



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

IFRS Condensed Consolidated Financial Statements  
for the first quarter of 2017

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## Selected financial data

The selected financial data are supplementary information to the condensed consolidated financial statements of mBank S.A. Group for the first quarter of 2017.

SELECTED FINANCIAL DATA FOR THE GROUP	in PLN'000		in EUR'000	
	1st Quarter of 2017 period from 01.01.2017 to 31.03.2017	1st Quarter of 2016 period from 01.01.2016 to 31.03.2016	1st Quarter of 2017 period from 01.01.2017 to 31.03.2017	1st Quarter of 2016 period from 01.01.2016 to 31.03.2016
I. Interest income	982 544	945 483	229 079	217 058
II. Fee and commission income	407 105	351 910	94 916	80 789
III. Net trading income	76 897	84 087	17 928	19 304
IV. Operating profit	421 166	459 611	98 194	105 515
V. Profit before income tax	329 861	402 309	76 907	92 360
VI. Net profit attributable to Owners of mBank S.A.	218 778	307 782	51 008	70 659
VII. Net profit attributable to non-controlling interests	146	1 723	34	396
VIII. Net cash flows from operating activities	(2 332 090)	5 771	(543 725)	1 325
IX. Net cash flows from investing activities	(104 600)	(74 785)	(24 387)	(17 169)
X. Net cash flows from financing activities	(754 872)	377 725	(175 998)	86 716
XI. Net increase / decrease in cash and cash equivalents	(3 191 562)	308 711	(744 110)	70 872
XII. Basic earnings per share (in PLN/EUR)	5.17	7.29	1.21	1.67
XIII. Diluted earnings per share (in PLN/EUR)	5.17	7.28	1.21	1.67
XIV. Declared or paid dividend per share (in PLN/EUR)	-	-	-	-

SELECTED FINANCIAL DATA FOR THE GROUP	in PLN'000			in EUR'000		
	As at			As at		
	31.03.2017	31.12.2016	31.03.2016	31.03.2017	31.12.2016	31.03.2016
I. Total assets	130 488 381	133 743 502	123 268 380	30 922 883	30 231 352	28 879 294
II. Amounts due to the Central Bank	4	-	2	1	-	0
III. Amounts due to other banks	8 767 283	8 486 753	10 972 444	2 077 654	1 918 344	2 570 622
IV. Amounts due to customers	88 744 037	91 417 962	81 133 851	21 030 389	20 664 096	19 008 024
V. Equity attributable to Owners of mBank S.A.	13 310 733	13 023 756	12 593 056	3 154 352	2 943 887	2 950 299
VI. Non-controlling interests	27 551	27 405	34 341	6 529	6 195	8 045
VII. Share capital	169 121	169 121	168 956	40 078	38 228	39 583
VIII. Number of shares	42 280 127	42 280 127	42 238 924	42 280 127	42 280 127	42 238 924
IX. Book value per share (in PLN/EUR)	314.82	308.03	298.14	74.61	69.63	69.85
X. Total capital ratio	21.59	20.29	19.01	21.59	20.29	19.01

