacji sp. z o.o., of a part of the assets and liabilities of mDM in the form of an organised part of the enterprise of mDM connected with the servicing of and rendering of human resources and payroll services.

The division of mWM was effected in accordance with the procedure specified in Art. 529 § 1.1 of the CCC, i.e. through a transfer to:

- the Bank of a part of the assets and liabilities of mWM in the form of an organised part of the enterprise of mWM connected with the provision of brokerage services, as well as other activities that do not constitute the Operations of the Office of the Real Estate Market and Alternative Investments as defined below; and
- through a transfer to BRE Property Partner sp. z o.o., the subsidiary of mBank, of a part of the assets and liabilities of mWM in the form of an organised part of the enterprise of mWM connected with advisory and intermediation services, within the scope of acquiring and investing in real estate as well as other alternative investments (investment gold, investment silver, fine art), in favour of natural persons as well as the performance of an analysis within the scope of the real estate market.

With reference to the mDM division and the mWM division, on 20 May 2016 the striking off took place:

- of mDM from the National Court Register by the District Court for the Capital City of Warsaw in Warsaw, XII Commercial Division of the National Court Register;
- of mWM from the National Court Register by the District Court for the Capital City of Warsaw in Warsaw, XII Commercial Division of the National Court Register.

Consequently, pursuant to Art. 530 § 1 of the CCC, as a result of the mDM division and the mWM division, mDM and mWM were wound up without going into liquidation on the date on which they were struck off the register while their activities were taken over and continued by mBank and other Group entities.

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 9-month period ended 30 September 2016.

The presented condensed consolidated financial statements for the third 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 third 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 comparative data for the third quarter of 2015 was not reviewed or 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 26 October 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.

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

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

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

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

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

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

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

	30.09.2016		31.12.2015		30.09.2015	
Company	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
mFinanse S.A. (previously 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
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
Tele-Tech Investment Sp. z o.o.	100%	full	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

The companies Dom Maklerski mBanku S.A. and mWealth Management S.A. were consolidated until their division described under Note 1.

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 ignificant 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. Investments in associates and joint ventures are settled using the equity method of accounting and they are initially recognised at cost.

The share of the Group in the profits (losses) of associates 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 becomes equal to or greater than the share of the Group in that associate, 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.

Unrealised gains on transactions between the Group and its associates are eliminated proportionally to the extent of the Group's interest in the respective associate. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies applied by associates 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.

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

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

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

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

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

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

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

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

In connection with entry into force of Recommendation U concerning best practices in the area of bancassurance, starting from 31 March 2015 the 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.

<u>Financial assets valued at fair value through the income statement</u>

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.

<u>Loans and receivables</u>

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.

<u>Financial assets held to maturity</u>

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.

<u>Financial assets available for sale</u>

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. The conditions mentioned above are not satisfied and offsetting is inappropriate when: different financial instruments are used to emulate the features of a single financial instrument, financial assets and liabilities arise from financial instruments having the same primary risk exposure but involve different counterparties, financial or other assets are pledged as collaterals for non-recourse financial liabilities, financial assets are set aside in trust by a debtor for the purpose of discharging an obligation without those assets having been accepted by the creditor in the settlement of the obligation, or obligations incurred as a result of events giving rise to losses are expected to be recovered from a third party by virtue of a claim made under an insurance contract.

2.13. 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.

<u>The list of definite loss events:</u>

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 9 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.

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.
- 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, approved by European Union on 22 September 2016, binding for annual periods starting 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.
- 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.

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

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.

- Amendments to IFRS 2, *Classification and measurement of share-based payment transactions*, published by International Accounting Standards Board on 20 June 2016, binding for annuals periods starting on or after 1 January 2018

  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 IFRS 4, *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*, published by International Accounting Standards Board on 12 September 2016, binding for annuals periods starting on or after 1 January 2018

  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.

2.34. Comparative data

- Consolidated financial statements

Consolidated data as at 30 September 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 30 September 2015 and for the period from 1 July to 30 September 2015, the Group reclassified the amount of PLN 2 717 thousand and PLN 922 thousand respectively 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.

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

- 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 30 September 2015, the Bank reclassified the amount of PLN 2 717 thousand and PLN 922 thousand respectively 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 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 30 September 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 30 September 2015.

ASSETS	**30.09.2015 before restatement**	**Restatement**	**30.09.2015 after restatement**
Investments in subsidiaries	1 440 816	317 753	1 758 569
Other items of assets	119 986 205	-	119 986 205
Total assets	**121 427 021**	**317 753**	**121 744 774**
LIABILITIES AND EQUITY			
Liabilities			
Other liabilities	1 440 482	23 432	1 463 914
Other items of liabilities	108 390 525	-	108 390 525
Total liabilities	**109 831 007**	**23 432**	**109 854 439**
Equity			
Share capital	**3 535 618**	**-**	**3 535 618**
Retained earnings:	**7 659 328**	**301 250**	**7 960 578**
- Profit for the previous year	6 701 843	266 978	6 968 821
- Net profit for the current year	957 485	34 272	991 757
Other components of equity	**401 068**	**(6 929)**	**394 139**
Total equity	**11 596 014**	**294 321**	**11 890 335**
Total liabilities and equity	**121 427 021**	**317 753**	**121 744 774**

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

Restatement of the mBank S.A. income statement for the period from 1 January 2015 to 30 September 2015.

	Period from 01.01.2015 to 30.09.2015 before restatement	Restatement	Period from 01.01.2015 to 30.09.2015 after restatement
Interest income	2 424 261	-	2 424 261
Interest expense	(803 379)	-	(803 379)
Net interest income	**1 620 882**	**-**	**1 620 882**
Fee and commission income	803 401	-	803 401
Fee and commission expense	(339 183)	-	(339 183)
Net fee and commission income	**464 218**	**-**	**464 218**
Dividend income	135 247	-	135 247
Net trading income, including:	224 512	-	224 512
Foreign exchange result	*210 687*	-	*210 687*
Other net trading income and result on hedge accounting	*13 825*	-	*13 825*
Gains less losses from investment securities, investments in subsidiaries and associates, including:	153 934	-	153 934
Gains less losses from investment securities	*2 776*	-	*2 776*
Gains less losses from investments in subsidiaries and associates	*151 158*	-	*151 158*
Other operating income	38 859	-	38 859
Net impairment losses on loans and advances	(246 566)	-	(246 566)
Overhead costs	(1 049 017)	2 717	(1 046 300)
Amortisation	(125 692)	-	(125 692)
Other operating expenses	(37 978)	-	(37 978)
Operating profit	**1 178 399**	**2 717**	**1 181 116**
Taxes on the Bank's balance sheet items	-	(2 717)	(2 717)
Share in profits (losses) of entities under the equity method	-	34 272	34 272
Profit before income tax	**1 178 399**	**34 272**	**1 212 671**
Income tax expense	**(220 914)**	**-**	**(220 914)**
Net profit	**957 485**	**34 272**	**991 757**

Earnings per share (in PLN)	**22.68**		**23.49**
Diluted earnings per share (in PLN)	**22.67**		**23.48**

Restatement of the mBank S.A. statement of comprehensive income for the period from 1 January 2015 to 30 September 2015.

	Period from 01.01.2015 to 30.09.2015 before restatement	Restatement	Period from 01.01.2015 to 30.09.2015 after restatement
Net profit	**957 485**	**34 272**	**991 757**
Other comprehensive income net of tax, including:	**(147 632)**	**(7 877)**	**(155 509)**
Items that may be reclassified subsequently to the income statement			
Exchange differences on translation of foreign operations (net)	295	-	295
Change in valuation of available for sale financial assets (net)	(145 723)	-	(145 723)
Cash flow hedges (net)	(2 204)	-	(2 204)
Share in other comprehensive income of entities under the equity method	-	(7 877)	(7 877)
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	**809 853**	**26 395**	**836 248**

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

Restatement of the mBank S.A. statement of cash flows for the period from 1 January 2015 to 30 September 2015.

	Period from 01.01.2015 to 30.09.2015 before restatement	Restatement	Period from 01.01.2015 to 30.09.2015 after restatement
A. Cash flows from operating activities	**5 161 218**	**-**	**5 161 218**
Profit before income tax	**1 178 399**	**34 272**	***1 212 671***
Adjustments:	***3 982 819***	***(34 272)***	***3 948 547***
Income taxes paid	(59 154)	-	(59 154)
Amortisation	125 692	-	125 692
Foreign exchange (gains) losses related to financing activities	1 385 482	-	1 385 482
(Gains) losses on investing activities	(164 772)	(34 272)	(199 044)
Impairment of investments in subsidiaries	13 205	-	13 205
Dividends received	(135 247)	-	(135 247)
Interest income (income statement)	(2 424 261)	-	(2 424 261)
Interest expense (income statement)	803 379	-	803 379
Interest received	2 376 921	-	2 376 921
Interest paid	(788 411)	-	(788 411)
Changes in loans and advances to banks	(460 440)	-	(460 440)
Changes in trading securities	62 779	-	62 779
Changes in assets and liabilities on derivative financial instruments	(166 593)	-	(166 593)
Changes in loans and advances to customers	(3 018 142)	-	(3 018 142)
Changes in investment securities	(2 571 344)	-	(2 571 344)
Changes in other assets	(44 409)	-	(44 409)
Changes in amounts due to other banks	2 433 037	-	2 433 037
Changes in amounts due to customers	6 221 307	-	6 221 307
Changes in debt securities in issue	9 801	-	9 801
Changes in provisions	(11 416)	-	(11 416)
Changes in other liabilities	395 405	-	395 405
Net cash generated from/(used in) operating activities	**5 161 218**	**-**	**5 161 218**
B.Cash flows from investing activities	**177 785**	**-**	**177 785**
C. Cash flows from financing activities	**(2 762 773)**	**-**	**(2 762 773)**
Net increase / decrease in cash and cash equivalents (A+B+C)	**2 576 230**	**-**	**2 576 230**
Effects of exchange rate changes on cash and cash equivalents	1 394	-	1 394
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	**7 340 229**	**-**	**7 340 229**

IFRS Condensed Consolidated Financial Statements for the third 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	30.12.2015 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.

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

- The Retail Banking segment, which divides its customers into mBank customers and Private Banking customers and which offers a full range of the Bank's banking products and services as well as specialized products offered by a number of subsidiaries belonging to the Retail Banking segment. The key products in this segment include current and savings accounts (including accounts in foreign currencies), term deposits, lending products (retail mortgage loans and non-mortgage loans such as cash loans, car loans, overdrafts, credit cards and other loan products), debit cards, insurance products, investment products, brokerage and leasing services offered to both individual customers and to micro-businesses. The results of the Retail Banking segment include the results of foreign branches of mBank in the Czech Republic and Slovakia. The Retail Banking segment also includes the results of mFinanse S.A. (previously Aspiro S.A.), as well as the results of retail segments of mLeasing Sp. z o.o. and mBank Hipoteczny S.A. . Moreover this segment includes the result of mWealth Management S.A. and retail segment of Dom Maklerski mBanku S.A. until the integration with the Bank. In 2015, this segment also includes the results 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 mFinanse S.A. (previously Aspiro S.A.), as well as 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. and mBank Hipoteczny S.A. Moreover this segment includes the results of corporate segment of Dom Maklerski mBanku S.A. until the integration with the Bank.

  - *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 30 September 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	**552 636**	**227 919**	**1 294 919**	**4 099**	**2 079 573**	**2 079 573**
- sales to external clients	543 876	529 100	1 004 059	2 538	2 079 573	
- sales to other segments	8 760	(301 181)	290 860	1 561	-	
Net fee and commission income	**271 845**	**(3 257)**	**375 271**	**11 952**	**655 811**	**655 811**
Dividend income	**-**	**410**	**5**	**2 613**	**3 028**	**3 028**
Trading income	**182 017**	**(44 399)**	**75 036**	**5 348**	**218 002**	**218 002**
Gains less losses from investment securities, investments in subsidiaries and associates	**20 973**	**6 839**	**230 394**	**(7 674)**	**250 532**	**250 532**
The share in the profits (losses) of joint ventures	**-**	**-**	**-**	**(107)**	**(107)**	**(107)**
Other operating income	**43 920**	**38**	**31 935**	**119 432**	**195 325**	**195 325**
Net impairment losses on loans and advances	**(108 124)**	**14**	**(214 733)**	**(2 872)**	**(325 715)**	**(325 715)**
Overhead costs	**(481 034)**	**(71 144)**	**(724 240)**	**(25 152)**	**(1 301 570)**	**(1 301 570)**
Amortisation	**(55 852)**	**(6 820)**	**(104 812)**	**(2 304)**	**(169 788)**	**(169 788)**
Other operating expenses	**(29 585)**	**(96)**	**(38 843)**	**(82 998)**	**(151 522)**	**(151 522)**
Operating profit	**396 796**	**109 504**	**924 932**	**22 337**	**1 453 569**	**1 453 569**
Taxes on Group balance sheet items	**(87 150)**	**(18 749)**	**(128 291)**	**(1 947)**	**(236 137)**	**(236 137)**
Gross profit of the segment	**309 646**	**90 755**	**796 641**	**20 390**	**1 217 432**	**1 217 432**
Income tax					(288 031)	(288 031)
Net profit attributable to Owners of mBank S.A.					926 765	926 765
Net profit attributable to non-controlling interests					2 636	2 636
Assets of the segment	**34 601 920**	**43 826 701**	**50 243 889**	**1 108 213**	**129 780 723**	**129 780 723**
Liabilities of the segment	**28 150 055**	**35 811 743**	**52 145 087**	**703 297**	**116 810 182**	**116 810 182**
Other items of the segment						
Expenditures incurred on fixed assets and intangible assets	116 018	4 851	62 456	642	183 967	

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 30 September 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	**551 937**	**124 759**	**1 160 432**	**(2 388)**	**1 834 740**	**1 834 740**
- sales to external clients	562 592	422 466	849 477	205	1 834 740	
- sales to other segments	(10 655)	(297 707)	310 955	(2 593)	-	
Net fee and commission income	**272 492**	**(1 045)**	**374 798**	**13 531**	**659 776**	**659 776**
Dividend income	**14 226**	**139**	**72**	**3 097**	**17 534**	**17 534**
Trading income	**161 477**	**(11 157)**	**72 425**	**(710)**	**222 035**	**222 035**
Gains less losses from investment securities, investments in subsidiaries and associates	**(3 810)**	**340**	**194 348**	**(3 900)**	**186 978**	**186 978**
The share in the profits (losses) of joint ventures	**-**	**-**	**-**	**(72)**	**(72)**	**(72)**
Other operating income	**48 222**	**615**	**40 620**	**105 030**	**194 487**	**194 487**
Net impairment losses on loans and advances	**(109 371)**	**(1 111)**	**(182 006)**	**(26 105)**	**(318 593)**	**(318 593)**
Overhead costs	**(464 419)**	**(66 450)**	**(695 238)**	**(27 023)**	**(1 253 130)**	**(1 253 130)**
Amortisation	**(56 240)**	**(6 364)**	**(81 195)**	**(2 712)**	**(146 511)**	**(146 511)**
Other operating expenses	**(24 830)**	**(129)**	**(33 618)**	**(74 061)**	**(132 638)**	**(132 638)**
Operating profit	**389 684**	**39 597**	**850 638**	**(15 313)**	**1 264 606**	**1 264 606**
Taxes on Group balance sheet items	**-**	**-**	**(2 717)**	**-**	**(2 717)**	**(2 717)**
Gross profit of the segment	**389 684**	**39 597**	**847 921**	**(15 313)**	**1 261 889**	**1 261 889**
Income tax					(267 122)	(267 122)
Net profit attributable to Owners of mBank S.A.					991 760	991 760
Net profit attributable to non-controlling interests					3 007	3 007
Assets of the segment	**34 993 813**	**44 458 585**	**45 490 304**	**807 441**	**125 750 143**	**125 750 143**
Liabilities of the segment	**29 155 861**	**40 276 517**	**43 631 327**	**763 361**	**113 827 066**	**113 827 066**
Other items of the segment	-	-	-	-	**-**	
Expenditures incurred on fixed assets and intangible assets	94 138	4 082	84 213	4 110	186 543	

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Geographical areas reporting on the activities of mBank S.A. Group for the period	from 1 January to 30 September 2016			from 1 January to 31 December 2015			from 1 January to 30 September 2015		
	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total
Net interest income	1 973 654	105 919	**2 079 573**	2 383 730	127 643	**2 511 373**	1 741 051	93 689	**1 834 740**
Net fee and commission income	650 412	5 399	**655 811**	871 654	25 522	**897 176**	641 924	17 852	**659 776**
Dividend income	3 028	-	**3 028**	17 540	-	**17 540**	17 534	-	**17 534**
Trading income	214 167	3 835	**218 002**	288 215	4 720	**292 935**	218 522	3 513	**222 035**
Gains less losses from investment securities, investments in subsidiaries and associates	206 298	44 234	**250 532**	314 408	-	**314 408**	186 978	-	**186 978**
The share in the profits (losses) of joint ventures	(107)	-	**(107)**	(141)	-	**(141)**	(72)	-	**(72)**
Other operating income	188 653	6 672	**195 325**	242 745	3 114	**245 859**	191 793	2 694	**194 487**
Net impairment losses on loans and advances	(321 779)	(3 936)	**(325 715)**	(411 834)	(9 388)	**(421 222)**	(311 850)	(6 743)	**(318 593)**
Overhead costs	(1 211 722)	(89 848)	**(1 301 570)**	(1 750 584)	(100 362)	**(1 850 946)**	(1 176 206)	(76 924)	**(1 253 130)**
Amortisation	(166 901)	(2 887)	**(169 788)**	(195 794)	(3 856)	**(199 650)**	(143 632)	(2 879)	**(146 511)**
Other operating expenses	(150 295)	(1 227)	**(151 522)**	(182 917)	(2 910)	**(185 827)**	(130 241)	(2 397)	**(132 638)**
Operating profit	1 385 408	68 161	**1 453 569**	1 577 022	44 483	**1 621 505**	1 235 801	28 805	**1 264 606**
Taxes on the Group balance sheet items	(221 197)	(14 940)	**(236 137)**	-	(3 650)	**(3 650)**	-	(2 717)	**(2 717)**
Gross profit of the segment	**1 164 211**	**53 221**	**1 217 432**	1 577 022	40 833	**1 617 855**	1 235 801	26 088	**1 261 889**
Income tax			(288 031)			(313 727)			(267 122)
Net profit attributable to Owners of mBank S.A.			926 765			1 301 246			991 760
Net profit attributable to non-controlling interests			2 636			2 882			3 007
Assets of the segment, including:	124 979 637	4 801 086	**129 780 723**	119 572 565	3 950 456	**123 523 021**	122 109 449	3 640 694	**125 750 143**
- tangible assets	1 202 525	9 660	1 212 185	1 253 137	10 434	1 263 571	1 159 573	10 227	1 169 800
- deferred income tax assets	484 075	2 637	486 712	366 088	-	366 088	326 965	1 550	328 515
Liabilities of the segment	109 477 288	7 332 894	**116 810 182**	104 825 293	6 422 764	**111 248 057**	107 616 747	6 210 319	**113 827 066**