SELECTED FINANCIAL DATA FOR THE BANK	in PLN'000		in EUR'000	
	1st Quarter of 2017 period from 01.01.2017 to 31.03.2017	1st Quarter of 2016 period from 01.01.2016 to 31.03.2016	1st Quarter of 2017 period from 01.01.2017 to 31.03.2017	1st Quarter of 2016 period from 01.01.2016 to 31.03.2016
I. Interest income	862 990	829 391	201 205	190 406
II. Fee and commission income	337 777	270 447	78 752	62 088
III. Net trading income	81 580	85 801	19 020	19 698
IV. Operating profit	345 628	379 985	80 583	87 235
V. Profit before income tax	312 676	377 512	72 900	86 667
VI. Net profit	215 742	303 491	50 300	69 674
VII. Net cash flows from operating activities	(2 207 622)	135 538	(514 705)	31 116
VIII. Net cash flows from investing activities	(84 747)	(35 847)	(19 759)	(8 230)
IX. Net cash flows from financing activities	(984 184)	(136 133)	(229 462)	(31 253)
X. Net increase / decrease in cash and cash equivalents	(3 276 553)	(36 442)	(763 926)	(8 366)
XI. Basic earnings per share (in PLN/EUR)	5.10	7.19	1.19	1.65
XII. Diluted earnings per share (in PLN/EUR)	5.10	7.18	1.19	1.65
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		
	31.03.2017	31.12.2016	31.03.2016	31.03.2017	31.12.2016	31.03.2016
I. Total assets	124 949 260	128 215 265	117 966 145	29 610 233	28 981 751	27 637 088
II. Amounts due to the Central Bank	4	-	2	1	-	0
III. Amounts due to other banks	8 831 901	8 503 014	10 993 402	2 092 967	1 922 019	2 575 532
IV. Amounts due to customers	96 813 408	98 960 320	85 904 281	22 942 653	22 368 969	20 125 640
V. Own equity	13 307 004	13 023 803	12 583 015	3 153 468	2 943 898	2 947 947
VI. Share capital	169 121	169 121	168 956	40 078	38 228	39 583
VII. Number of shares	42 280 127	42 280 127	42 238 924	42 280 127	42 280 127	42 238 924
VIII. Book value per share ( in PLN/EUR)	314.73	308.04	297.90	74.58	69.63	69.79
IX. Total capital ratio	25.39	24.07	22.58	25.39	24.07	22.58

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

- for items of the statement of financial position – exchange rate announced by the National Bank of Poland as at 31 March 2017: EUR 1 = 4.2198, 31 December 2016: EUR 1 = 4.4240, 31 March 2016: EUR 1 = PLN 4.2684.
- for items of the income statement – exchange rate calculated as the arithmetic mean of exchange rates announced by the National Bank of Poland as at the end of each month of the first quarter of 2017 and 2016: EUR 1 = PLN 4.2891 and EUR 1 = PLN 4.3559 respectively.

## Introduction

mBank Group started 2017 with solid financial and business performance. Total income increased quarter on quarter thanks to positive trends in net trading income, whereas the core income remained stable compared with the record-high results of Q4 2016. The profit before tax generated by mBank Group in Q1 2017 stood at PLN 329.9 million, representing a decrease of 21.5% quarter on quarter, which was driven by the annual contribution to the resolution fund of the Bank Guarantee Fund. Net profit attributable to the shareholders of mBank reached PLN 218.8 million.

The main factors determining the Group's financial results in Q1 2017 were as follows:

- **Higher total income** at PLN 1,081.8 million, i.e. +3.5% quarter on quarter, mainly thanks to higher net trading income and stable core income.
- **Increase in operating expenses** (including amortisation) to PLN 577.7 million, i.e. by 17.4% quarter on quarter, which was driven by the annual contribution to the resolution fund of the Bank Guarantee Fund.
- **Increase in net impairment losses on loans and advances** to PLN 82.9 million. Consequently, the cost of risk<sup>a</sup> reached 41 basis points in Q1 2017, compared with 20 basis points a quarter earlier.
- **Tax on the Group's balance sheet items** slightly decreased quarter on quarter and stood at PLN 91.3 million.
- **Continued organic growth and business expansion** as demonstrated by:
  - **increase in the individual client base** to 5,447.0 thousand (+99,1 thousand clients quarter on quarter);
  - **increase in the number of corporate clients** to 21,235 clients (+295 clients quarter on quarter).

As at the end of March 2017, net loans and advances stood at PLN 81,697.9 million, down by PLN 65.3 million, i.e. 0.1% compared with the end of 2016 (excluding reverse repo/buy-sell-back transactions and the FX effect, the value of loans and advances went up by 2.0%).

In Q1, the volume of customer deposits decreased by 2.9% compared with the previous quarter and totalled PLN 88,744.0 million with amounts due to individuals rising by 0.6% in the analysed period and amounts due to corporate clients declining by 10.3% compared with the end of 2016.

As a result of these changes, the loan to deposit ratio<sup>b</sup> of mBank Group stood at 92.1%.

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

- Gross ROE of 10.3% (14.1% in Q4 2016);
- Net ROE of 6.8% (9.8% in Q4 2016).

The level of mBank Group's capital ratios increased in Q1 2017 in connection with the inclusion of the 2016 profit in own funds. As at the end of December 2016, the Total Capital Ratio stood at 21.6% and the Common Equity Tier 1 ratio at 18.8%.

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<sup>a</sup> Cost of risk - net impairment losses on loans and advances / the average volume of loans and advances to clients; the average volume of loans and advances to clients is calculated based on balances at the beginning of a year and at the end of each quarter.

<sup>b</sup> Loan to deposit ratio - loans and advances to clients / amounts due to clients.

## Awards and distinctions

### Global Finance hails mBank as Poland's Best Treasury & Cash Management Provider

At the beginning of 2017, the international Global Finance magazine published the 17<sup>th</sup> edition of its annual ranking of Best Treasury and Cash Management Banks and Providers. The ranking was divided into relevant categories, regions and countries. mBank won the contest and was named the Best Treasury and Cash Management Provider in Poland.



### mBank won 5 awards for its achievements on the Polish capital market in 2016

The issuers, stock exchange members and authorised advisors who achieved the best results in 2016 and contributed to the development of the Polish capital market were granted the total of 30 awards, five of which were received by mBank's representatives. It is also worth mentioning that we got recognised for successes on all WSE markets. These awards include:

- the award for the highest total value of IPOs on the WSE organised in 2016;
- the award for the largest share in trading in shares on the NewConnect market in 2016 (without market maker's transactions);
- the award for the highest value of trading in non-treasury bonds and for the highest value of issues of non-treasury debt instruments listed on Catalyst.

mBank also won a distinction for distributing information for stock exchange investors.

### mBank awarded in Mobile Trends Awards 2016

mBank climbed the podium yet again, winning one of the awards granted annually for the best mobile solutions. Last year, mBank's mobile application was recognised both by the jury and by the Internet users and this year, mBank won the second Special Award for Mobile Authorisation, i.e. the innovative method for authorising transactions ordered in the transactional system without SMS passwords.



### mBank titled the 2016 Transparent Company from the WIG20 index

mBank was among the most transparent companies of the WIG 20 index in 2016 in the first edition of the ranking of Gazeta "Parkiet" and the Institute of Accounting and Taxation.

1. The ranking was based on the results of a survey of 15 questions related to financial reporting, investor relations and corporate governance, distributed to 140 issuers.

### mBank among the winners of Top Employers Polska 2017

For the third time, mBank has been awarded the Top Employers Polska Certificate, which is granted to the best employers – organisations which demonstrate top standards of HR practices. The Top Employers winners create exceptional working conditions, care about employees' talents and their development at all levels of the organisation and strive to further improve their practices related to employment.

More information on awards and distinctions can be found on the Bank's website in the "Press Center" section: <http://media-mbank.pl/en>.

## Changes in the Management Board and the Supervisory Board of the Bank

### Supervisory Board of mBank

The Annual General Meeting held on March 30, 2017 appointed the following members of the Supervisory Board for a three-year term:

1. Maciej Leśny – Chairman of the Supervisory Board
2. Stephan Engels – Deputy Chairman of the Supervisory Board
3. Tomasz Bieske – Member of the Supervisory Board
4. Andre Carls – Member of the Supervisory Board
5. Marcus Chromik – Member of the Supervisory Board
6. Janusz Fiszer – Member of the Supervisory Board
7. Mirosław Godlewski – Member of the Supervisory Board
8. Jörg Hessenmüller – Member of the Supervisory Board
9. Thorsten Kanzler – Member of the Supervisory Board
10. Michael Mandel – Member of the Supervisory Board
11. Teresa Mokrysz – Member of the Supervisory Board
12. Agnieszka Słomka-Gołębiowska – Member of the Supervisory Board

The newly appointed Supervisory Board has three new members: Tomasz Bieske, Janusz Fiszer and Mirosław Godlewski. At the same time, all of them, together with Agnieszka Słomka-Gołębiowska, are independent members.