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

5. Net interest income

the period	from 01.01.2016 to 30.09.2016	from 01.01.2015 to 30.09.2015
Interest income		
Loans and advances including the unwind of the impairment provision discount	2 035 118	1 911 397
Investment securities	533 931	569 878
Cash and short-term placements	40 562	39 094
Trading debt securities	51 668	36 138
Interest income on derivatives classified into banking book	149 909	95 820
Interest income on derivatives concluded under the fair value hedge	43 590	34 274
Interest income on derivatives concluded under the cash flow hedge	11 893	10 281
Other	2 887	3 320
Total interest income	**2 869 558**	**2 700 202**
Interest expense		
Arising from amounts due to banks	(58 185)	(74 846)
Arising from amounts due to customers	(495 688)	(512 427)
Arising from issue of debt securities	(177 196)	(206 858)
Arising from subordinated liabilities	(50 950)	(61 647)
Other	(7 966)	(9 684)
Total interest expense	**(789 985)**	**(865 462)**

Interest income related to impaired financial assets amounted to PLN 76 948 thousand (30 September 2015: PLN 89 818 thousand).

6. Net fee and commission income

the period	from 01.01.2016 to 30.09.2016	from 01.01.2015 to 30.09.2015
Fee and commission income		
Payment cards-related fees	262 788	250 443
Credit-related fees and commissions	222 896	208 697
Commissions for agency service regarding sale of insurance products of external financial entities	120 141	109 122
Fees from brokerage activity and debt securities issue	93 537	92 218
Commissions from bank accounts	126 146	124 408
Commissions from money transfers	81 723	76 635
Commissions due to guarantees granted and trade finance commissions	43 252	35 828
Commissions for agency service regarding sale of other products of external financial entities	83 291	84 612
Commissions on trust and fiduciary activities	18 901	16 815
Fees from portfolio management services and other management-related fees	9 833	10 960
Fees from cash services	37 349	28 568
Other	21 768	13 592
Total fee and commission income	**1 121 625**	**1 051 898**

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

the period	from 01.01.2016 to 30.09.2016	from 01.01.2015 to 30.09.2015
Fee and commission expense		
Payment cards-related fees	(170 874)	(150 331)
Commissions paid to external entities for sale of the Bank's products	(90 821)	(73 193)
Commissions paid for agency service regarding sale of insurance products of external financial entities	(1 667)	(1 520)
Discharged brokerage fees	(37 326)	(22 925)
Cash services	(33 566)	(24 132)
Fees to NBP and KIR	(7 529)	(7 027)
Other discharged fees	(124 031)	(112 994)
Total fee and commission expense	**(465 814)**	**(392 122)**

the period	from 01.01.2016 to 30.09.2016	from 01.01.2015 to 30.09.2015
Commissions for agency service regarding sale of insurance products of external financial entities		
- Income from insurance intermediation	120 141	104 992
- Income from insurance policies administration	-	4 130
Total commissions for agency service regarding sale of insurance products of external financial entities	**120 141**	**109 122**

7. Dividend income

the period	from 01.01.2016 to 30.09.2016	from 01.01.2015 to 30.09.2015
Trading securities	415	211
Securities available for sale	2 613	17 323
Total dividend income	**3 028**	**17 534**

8. Net trading income

the period	from 01.01.2016 to 30.09.2016	from 01.01.2015 to 30.09.2015
Foreign exchange result	**220 044**	**212 512**
Net exchange differences on translation	225 468	65 153
Net transaction gains/(losses)	(5 424)	147 359
Other net trading income and result on hedge accounting	**(2 042)**	**9 523**
Interest-bearing instruments	2 661	(4 916)
Equity instruments	(367)	2 427
Market risk instruments	3 100	3 349
Result on fair value hedge accounting, including:	5 716	9 993
- Net profit on hedged items	(96 284)	7 157
- Net profit on fair value hedging instruments	102 000	2 836
Ineffective portion of cash flow hedge	(13 152)	(1 330)
Total net trading income	**218 002**	**222 035**

"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.

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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"

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

the period	from 01.01.2016 to 30.09.2016	from 01.01.2015 to 30.09.2015
Sale/redemption of financial assets available for sale	258 648	2 776
Gains less losses related to sale of subsidiaries and associates	3	190 165
Impairment of available for sale equity securities	(7 677)	-
Impairment of investments in subsidiaries	(442)	(5 963)
Total gains less losses from investment securities and investments in subsidiaries and associates	**250 532**	**186 978**

In 2016, the position of sale/redemption of financial assets available for sale include mainly the result of PLN 251 732 thousand realized in connection with the settlement of the takeover transaction of Visa Europe Limited by Visa Inc.

In 2016, the impairment of investments in subsidiaries applies to the Call Center Poland S.A. that was in 100% sold by the Group sold in the first quarter of 2016.

In 2016, the impairment of available for sale equity securities applies to the company Polski Standard Płatności Sp. z o.o.

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 30.09.2016	from 01.01.2015 to 30.09.2015
Income from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories	121 929	115 595
Income from insurance activity net	-	23 898
Income from services provided	19 664	16 955
Net income from operating lease	6 739	7 162
Income due to release of provisions for future commitments	1 656	2 258
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	2 090	3 187
Income from compensations, penalties and fines received	174	79
Other	43 073	25 353
Total other operating income	**195 325**	**194 487**

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 three quarters of 2016 and the three quarters of 2015 is presented below.

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the period	from 01.01.2016 to 30.09.2016	from 01.01.2015 to 30.09.2015
Net income from operating lease, including:		
- Income from operating lease	42 133	41 421
- Depreciation cost of fixed assets provided under operating lease	(35 394)	(34 259)
Total net income from operating lease	**6 739**	**7 162**

11. Net impairment losses on loans and advances

the period	from 01.01.2016 to 30.09.2016	from 01.01.2015 to 30.09.2015
Net impairment losses on amounts due from other banks	456	(585)
Net impairment losses on loans and advances to customers	(320 988)	(328 436)
Net impairment losses on off-balance sheet contingent liabilities due to customers	(5 183)	10 428
Total net impairment losses on loans and advances	**(325 715)**	**(318 593)**

12. Overhead costs

the period	from 01.01.2016 to 30.09.2016	from 01.01.2015 to 30.09.2015
Staff-related expenses	(656 282)	(644 168)
Material costs, including:	(502 944)	(478 782)
- logistics cost	(253 687)	(247 401)
- IT costs	(106 983)	(94 449)
- marketing costs	(92 190)	(87 769)
- consulting costs	(41 263)	(42 311)
- other material costs	(8 821)	(6 852)
Taxes and fees	(24 320)	(22 109)
Contributions and transfers to the Bank Guarantee Fund	(112 517)	(102 330)
Contributions to the Social Benefits Fund	(5 507)	(5 741)
Total overhead costs	**(1 301 570)**	**(1 253 130)**

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 30 September 2015 the Group reclassified the amount of PLN 2 717 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 the three quarters of 2016 and the three quarters of 2015 are presented below.

the period	from 01.01.2016 to 30.09.2016	from 01.01.2015 to 30.09.2015
Wages and salaries	(538 404)	(522 027)
Social security expenses	(87 394)	(83 943)
Remuneration concerning share-based payments, including:	(8 704)	(15 050)
- share-based payments settled in mBank S.A. shares	(7 488)	(10 728)
- cash-settled share-based payments	(1 216)	(4 322)
Other staff expenses	(21 780)	(23 148)
Staff-related expenses, total	**(656 282)**	**(644 168)**

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13. Other operating expenses

the period	from 01.01.2016 to 30.09.2016	from 01.01.2015 to 30.09.2015
Costs arising from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories	(90 675)	(82 848)
Provisions for future commitments	(14 077)	(8 485)
Donations made	(2 564)	(2 618)
Compensation, penalties and fines paid	(598)	(2 385)
Costs arising from provisions created for other receivables (excluding loans and advances)	(2 422)	(2 533)
Costs of sale of services	(1 270)	(1 240)
Costs arising from receivables and liabilities recognised as prescribed, remitted and uncollectible	(113)	(195)
Impairment losses on non-financial assets	(788)	-
Impairment provisions created for tangible fixed assets and intangible assets	(1 000)	(1 000)
Other operating costs	(38 015)	(31 334)
Total other operating expenses	**(151 522)**	**(132 638)**