There are 4 committees within the Supervisory Board: the Executive and Nominations Committee, the Risk Committee, the Audit Committee, and the Remuneration Committee. As at March 31, 2017, the composition of the Supervisory Board Committees was as follows:

Executive and Nominations Committee	Risk Committee	Audit Committee	Remuneration Committee
<u>Maciej Leśny</u>	<u>Marcus Chromik</u>	<u>Tomasz Bieske</u>	<u>Andre Carls</u>
Andre Carls	Mirosław Godlewski	Andre Carls	Tomasz Bieske
Stephan Engels	Thorsten Kanzler	Janusz Fiszer	Stephan Engels
Teresa Mokrysz	Agnieszka Słomka-Gołębiowska	Jörg Hessenmüller	Maciej Leśny
		Agnieszka Słomka-Gołębiowska	

The résumés of all the members of mBank's Supervisory Board are available at mBank's website: <https://www.mbank.pl/en/about-us/bank-authorities/>.

### Management Board of mBank

As at March 31, 2017, i.e. in the period covered by this Report, the Management Board of mBank was composed as follows:

1. Cezary Stypułkowski – President of the Management Board, Chief Executive Officer
2. Przemysław Gdański – Vice-president of the Management Board, Head of Corporate and Investment Banking
3. Christoph Heins – Vice-president of the Management Board, Chief Financial Officer (until June 30, 2017)
4. Lidia Jabłonowska-Luba – Vice-president of the Management Board, Chief Risk Officer
5. Hans-Dieter Kemler – Vice-president of the Management Board, Head of Financial Markets (until April 30, 2017)
6. Cezary Kocik – Vice-president of the Management Board, Head of Retail Banking
7. Jarosław Mastalerz – Vice-president of the Management Board, Head of Operations and Information Technology (until March 31, 2017).



The composition of the Management Board changed in Q1 2017. On March 30, 2017, two Vice-presidents of the Management Board, Jarosław Mastalerz and Christoph Heins, resigned from their functions at the Bank.

Jarosław Mastalerz submitted his resignation with effect from March 31, 2017, and the reason behind the resignation is his intention to engage in the development and commercialisation of new technologies in the financial sector within the scope of a project implemented in cooperation with mBank. At the same time, under a resolution of the Bank's Supervisory Board of March 30, 2017, Krzysztof Dąbrowski was appointed as Vice-president of the Management Board, Head of Operations and Information Technology, as of April 1, 2017. He has been the CIO/CTO and managing director at mBank since 2014.

Vice-President of the Management Board, Chief Financial Officer, Mr. Christoph Heins, resigned from his functions at the Bank with effect from June 30, 2017, without giving the reason for his resignation. On March 30, 2017, the Supervisory Board appointed Andreas Böger to act in the capacity of Vice-president of the Management Board, Chief Financial Officer, with effect from July 1, 2017, until the end of the current term of office of the Management Board. Mr. Böger is currently the head of the Corporate Finance division within Commerzbank's Group Development and Strategy.

Moreover, due to the resignation of Vice-president of the Management Board, Mr. Hans-Dieter Kemler, from his functions at the Bank with effect from April 30, 2017, Mr. Frank Bock, currently the Managing Director in the Treasury Line of Commerzbank AG, was appointed Vice-president of the Management Board, Head of Financial Markets, as of May 1, 2017 until the end of the current term of the Management Board.

Further information on competences of particular members of the Management Board can be found at: <https://www.mbank.pl/en/about-us/bank-authorities/>.

### **Changes in the rating of mBank**

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

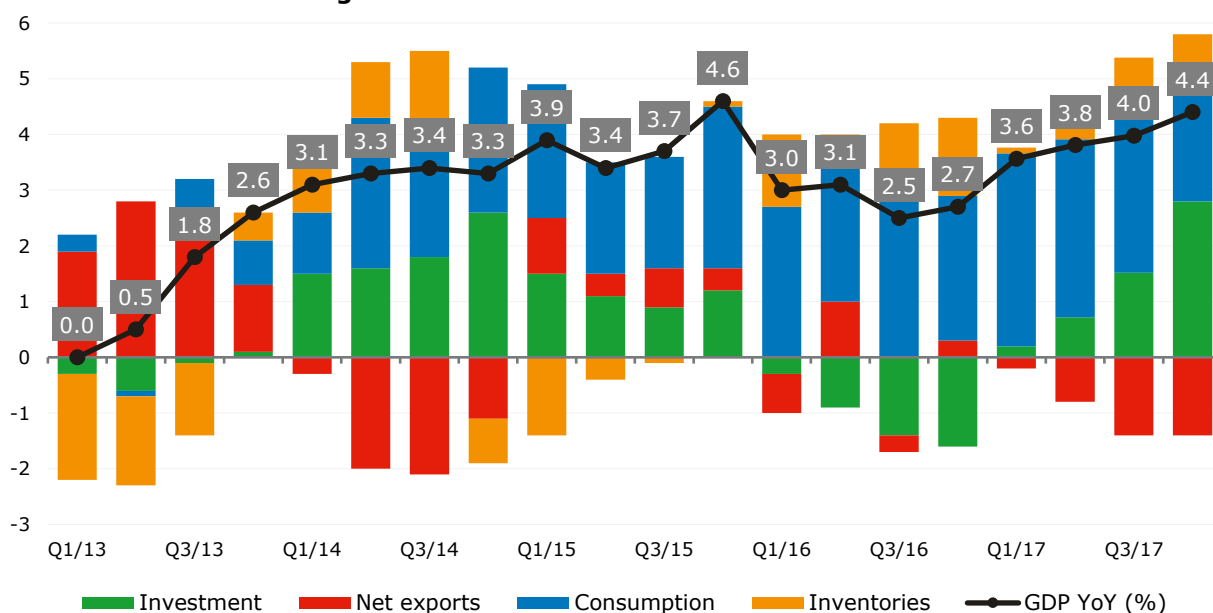
On March 28, 2017, S&P upgraded mBank's long-term rating from "BBB" to "BBB+" as a result of upgrading the rating of Commerzbank AG from "BBB+" to "A-" and recognising that mBank remains a strategically important subsidiary of Commerzbank. Therefore, mBank's long-term rating was removed from the CreditWatch with positive implications, on which it was entered on December 15, 2016. The long-term rating outlook for mBank after the upgrade is negative and so is Commerzbank's long-term rating outlook. Together with the upgrade of mBank's rating, the rating of bonds issued by mFinance France under the Euro Medium Term Note Programme (EMTN) was also upgraded to "BBB+". S&P assigns long-term ratings on the scale: AAA, AA, A, BBB, BB, B, CCC, CC, R, SD and D, which may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

### **Macroeconomic environment in Q1 2017**

#### **Economy**

In Q1 2017, the Polish economy gathered momentum yet again. The growing dynamic of the economic activity was visible in virtually every area and based on the monthly data available (industrial production, construction and assembly production, retail sales and wholesales, exports) the Bank estimates that the GDP growth accelerated from 2.7% in Q4 2016 to 3.6% YoY in the first months of 2017. It is worth mentioning that the dynamic is significantly higher than expected only few months before and it is also one of the reasons behind a material revision of the growth forecast for whole 2017 - it now stands at 4.0% YoY.

**Contributions to the GDP growth**



Private consumption remained the main driving force in Q1. It can be estimated (based on further acceleration in real dynamic of the retail sales) that, in all likelihood, the year-on-year consumption stepped up again to 4.5%. The good result of consumption was driven by several factors. First of all, the situation on the labour market remains very positive: every record-low unemployment rate is quickly followed by another (surprisingly high) increase in the employment rate. Secondly, the consumer sentiment stays at very high levels (close to historical tops). Thirdly, while the increase in inflation (which is discussed in more detail in the further part of this document) reduced the growth of disposable incomes of households, it did not prove to be a decisive factor. In particular, the mechanism of consumption smoothing (i.e. using the previously accumulated savings) allows maintaining a high consumption level even in the face of slowdown in real incomes. Finally, the situation on the labour market strengthens the wage pressure and makes it possible to demand pay rises in response to the growing inflation. This should further boost private consumption in the months to come.