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 9 months – mBank S.A. Group consolidated data

the period	from 01.01.2016 to 30.09.2016	from 01.01.2015 to 30.09.2015
Basic:		
Net profit attributable to Owners of mBank S.A.	926 765	991 760
Weighted average number of ordinary shares	42 243 662	42 215 489
Net basic profit per share (in PLN per share)	**21.94**	**23.49**
Diluted:		
Net profit attributable to Owners of mBank S.A., applied for calculation of diluted earnings per share	926 765	991 760
Weighted average number of ordinary shares	42 243 662	42 215 489
Adjustments for:		
- share options	24 530	23 001
Weighted average number of ordinary shares for calculation of diluted earnings per share	42 268 192	42 238 490
Diluted earnings per share (in PLN per share)	**21.93**	**23.48**

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

the period	from 01.01.2016 to 30.09.2016	from 01.01.2015 to 30.09.2015
Basic:		
Net profit	922 184	991 757
Weighted average number of ordinary shares	42 243 662	42 215 489
Net basic profit per share (in PLN per share)	**21.83**	**23.49**
Diluted:		
Net profit applied for calculation of diluted earnings per share	922 184	991 757
Weighted average number of ordinary shares	42 243 662	42 215 489
Adjustments for:		
- share options	24 530	23 001
Weighted average number of ordinary shares for calculation of diluted earnings per share	42 268 192	42 238 490
Diluted earnings per share (in PLN per share)	**21.82**	**23.48**

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15. Trading securities

	30.09.2016			31.12.2015			30.09.2015		
	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:	**2 861 967**	**1 303 381**	**4 165 348**	**533 998**	**16 697**	**550 695**	**1 160 558**	**1 385 718**	**2 546 276**
Issued by government	2 552 087	1 303 381	3 855 468	161 795	16 697	178 492	721 087	1 385 718	2 106 805
- government bonds	2 552 087	1 303 381	3 855 468	161 795	16 697	178 492	721 087	1 385 718	2 106 805
Other debt securities	309 880	-	309 880	372 203	-	372 203	439 471	-	439 471
- bank's bonds	167 976	-	167 976	248 156	-	248 156	312 049	-	312 049
- deposit certificates	20 607	-	20 607	73 124	-	73 124	46 921	-	46 921
- corporate bonds	121 297	-	121 297	50 923	-	50 923	80 501	-	80 501
Equity securities:	**11 894**	**-**	**11 894**	**6 846**	**-**	**6 846**	**14 849**	**-**	**14 849**
- listed	9 357	-	9 357	4 192	-	4 192	12 229	-	12 229
- unlisted	2 537	-	2 537	2 654	-	2 654	2 620	-	2 620
Total debt and equity securities:	**2 873 861**	**1 303 381**	**4 177 242**	**540 844**	**16 697**	**557 541**	**1 175 407**	**1 385 718**	**2 561 125**

16. Derivative financial instruments

	30.09.2016		31.12.2015		30.09.2015	
	assets	liabilities	assets	liabilities	assets	liabilities
Held for trading derivative financial instruments classified into banking book	192 871	82 322	199 861	114 081	293 553	165 034
Held for trading derivative financial instruments classified into trading book	1 709 210	1 807 768	2 952 012	3 057 543	3 177 925	3 213 137
Derivative financial instruments held for fair value hedging	282 525	4 117	146 694	2 014	218 904	2 350
Derivative financial instruments held for cash flow hedging	23 569	378	50 761	-	47 280	-
Offsetting effect	(120 780)	(128 028)	-	-	-	-
Total derivative financial instruments assets/liabilities	**2 087 395**	**1 766 557**	**3 349 328**	**3 173 638**	**3 737 662**	**3 380 521**

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.
- Loan received by mBank from European Investment Bank. 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 October 2016 to July 2021 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

the period	from 01.01.2016 to 30.09.2016	from 01.01.2015 to 30.09.2015
Interest income on derivatives concluded under the fair value hedge (Note 5)	43 590	34 274
Net profit on hedged items (Note 8)	(96 284)	7 157
Net profit on fair value hedging instruments (Note 8)	102 000	2 836
Total result on fair value hedging instruments recognised in the income statement	**49 306**	**44 267**

The following note presents other comprehensive income due to cash flow hedges as at 30 September 2016 and as at 30 September 2015.

the period	from 01.01.2016 to 30.09.2016	from 01.01.2015 to 30.09.2015
Other comprehensive income from cash flow hedge at the beginning of the period (gross)	1 061	5 008
Gains/losses rocognised in the comprehensive income during the reporting period (gross)	(1 834)	6 229
Amount included as interest income in the income statement during the reporting period	11 893	10 281
Ineffective portion of cash flow hedge recognised in the income statement	(13 152)	(1 330)
Accumulated other comprehensive income at the end of the reporting period (gross)	486	2 286
Deferred tax due to accumulated other comprehensive income at the end of the reporting period	(93)	(434)
Accumulated net other comprehensive income at the end of the reporting period	393	1 852
Impact on other comprehensive income in the reporting period (gross)	(575)	(2 722)
Deferred tax on cash flow hedges	109	518
Impact on other comprehensive income in the reporting period (net)	(466)	(2 204)

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

the period	from 01.01.2016 to 30.09.2016	from 01.01.2015 to 30.09.2015
Interest income on derivatives concluded under the cash flow hedge (Note 5)	11 893	10 281
Ineffective portion of cash flow hedge (Note 8)	(13 152)	(1 330)
Total result on cash flow hedging instruments recognised in the income statement	**(1 259)**	**8 951**

18. Loans and advances to customers

	30.09.2016	31.12.2015	30.09.2015
Loans and advances to individuals:	**48 119 192**	**46 258 683**	**45 381 447**
- current receivables	6 505 968	5 897 129	5 922 211
- term loans, including:	41 613 224	40 361 554	39 459 236
housing and mortgage loans	34 624 536	34 184 208	33 361 007
Loans and advances to corporate entities:	**34 528 046**	**33 446 644**	**34 959 482**
- current receivables	4 735 447	3 976 187	4 437 598
- term loans:	28 005 900	26 976 422	26 442 684
corporate & institutional enterprises	5 172 154	5 825 318	5 617 195
medium & small enterprises	22 833 746	21 151 104	20 825 489
- reverse repo / buy-sell-back transactions	62 129	1 031 029	2 654 156
- other	1 724 570	1 463 006	1 425 044
Loans and advances to public sector	**1 310 185**	**1 520 728**	**1 631 140**
Other receivables	**241 433**	**183 355**	**476 991**
Total (gross) loans and advances to customers	**84 198 856**	**81 409 410**	**82 449 060**
Provisions for loans and advances to customers (negative amount)	(3 189 226)	(2 975 864)	(3 041 849)
Total (net) loans and advances to customers	**81 009 630**	**78 433 546**	**79 407 211**
Short-term (up to 1 year)	27 182 340	26 169 938	24 170 807
Long-term (over 1 year)	53 827 290	52 263 608	55 236 404

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: 30 September 2016 – PLN 5 342 173 thousand, 31 December 2015 – PLN 4 846 128 thousand, 30 September 2015 – PLN 4 847 611 thousand.

The table below presents the currency structure of housing and mortgage loans granted to individual customers.

	30.09.2016	31.12.2015	30.09.2015
Housing and mortgage loans to individuals (in PLN 000's), including:	**34 624 536**	**34 184 208**	**33 361 007**
- PLN	9 178 329	8 120 780	7 520 964
- CHF	18 413 068	19 177 139	19 182 163
- EUR	3 888 470	4 001 819	3 947 432
- CZK	2 783 383	2 502 599	2 340 529
- USD	316 866	338 628	332 805
- Other currency	44 420	43 243	37 114
Housing and mortgage loans to individuals in original curriencies (main curriencies in 000's)			
- PLN	9 178 329	8 120 780	7 520 964
- CHF	4 626 167	4 868 035	4 945 768
- EUR	899 913	939 063	931 306
- CZK	17 439 743	15 869 366	15 003 391
- USD	82 179	86 803	88 151

Provisions for loans and advances

	30.09.2016	31.12.2015	30.09.2015
Incurred but not identified losses			
Gross balance sheet exposure	79 249 902	76 777 938	77 592 003
Impairment provisions for exposures analysed according to portfolio approach	(242 536)	(247 198)	(266 606)
Net balance sheet exposure	**79 007 366**	**76 530 740**	**77 325 397**
Receivables with impairment			
Gross balance sheet exposure	4 948 954	4 631 472	4 857 057
Provisions for receivables with impairment	(2 946 690)	(2 728 666)	(2 775 243)
Net balance sheet exposure	**2 002 264**	**1 902 806**	**2 081 814**