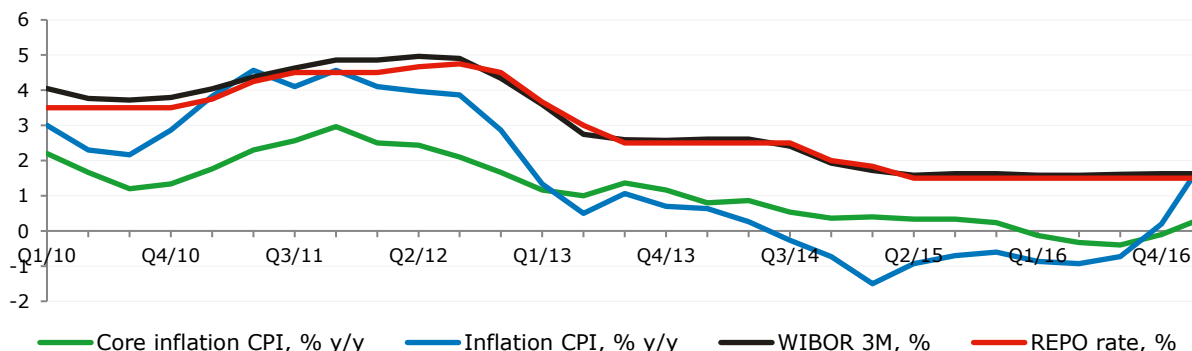
In all likelihood, Q1 saw a rise in investments, both QoQ and YoY, for the first time since the end of 2015. The monthly data available shows that the upturn was supported by all the main investment categories, both in construction (recovery in the construction and assembly production: growth at approximately 0% after double-digit decreases in previous quarters) or machinery (upswing in the sales of means of transport and production of investment goods). It is also likely that the improvement in investments was primarily caused by public-sector investment projects backed with EU funds within the new EU perspective. Stronger private investment activity is still supported by high utilization of production capacity which demonstrates itself in the increasing number of investment plans and investments commenced. It was actually the acceleration of investment that encouraged analysts to raise the GDP growth forecasts.

Finally, the expected growth in the Polish economy in Q1 is taking place in the environment of good sentiments of consumers and entrepreneurs worldwide. Poland's main trade partners reported long-time economic highs, which implies that the foreign factor is playing an important part in the economic revival observed.

**Inflation and monetary policy**

Q1 was also a period of a significant growth in inflation. While in December 2016 it stood at 0.8% YoY, Q1 2017 was marked by an increase to 1.6%, 2.2% and 2.0% in January, February and March, respectively. This situation is attributable to a combination of factors. First of all, base effects, weakening of PLN against USD and higher fuel prices at the turn of 2016 and 2017 after OPEC's agreement resulted in a rapid growth in the prices of energy carriers YoY (in January, crude oil prices in PLN went up by 80%). Secondly, weather-related problems in southern Europe led to a hike in prices of imported vegetables. Thirdly, due to the fading impact of base effects caused by a rise in costs (more expensive raw materials and higher wages) as well as an increase in prices of industrial products, the core inflation started to pick up all over the world. It now stands at 0.5% and reports an upward trend.