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)	%
		30.09.2016		31.12.2015		30.09.2015	
1.	Household customers	48 119 192	57.15	46 258 683	56.82	45 381 447	55.04
2.	Real estate management	5 883 817	6.99	4 975 227	6.11	4 916 356	5.96
3.	Construction	3 734 641	4.43	3 743 369	4.60	3 919 862	4.75
4.	Wholesale trade	3 418 160	4.06	3 141 017	3.86	3 306 427	4.01
5.	Retail trade	2 314 723	2.75	2 244 062	2.76	2 227 188	2.70
6.	Transport and logistics	2 052 811	2.44	1 858 064	2.28	1 803 534	2.19
7.	Food sector	1 907 711	2.27	1 899 778	2.33	1 988 400	2.41
8.	Fuels and chemicals	1 692 317	2.01	1 789 636	2.20	1 786 489	2.17
9.	Metals	1 644 468	1.95	1 395 689	1.71	1 437 346	1.74
10.	Forestry	1 297 911	1.54	1 552 832	1.91	1 409 112	1.71
11.	Information and communication	1 175 336	1.40	1 032 953	1.27	1 161 083	1.41
12.	Power, power and heating distribution	1 079 996	1.28	1 472 862	1.81	1 249 201	1.52
13.	Public administration	979 943	1.16	1 161 955	1.43	1 263 001	1.53
14.	Financial activities	964 140	1.14	934 170	1.15	886 020	1.07
15.	Services	881 839	1.05	538 987	0.66	527 280	0.64
16.	Scientific and technical activities	881 683	1.05	734 330	0.90	690 284	0.84
17.	Hotels and restaurants	709 655	0.84	645 710	0.79	639 395	0.78
18.	Motorization	537 619	0.64	489 478	0.60	494 074	0.60
19.	Electronics and household equipment	493 575	0.59	517 183	0.64	420 400	0.51
20.	Industry	458 421	0.54	438 525	0.54	458 315	0.56
21.	Municipal services	413 504	0.49	369 308	0.45	372 561	0.45
22.	Mining	400 246	0.48	498 312	0.61	479 192	0.58
23.	Arts, entertainment	324 321	0.39	448 834	0.55	401 517	0.49

As at 30 September 2016, the total exposure of the Group in the above sectors (excluding household customers) amounted to 39.49% of the credit portfolio (31 December 2015 – 39.16%, 30 September 2015 – 38.62%).

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19. Investment securities

	30.09.2016			31.12.2015			30.09.2015		
	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	**24 758 788**	**6 433 590**	**31 192 378**	**25 141 089**	**5 396 481**	**30 537 570**	**23 807 584**	**6 002 495**	**29 810 079**
Issued by government	22 393 459	6 433 590	28 827 049	16 842 144	5 396 481	22 238 625	17 785 528	6 002 495	23 788 023
- government bonds	21 774 834	6 433 590	28 208 424	16 842 144	5 396 481	22 238 625	17 785 528	6 002 495	23 788 023
- treasury bills	618 625	-	618 625	-	-	-	-	-	-
Issued by central bank	1 169 779	-	1 169 779	7 442 384	-	7 442 384	5 438 547	-	5 438 547
Other debt securities	1 195 550	-	1 195 550	856 561	-	856 561	583 509	-	583 509
- bank's bonds	147 818	-	147 818	233 158	-	233 158	94 671	-	94 671
- deposit certificates	50 218	-	50 218	-	-	-	-	-	-
- corporate bonds	958 423	-	958 423	583 456	-	583 456	449 419	-	449 419
- communal bonds	39 091	-	39 091	39 947	-	39 947	39 419	-	39 419
Equity securities:	**65 472**	**-**	**65 472**	**199 379**	**-**	**199 379**	**216 060**	**-**	**216 060**
Listed	-	-	-	-	-	-	184 394	-	184 394
Unlisted	65 472	-	65 472	199 379	-	199 379	31 666	-	31 666
Total debt and equity securities:	**24 824 260**	**6 433 590**	**31 257 850**	**25 340 468**	**5 396 481**	**30 736 949**	**24 023 644**	**6 002 495**	**30 026 139**
Short-term (up to 1 year)	6 002 878	80 560	6 083 438	11 196 419	90 975	11 287 394	9 420 887	20 808	9 441 695
Long-term (over 1 year)	18 821 382	6 353 030	25 174 412	14 144 049	5 305 506	19 449 555	14 602 757	5 981 687	20 584 444

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 19 135 thousand (31 December 2015: PLN 19 754 thousand, 30 September 2015: PLN 17 519 thousand).

As at 30 September 2016, equity securities include fair value of preferred shares of Visa Inc. in the amount of PLN 37 545 thousand. As at 31 December 2015, equity securities include fair value of shares of Visa Europe Ltd. in the amount of PLN 167 243 thousand.

As at 30 September 2015, listed equity securities include fair value of PZU S.A. shares in the amount of PLN 184 394 thousand. As at 30 September 2016 and as at 31 December 2015, the Group did not have any PZU S.A. shares.

20. Intangible assets

	30.09.2016	31.12.2015	30.09.2015
Development costs	-	-	1
Goodwill	3 532	3 532	3 532
Patents, licences and similar assets, including:	347 333	347 357	342 194
- computer software	267 081	249 964	242 935
Other intangible assets	4 347	5 154	5 435
Intangible assets under development	146 705	163 006	125 998
Total intangible assets	**501 917**	**519 049**	**477 160**

21. Tangible assets

	30.09.2016	31.12.2015	30.09.2015
Tangible assets, including:	668 893	660 017	659 246
- land	1 335	1 335	1 335
- buildings and structures	187 133	193 652	196 589
- equipment	163 876	149 573	148 494
- vehicles	237 483	231 210	226 433
- other fixed assets	79 066	84 247	86 395
Fixed assets under construction	41 375	84 505	33 394
Total tangible assets	**710 268**	**744 522**	**692 640**

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22. Amounts due to customers

	30.09.2016	31.12.2015	30.09.2015
Individual customers:	**50 734 937**	**46 117 051**	**42 457 713**
Current accounts	35 432 973	32 468 053	31 007 294
Term deposits	15 237 274	13 604 623	11 109 349
Other liabilities:	64 690	44 375	341 070
- liabilities in respect of cash collaterals	34 588	22 205	22 181
- other	30 102	22 170	318 889
Corporate customers:	**33 828 952**	**34 423 929**	**34 922 165**
Current accounts	17 241 776	16 800 113	15 705 599
Term deposits	9 900 428	12 209 975	11 958 379
Loans and advances received	4 094 316	3 634 064	3 613 919
Repo transactions	2 011 418	1 093 712	3 089 047
Other liabilities:	581 014	686 065	555 221
- liabilities in respect of cash collaterals	429 259	566 645	455 562
- other	151 755	119 420	99 659
Public sector customers:	**624 336**	**599 886**	**1 166 023**
Current accounts	401 258	468 038	373 562
Term deposits	222 525	131 104	791 147
Other liabilities:	553	744	1 314
- other	553	744	1 314
Total amounts due to customers	**85 188 225**	**81 140 866**	**78 545 901**

Short-term (up to 1 year)	79 197 210	74 696 817	73 052 135
Long-term (over 1 year)	5 991 015	6 444 049	5 493 766

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: 30 September 2016: PLN 4 298 289 thousand, 31 December 2015: PLN 4 111 261 thousand, 30 September 2015: PLN 3 513 033 thousand).

23. Provisions

	30.09.2016	31.12.2015	30.09.2015
For off-balance sheet granted contingent liabilities *	50 827	45 606	39 197
For legal proceedings	107 393	99 582	97 770
Other	26 981	80 228	28 568
Total provisions	**185 201**	**225 416**	**165 535**

* 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

	30.09.2016	31.12.2015	30.09.2015
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)	**(40 215)**	**48 535**	**(11 346)**
- increase of provisions	97 769	215 357	111 554
- release of provisions	(79 452)	(150 761)	(114 826)
- write-offs	(58 554)	(16 167)	(8 121)
- reclassification	-	37	37
- foreign exchange differences	22	69	10
As at the end of the period (by type)	**185 201**	**225 416**	**165 535**
For off-balance sheet granted contingent liabilities	50 827	45 606	39 197
For legal proceedings	107 393	99 582	97 770
Other	26 981	80 228	28 568

24. Assets and provisions for deferred income tax

Deferred income tax assets	30.09.2016	31.12.2015	30.09.2015
As at the beginning of the period	**778 252**	**645 554**	**645 554**
Changes recognized in the income statement	111 873	112 886	12 765
Changes recognized in other comprehensive income	16	4 621	43 897
Other changes	-	15 191	-
As at the end of the period	**890 141**	**778 252**	**702 216**

Provisions for deferred income tax	30.09.2016	31.12.2015	30.09.2015
As at the beginning of the period	**(413 145)**	**(382 923)**	**(382 923)**
Changes recognized in the income statement	(46 380)	(17 887)	7 897
Changes recognized in other comprehensive income	55 150	524	216
Other changes	36	(12 859)	112
As at the end of the period	**(404 339)**	**(413 145)**	**(374 698)**

Income tax	30.09.2016	31.12.2015	30.09.2015
Current income tax	(353 524)	(408 726)	(287 784)
Deferred income tax recognised in the income statement	65 493	94 999	20 662
Income tax recognised in the income statement	**(288 031)**	**(313 727)**	**(267 122)**
Recognised in other comprehensive income	50 047	47 704	81 695
Total income tax	**(237 984)**	**(266 023)**	**(185 427)**

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.

	30.09.2016		31.12.2015		30.09.2015	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Financial assets						
Loans and advances to banks	**2 920 734**	**2 918 496**	**1 897 334**	**1 895 673**	**2 793 756**	**2 791 307**
Loans and advances to customers	**81 009 630**	**81 898 357**	**78 433 546**	**78 962 650**	**79 407 211**	**79 524 258**
Loans and advances to individuals	**46 449 291**	**47 554 826**	**44 726 181**	**45 635 346**	**43 762 494**	**44 278 323**
current accounts	5 788 602	5 818 953	5 214 087	5 283 808	5 271 770	5 302 551
term loans including:	40 660 689	41 735 873	39 512 094	40 351 538	38 490 724	38 975 772
- housing and mortgage loans	34 090 998	34 975 346	33 692 879	34 412 912	32 756 298	33 145 474
Loans and advances to corporate entities	**33 009 610**	**32 797 799**	**32 004 393**	**31 635 612**	**33 545 357**	**33 159 320**
current accounts	4 528 878	4 498 077	3 771 327	3 737 886	4 200 641	4 163 376
term loans	26 746 107	26 565 030	25 788 441	25 453 099	25 304 180	24 955 408
- corporate & institutional enterprises	5 000 104	4 945 353	5 667 803	5 591 521	5 423 550	5 340 653
- medium & small enterprises	21 746 003	21 619 677	20 120 638	19 861 578	19 880 630	19 614 755
reverse repo / buy sell back transactions	62 129	62 129	1 031 029	1 031 029	2 654 156	2 654 156
other	1 672 496	1 672 563	1 413 596	1 413 598	1 386 380	1 386 380
Loans and advances to public sector	**1 309 298**	**1 304 301**	**1 519 617**	**1 508 337**	**1 622 369**	**1 609 624**
Other receivables	**241 431**	**241 431**	**183 355**	**183 355**	**476 991**	**476 991**
Financial liabilities						
Amounts due to other banks	**11 562 896**	**11 575 737**	**12 019 331**	**11 813 534**	**14 783 138**	**14 497 696**
Amounts due to customers	**85 188 225**	**85 249 253**	**81 140 866**	**81 266 808**	**78 545 901**	**78 672 642**
Debt securities in issue	**12 192 188**	**12 431 738**	**8 946 195**	**8 890 686**	**11 280 897**	**11 197 439**
Subordinated liabilities	**3 851 380**	**3 750 029**	**3 827 315**	**3 919 644**	**3 785 284**	**3 879 987**

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 Bank has applied the curve constructed on the basis of quotations of money market rates as well as FRA and IRS contracts for appropriate currencies and maturities. In case of subordinated liabilities the 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.

30.09.2016	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	**4 177 242**	**3 868 881**	**2 537**	**305 824**
Debt securities	**4 165 348**	**3 859 524**	**-**	**305 824**
- government bonds	3 855 468	3 855 468	-	-
- deposit certificates	20 607	-	-	20 607
- banks bonds	167 976	1 093	-	166 883
- corporate bonds	121 297	2 963	-	118 334
Equity securities	**11 894**	**9 357**	**2 537**	**-**
- listed	9 357	9 357	-	-
- unlisted	2 537	-	2 537	-
DERIVATIVE FINANCIAL INSTRUMENTS	**2 087 395**	**-**	**2 087 395**	**-**
Derivative financial instruments held for trading	**1 782 920**	**-**	**1 782 920**	**-**
- interest rate derivatives	1 437 153	-	1 437 153	-
- foreign exchange derivatives	320 849	-	320 849	-
- market risks derivatives	24 918	-	24 918	-
Derivative financial instruments held for hedging	**304 475**	**-**	**304 475**	**-**
- derivatives designated as fair value hedges	282 525	-	282 525	-
- derivatives designated as cash flow hedges	21 950	-	21 950	-
INVESTMENT SECURITIES	**31 257 850**	**29 191 760**	**1 170 089**	**896 001**
Debt securities	**31 192 378**	**29 190 976**	**1 169 779**	**831 623**
- government bonds	28 208 424	28 208 424	-	-
- treasury bills	618 625	618 625	-	-
- money bills	1 169 779	-	1 169 779	-
- deposit certificates	50 218	-	-	50 218
- banks bonds	147 818	-	-	147 818
- corporate bonds	958 423	363 927	-	594 496
- communal bonds	39 091	-	-	39 091
Equity securities	**65 472**	**784**	**310**	**64 378**
- unlisted	65 472	784	310	64 378
TOTAL FINANCIAL ASSETS	**37 522 487**	**33 060 641**	**3 260 021**	**1 201 825**

30.09.2016	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	**1 766 557**	**-**	**1 763 902**	**2 655**
Derivative financial instruments held for trading	**1 763 680**	**-**	**1 761 025**	**2 655**
- interest rate derivatives	1 430 619	-	1 430 619	-
- foreign exchange derivatives	316 975	-	316 975	-
- market risks derivatives	16 086	-	13 431	2 655
Derivative financial instruments held for hedging	**2 877**	**-**	**2 877**	**-**
- derivatives designated as fair value hedges	2 499	-	2 499	-
- derivatives designated as cash flow hedges	378	-	378	-
Total financial liabilities	**1 766 557**	**-**	**1 763 902**	**2 655**
TOTAL RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS	**37 522 487**	**33 060 641**	**3 260 021**	**1 201 825**
FINANCIAL LIABILITIES	**1 766 557**	**-**	**1 763 902**	**2 655**

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Assets Measured at Fair Value Based on Level 3 - changes in the period from 1 January to 30 September 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:	**(477)**	**(420)**	**(12 293)**	**82 378**
Recognised in profit or loss:	(477)	(420)	-	251 091
Net trading income	*(477)*	*(420)*	-	*8 906*
Gains less losses from investment securities, investments in subsidiaries and associates	-	-	-	*242 185*
Recognised in other comprehensive income:	-	-	*(12 293)*	*(168 713)*
Available for sale financial assets	-	-	*(12 293)*	*(168 713)*
Purchases	1 128 414	-	376 216	5 278
Redemptions	(74 534)	-	-	-
Sales	(3 017 714)	-	(687 145)	(221 902)
Issues	1 898 906	-	299 140	-
Settlements	-	-	-	-
Transfers into Level 3	-	-	39 091	-
As at the end of the period	**305 824**	**-**	**831 623**	**64 378**

Transfers between levels in in the period from 1 January to 30 September of 2016	Transfers into Level 1	Transfers out of Level 1	Transfers into Level 2	Transfers out of Level 2
INVESTMENT SECURITIES	**-**	**(39 091)**	**-**	**-**
Debt securities	-	(39 091)	-	-

In the three quarters of 2016 there has been observed one transfer from level 1 to level 3 of fair value hierarchy which resulted from unavailability of market price for communal bonds (low liquidity).

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.

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31.12.2015	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	**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**

31.12.2015	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	**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**	**-**

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Assets Measured at Fair Value Based on Level 3 - changes in 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	Transfers into Level 1	Transfers out of Level 1	Transfers into Level 2	Transfers 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.

30.09.2015	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	**2 561 125**	**2 120 030**	**2 620**	**438 475**
Debt securities	**2 546 276**	**2 107 801**	**-**	**438 475**
- government bonds	2 106 805	2 106 805	-	-
- deposit certificates	46 921	-	-	46 921
- banks bonds	312 049	996	-	311 053
- corporate bonds	80 501	-	-	80 501
Equity securities	**14 849**	**12 229**	**2 620**	**-**
- listed	12 229	12 229	-	-
- unlisted	2 620	-	2 620	-
DERIVATIVE FINANCIAL INSTRUMENTS	**3 737 662**	**-**	**3 737 660**	**2**
Derivative financial instruments held for trading	**3 471 478**	**-**	**3 471 476**	**2**
- interest rate derivatives	2 992 067	-	2 992 067	-
- foreign exchange derivatives	467 154	-	467 154	-
- market risks derivatives	12 257	-	12 255	2
Derivative financial instruments held for hedging	**266 184**	**-**	**266 184**	**-**
- derivatives designated as fair value hedges	218 904	-	218 904	-
- derivatives designated as cash flow hedges	47 280	-	47 280	-
INVESTMENT SECURITIES	**30 026 139**	**24 012 638**	**5 438 547**	**574 954**
Debt securities	**29 810 079**	**23 827 442**	**5 438 547**	**544 090**
- government bonds	23 788 023	23 788 023	-	-
- money bills	5 438 547	-	5 438 547	-
- banks bonds	94 671	-	-	94 671
- corporate bonds	449 419	-	-	449 419
- communal bonds	39 419	39 419	-	-
Equity securities	**216 060**	**185 196**	**-**	**30 864**
- listed	184 394	184 394	-	-
- unlisted	31 666	802	-	30 864
TOTAL FINANCIAL ASSETS	**36 324 926**	**26 132 668**	**9 178 827**	**1 013 431**

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30.09.2015	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	**3 380 521**	**-**	**3 380 493**	**28**
Derivative financial instruments held for trading	**3 378 171**	**-**	**3 378 143**	**28**
- interest rate derivatives	3 045 355	-	3 045 355	-
- foreign exchange derivatives	323 764	-	323 740	24
- market risks derivatives	9 052	-	9 048	4
Derivative financial instruments held for hedging	**2 350**	**-**	**2 350**	**-**
- derivatives designated as fair value hedges	2 350	-	2 350	-
Total financial liabilities	**3 380 521**	**-**	**3 380 493**	**28**
TOTAL RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS	**36 324 926**	**26 132 668**	**9 178 827**	**1 013 431**
FINANCIAL LIABILITIES	**3 380 521**	**-**	**3 380 493**	**28**