**CPI inflation and NBP reference rate**

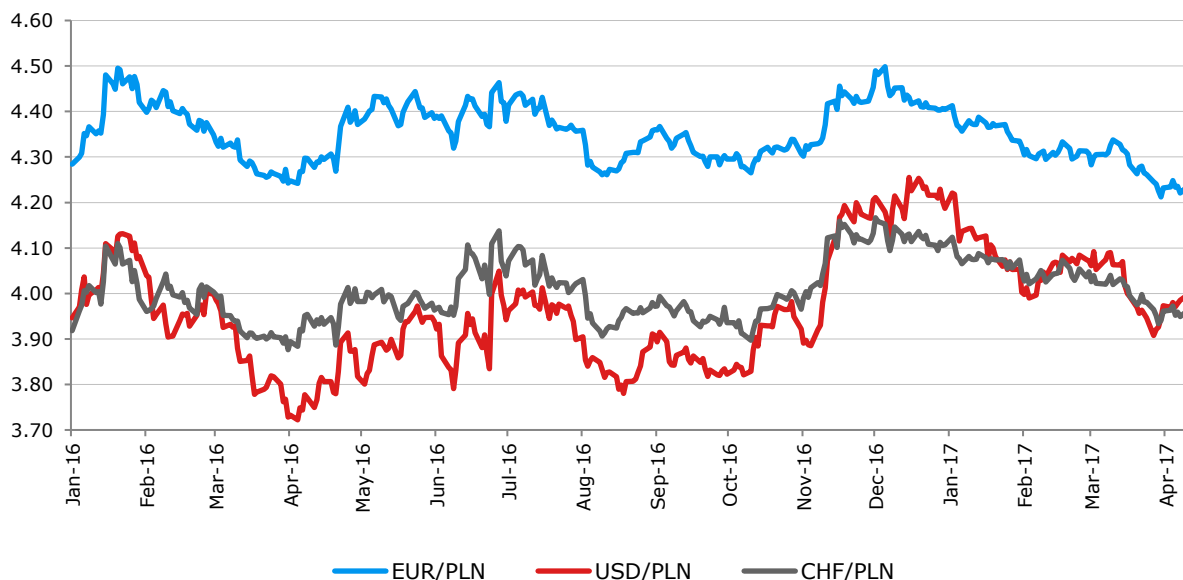


Higher growth and inflation turned out to be quite convenient for the Monetary Policy Council (RPP). In Q1 2017, interest rates were kept unchanged (reference rate at 1.50%) for the second year in a row. As the deflation trend in the economy came to a definite end and higher growth was observed, all the RPP had to do was adjust its rhetoric to the new situation, at the same time staying particularly optimistic as regards the economic conditions. The Bank believes that systematic strengthening of the price pressure in the economy may come as a surprise to the RPP and lead to first increases of interest rates at the beginning of 2018.

**Markets**

Q1 2017 was characterised by a dynamic growth in prices of Polish financial assets and substantial strengthening of PLN. EURPLN started the year at 4.40 only to fall rapidly in the next months. At the end of March, it reached approximately 4.21. Due to the weakening of USD against EUR, an analogous drop in USDPLN was even more significant, from approx. 4.20 to 3.90 in the last week of March. In the same period, the yields on Polish 10-year Treasury securities first went up from 3.70% to 3.90% and then fell to the level slightly higher than 3.40%. Finally, Q1 was also a period of growth in share prices at the Warsaw Stock Exchange.