Assets Measured at Fair Value Based on Level 3 - changes in period from 1 January to 30 September 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:	**3 565**	**(18)**	**(467)**	**9 023**	**(3 538)**
Recognised in profit or loss:	3 565	(18)	(467)	3 300	(3 538)
Net trading income	*3 565*	*(18)*	*(467)*	*-*	*94*
Gains less losses from investment securities, investments in subsidiaries and associates	*-*	*-*	*-*	*3 300*	*(3 632)*
Recognised in other comprehensive income:	*-*	*-*	*-*	*5 723*	*-*
Available for sale financial assets	*-*	*-*	*-*	*5 723*	*-*
Purchases	1 174 413	-	-	111 622	6 840
Redemptions	(107 316)	-	-	(49 980)	-
Sales	(6 201 552)	-	-	(188 656)	(2 753)
Issues	5 042 298	-	-	352 320	-
Settlements	-	-	-	-	(381)
Transfers out of Level 3	-	(4)	-	-	-
As at the end of the period	**438 475**	**-**	**2**	**544 090**	**30 864**

Transfers between levels in in the period from 1 January to 30 September of 2015	Transfers into Level 1	Transfers out of Level 1	Transfers into Level 2	Transfers out of Level 2
INVESTMENT SECURITIES	**4**	**-**	**-**	**-**
Equity securities	4	-	-	-

In the three quarters of 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.

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 30 September 2016, at level 1 of the fair value hierarchy, the Group has presented the fair value of held for trading government bonds in the amount of PLN 3 855 468 thousand (see Note 15) and the fair value of investment government bonds and treasury bills in the amount of PLN 28 827 049 thousand (see Note 19) (31 December 2015 respectively: PLN 178 492 thousand and 22 238 625 thousand, 30 September 2015 respectively: PLN 2 106 805 thousand and PLN 23 788 023 thousand). Level 1 includes the fair value of bonds issued by banks in the amount of PLN 1 093 thousand (31 December 2015: PLN 974 thousand, 30 September 2015: PLN 996 thousand) and the fair value of corporate bonds in the amount of PLN 2 963 thousand (31 December 2015 and 30 September 2015 - 0). As at 31 December 2015 and 30 September 2015 Level 1 included also the fair value of local government bonds in the amount of PLN 39 947 thousand and PLN 39 419 thousand respectively.

In addition, as at 30 September 2016 level 1 includes the value of the registered privileged shares of Giełda Papierów Wartościowych in the amount of PLN 784 thousand (31 December 2015: PLN 755 thousand, 30 September 2015: PLN 802 thousand) and the value of the shares of listed companies in the amount of PLN 9 357 thousand (31 December 2015: PLN 4 192 thousand, 30 September 2015: PLN 196 623 thousand, including value of PZU S.A. shares in the amount of PLN 184 394 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 1 169 779 thousand (31 December 2015: PLN 7 442 384 thousand, 30 September 2015: PLN 5 438 547 thousand;), whose valuation is based on a NPV model (discounted future cash flows) fed with interest rate curves generated by transformation of quotations taken directly from active and liquid financial markets.

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

As at 30 September 2016, 31 December 2015 and 30 September 2015, level 2 also includes the value of options referencing on the WIG20 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 1 462 283 thousand (31 December 2015: PLN 1 187 843 thousand, 30 September 2015: PLN 982 565 thousand).

Level 3 includes also the fair value of local government bonds in the amount of PLN 39 091 thousand (31 December 2015 and 30 September 2015 - 0).

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 64 378 thousand (31 December 2015: PLN 198 624 thousand, 30 September 2015: PLN 30 864 thousand). As at 30 September 2016, these amount includes the value of preferred stock in Visa Inc. in the amount of PLN 37 545 thousand. As at 31 December 2015 this amount includes the value of Visa Europe Ltd. shares in the amount of 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 third 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.

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 Sejm of the Republic of Poland 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 banks, 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 banks, 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 of the Group for the nine months of 2016 amounted to PLN 221 707 thousand and PLN 233 171 thousand recpectively.

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 third 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 third quarter of 2016, mBank Hipoteczny S.A. issued mortgage bonds in the amount of EUR 83 000 thousand as well as bonds in the amount of PLN 1 062 500 thousand. In the same time the company redeemed mortgage bonds in the amount of PLN 150 000 thousand and bonds in the amount of PLN 884 800 thousand.

Moreover, on 21 September 2016, mFinance France S.A. (mFF) issued Eurobonds with a nominal value of EUR 500 000 thousand (PLN 2 151 700 thousand at the average exchange rate of the National Bank of Poland as at 21 September 2016) maturing on 26 September 2020. On the basis of an agreement dated 21 September 2016, the funds from the issue in the amount of EUR 498 750 thousand (PLN 2 146 321 thousand at the average exchange rate of the National Bank of Poland as at 21 September 2016) were placed by mFF in mBank as a security deposit used to back the guarantee issued by mBank to secure all amounts that may be payable in respect of debt securities issued under the Issue Eurobonds Programme.

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 third 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 third quarter of 2016, including business combinations, acquisitions or disposal of subsidiaries, long-term investments, restructuring, and discontinuation of business activities

- mBank S.A. as other systemically important institution

On 4 October 2016, Polish Financial Supervision Authority ("KNF") identified mBank S.A. as other systemically important institution and imposed on the Bank - on an individual and consolidated basis - the other systemically important institution buffer equivalent to 0.5% of the total risk exposure, calculated in accordance with Article 92 (3) of Regulation of the European Parliament and of the Council (EU) No. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms, amending Regulation (EU) No. 648/2012 (OJ L 176 of 27 June 2013, p. 1 with additional amendments ("CRR Regulation")). KNF decision is immediately enforceable.

- Update of the additional capital requirement associated with the risk of the foreign currency mortgage loan portfolio for households

On 20 October 2016, the Bank received the KNF decision with the recommendation to fulfill an additional requirement relating to its own funds over the amount resulting from the requirements calculated in accordance with detailed rules defined in CRR Regulation.

The KNF recommended that, on the individual basis, mBank S.A. maintained its own funds covering additional capital requirement securing the risk related to the foreign currency mortgage loans for households at the level of 3.81 p.p. above the total capital ratio level defined in article 92 item 1 letter c of the CRR Regulation, which should be covered at least in 75% by Tier 1 capital (equivalent to capital requirement of 2.86 p.p. above the level of Tier 1 capital ratio defined in article 92 item 1 letter b of the CRR Regulation) and at least in 56% by Common Equity Tier 1 capital (equivalent to capital requirement of 2.13 p.p. above the level of Common Equity Tier 1 capital ratio defined in article 92 item 1 letter a of the CRR Regulation). This decision, in accordance with the article 11.2 item 21 of the Banking Law, is immediately enforceable.

Earlier, mBank S.A. maintained its own funds covering additional capital requirement securing the risk related to the foreign currency mortgage loans for households at the level of 4.39 p.p. on the individual basis, covered at least in 75% by Tier 1 capital (equivalent to 3.29 p.p.).

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

10. Changes in contingent liabilities and commitments

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

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

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

14. Reversals of provisions against restructuring costs

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

15. Acquisitions and disposals of tangible fixed asset items

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

19. Corrections of errors from previous reporting periods

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

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 quarterly 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 30 September 2016 was 42 279 255 shares (31 December 2015 - 42 238 924 shares, 30 September 2015 - 42 238 537 shares) at PLN 4 nominal value each. All issued shares were fully paid up.

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

REGISTERED SHARE CAPITAL (THE STRUCTURE) AS AT 30 SEPTEMBER 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	-	-	40 331	161 324	fully paid in cash	2016
Total number of shares			**42 279 255**			
Total registered share capital				**169 117 020**		
Nominal value per share (PLN)		**4**				

* As at the end of the reporting period

In connection with registration on 17 October 2016 by the National Depository of Securities (KDPW) of 872 shares of mBank S.A., the share capital of mBank S.A. increased by PLN 3 488 with the effect from 17 October 2016. The shares were issued as part of the conditional increase in the share capital of the Bank by issuance of shares with no subscription rights for the existing shareholders in order to enable beneficiaries of the incentive programmes to take up shares in mBank S.A. As at the date of publication of these condensed financial statements the share capital of mBank S.A. amounted to PLN 169 120 508 and was divided into 42 280 127 shares.

23. Material share packages

In the third 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 30 September 2016 it held 69.42% 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 (now Nationale-Nederlanden 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., which represented 5.05% of the share capital of mBank S.A. The shares entitled to 2 130 699 votes at the General Meeting of mBank SA, which represented 5.05% of the total number of votes.

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

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

	Number of rights to shares held as at the date of publishing the report for H1 2016	Number of rights to shares acquired from the date of publishing the report for H1 2016 to the date of publishing the report for Q3 2016	Number of rights to shares realised from the date of publishing the report for H1 2016 to the date of publishing the report for Q3 2016	Number of rights to shares held as at the date of publishing the report for Q3 2016
Management Board				
1. Cezary Stypułkowski	-	2 302	2 302	-
2. Lidia Jabłonowska-Luba	-	1 285	1 285	-
3. Przemysław Gdański	-	1 285	1 285	-
4. Christoph Heins	-	-	-	-
5. Hans-Dieter Kemler	-	1 285	1 285	-
6. Cezary Kocik	-	1 394	1 394	-
7. Jarosław Mastalerz	-	1 472	1 472	-

	Number of shares held as at the date of publishing the report for H1 2016	Number of shares acquired from the date of publishing the report for H1 2016 to the date of publishing the report for Q3 2016	Number of shares sold from the date of publishing the report for H1 2016 to the date of publishing the report for Q3 2016	Number of shares held as at the date of publishing the report for Q3 2016
Management Board				
1. Cezary Stypułkowski	10 057	2 302	-	12 359
2. Lidia Jabłonowska-Luba	1 316	1 285	2 601	-
3. Przemysław Gdański	6 540	1 285	2 325	5 500
4. Christoph Heins	-	-	-	-
5. Hans-Dieter Kemler	1 446	1 285	1 446	1 285
6. Cezary Kocik	1 745	1 394	1 745	1 394
7. Jarosław Mastalerz	2 708	1 472	-	4 180

As at the date of publishing the report for the first half of 2016 and as at the date of publishing the report for the third 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 first half 2016, Mr. Wiesław Thor had 1 690 shares of the Bank. As at the date of publishing the report for the third quarter of 2016, Mr. Wiesław Thor had no Bank shares.

As at the date of publishing the report for the first half of 2016 and as at the date of publishing the report for the third 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 30 September 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 30 September 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. The Plaintiffs alleged that the Bank aided and abetted Interbrok's illegal activities, which caused damage to the Plaintiffs. Seven of the suits against mBank were dismissed on substantive grounds and thus ended with a valid court order. As regards the 8th case, the Plaintiff withdrew the action and the waiver of claims and the Regional Court discontinued the proceedings. 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.

   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 no significant grounds to state that the Bank bears liability in the said case.

4. Class action against mBank S.A. concerning changes in interest rate clause

   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.

The expert witness prepared a principal opinion and a supplementary opinion. The parties now have time to inform each other of their stances on the expert witness' opinion. The Bank is waiting for the court to set the hearing date.

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

   On 4 April 2016, the Municipal Ombudsman representing a group of 390 individuals, retail banking clients of mBank, who concluded agreements on CHF-indexed mortgage loans with mBank, filed a class action with the Regional Court in Łódź against mBank. In a letter of 23 May 2016 the claimant added another 144 persons to the list of the group members. The statement of claim included alternative claims for declaring invalidity of the loan agreements in part i.e. in the scope of the provisions related to indexation, or declaring that the agreements in question are invalid in whole, or finding that the provisions of the agreement related to indexation are invalid in the scope where indexation of over 20% and below 20% of the value of the CHF exchange rate from the table of exchange rates of mBank S.A. from the date of conclusion of each of the loan agreements was permitted. The statement of claim in question was served on mBank on 13 June 2016, the time limit for filing a response expires on 13 August 2016. The date of the first court hearing was set by the Regional Court for 31 August 2016. At the hearing the court agreed with the Bank which objected that the statements on joining the class submitted by the class members were erroneous. The court set a 60-day time limit for the claimants to submit correct statements. If they fail to fulfil this obligation, the proceedings will be stayed. The date of the next hearing was set for 19 December 2016.

As at 30 September 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 30 September 2016 was also not higher than 10% of the Bank's equity.

Information regarding tax audits

From 13 June 2016 to 13 September 2016, the French Tax Authority (Direction Generale des Finances Publiques Direction des verifications nationales et internationales) conducted tax audit in the company mFinance France in terms of the regularity of tax settlements (including CIT and VAT) for the period from 1 January 2013 to 31 December 2015. The audit did not identify any irregularities.

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Within the period from 12 April 2016 to 17 June 2016, the First Mazovian Treasury Office in Warsaw (Pierwszy Mazowiecki Urząd Skarbowy w Warszawie) carried out control in terms of the legitimacy of tax on goods and services refund in mLeasing Sp. z o. o. for the fourth quarter of 2015. The audit did not identify any relevant irregularities.

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.

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.

26. Off-balance sheet liabilities

Off-balance sheet liabilities as at 30 September 2016, 31 December 2015 and 30 September 2015 were as follows:

mBank Group consolidated data

	30.09.2016	31.12.2015	30.09.2015
1. Contingent liabilities granted and received	**28 772 967**	**27 926 983**	**28 299 517**
Commitments granted	**26 849 458**	**26 180 428**	**26 336 982**
- financing	21 557 354	21 098 198	21 410 085
- guarantees and other financial facilities	5 279 274	5 081 900	4 806 567
- other commitments	12 830	330	120 330
Commitments received	**1 923 509**	**1 746 555**	**1 962 535**
- financial commitments	59 200	-	251 270
- guarantees	1 864 309	1 746 555	1 711 265
2. Derivative financial instruments (nominal value of contracts)	**453 083 535**	**579 188 355**	**605 444 950**
Interest rate derivatives	341 168 916	494 009 390	504 677 346
Currency derivatives	100 889 884	81 124 026	97 443 346
Market risk derivatives	11 024 735	4 054 939	3 324 258
Total off-balance sheet items	**481 856 502**	**607 115 338**	**633 744 467**

mBank stand-alone data

	30.09.2016	31.12.2015	30.09.2015
1. Contingent liabilities granted and received	**34 697 953**	**31 424 087**	**33 796 505**
Commitments granted	**32 835 215**	**29 687 445**	**31 926 869**
- financing	20 203 006	19 479 561	19 788 040
- guarantees and other financial facilities	12 619 709	10 207 884	12 018 829
- other commitments	12 500	-	120 000
Commitments received	**1 862 738**	**1 736 642**	**1 869 636**
- financial commitments received	-	-	251 270
- guarantees received	1 862 738	1 736 642	1 618 366
2. Derivative financial instruments (nominal value of contracts)	**455 879 733**	**581 022 593**	**608 066 693**
Interest rate derivatives	342 452 204	494 681 050	506 159 309
Currency derivatives	102 402 794	82 286 604	98 583 126
Market risk derivatives	11 024 735	4 054 939	3 324 258
Total off-balance sheet items	**490 577 686**	**612 446 680**	**641 863 198**

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 30 September 2016, 31 December 2015 and 30 September 2015 were as follows.

PLN (000's)	Commerzbank AG			Other companies of the Commerzbank AG Group including mBank S.A. subsidiaries not consolidated by the acquisition method		
As at the end of the period	**30.09.2016**	**31.12.2015**	**30.09.2015**	**30.09.2016**	**31.12.2015**	**30.09.2015**
Statement of Financial Position						
Assets	968 623	600 285	523 178	9 436	26 712	21 751
Liabilities	12 801 253	12 838 781	14 155 872	897 368	640 841	636 862
Income Statement						
Interest income	96 284	174 384	138 209	659	1 305	1 976
Interest expense	(109 511)	(225 106)	(185 372)	(4 379)	(5 089)	(3 660)
Fee and commission income	-	-	-	15	44	35
Other operating income	16	20	17	50	72	56
Overhead costs, amortisation and other operating expenses	(7 928)	(9 285)	(7 302)	(1)	(1)	(1)
Contingent liabilities granted and received						
Contingent liabilities granted	1 286 980	1 357 006	1 399 269	11 113	23 711	23 595
Contingent liabilities received	843 600	594 695	754 671	12 154	24 063	26 384

The total costs of remuneration of Members of the Supervisory Board, the Management Board and other key management personnel of the Bank that perform their duties from 1 January to 30 September 2016 recognised in the income statement for that period amounted to PLN 23 411 084 (in the period from 1 January to 30 September 2015: PLN 26 234 963).

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

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

As at 30 September 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.

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

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

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.

On 10 June 2016, the Supervisory Board of mBank S.A. adopted a resolution appointing Mr. Christoph Heins as a Vice President of the Management Board, Chief Financial Officer with the effect as of 1 July 2016, until the end of current term of the Management Board.

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 4 above will have a significant negative impact on the financial results of the Bank and the Group in following quarters.

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. At its meeting starting on October 19, 2016, the Sejm of the Republic of Poland has begun work on three draft laws governing in different ways the above issue: presented by the President of the Republic of Poland draft *law on the principles of reimbursement of certain claims arising from credit and loan agreements* and parliamentary drafts of *law on restructuring loans denominated in or indexed to a currency other than the Polish currency and to prohibiting granting of such loans and of law on special rules for the restructuring of foreign currency mortgage loans due to changes in foreign currency exchange rates in relation to the Polish currency*. At the moment of these financial statements publication the final form of the proposed solutions is not known yet. Therefore, at the moment, the Bank is not able to estimate reliably either the implementation probability of the discussed solutions or the potential impact of the final solutions on the financial statements of the Bank and the 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 30 September 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.

Date	First and last name	Position	Signature
26.10.2016	Cezary Stypułkowski	President of the Management Board	
26.10.2016	Lidia Jabłonowska-Luba	Deputy President of the Management Board	
26.10.2016	Przemysław Gdański	Deputy President of the Management Board	
26.10.2016	Christoph Heins	Deputy President of the Management Board	
26.10.2016	Hans-Dieter Kemler	Deputy President of the Management Board	
26.10.2016	Cezary Kocik	Deputy President of the Management Board	
26.10.2016	Jarosław Mastalerz	Deputy President of the Management Board	