**Exchange rates**

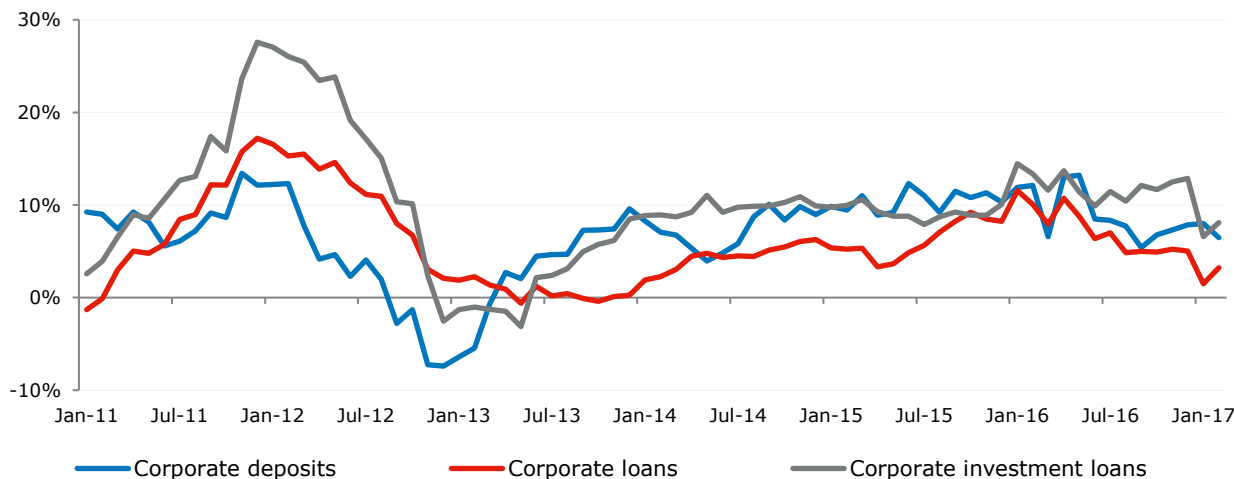


The boom in Polish assets is attributable to several factors. First of all, financial markets saw a steady improvement in the sentiment towards emerging markets. The second point (also related to the first one) is Poland’s becoming increasingly attractive compared with other emerging markets (due to good growth prospects and relatively low prices of some assets, e.g. shares). Thirdly, weakening inflation impulse related to fuel and vegetable prices and a general disbelief of markets that the programme of the new US president can be fully implemented contributed to the drop in interest rates all over the globe, benefiting Polish bonds at the same time.

**Banking sector**

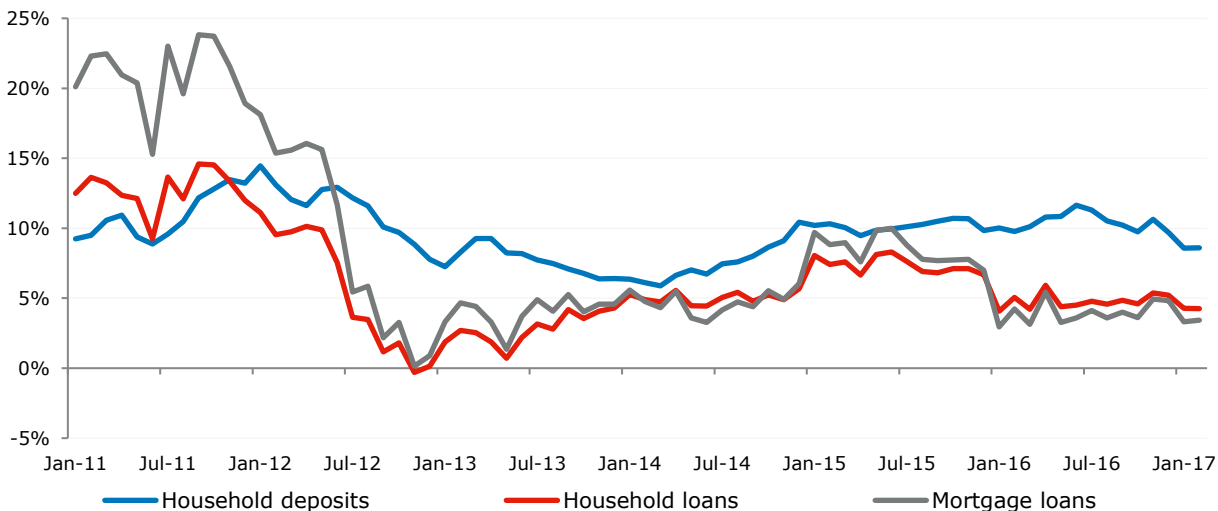
In Q1 2017, the growth rate of deposits continued to be higher than the loans' dynamics. The corporate segment observed better dynamic of corporate deposits which can be explained with the general improvement of the economic situation and stabilisation of the loans dynamics. The latter is connected with the fading impact of unfavourable effects in the current loans category and with the stable investment demand that continues in the private companies sector.

**Corporate loans and deposits**



In the retail segment, the further growth in deposits (which is however slower than peaks in 2016) stemmed from high increase in nominal incomes and low inflow of funds to alternative forms of savings and investments (investment fund managing companies, WSE). At the same time, falling interest on households' deposits was still a driving force in lowering the share of term deposits in the total households' deposits. Loans reported low, but stable growth in the value of housing loans and high rise in consumer credits. The discrepancies between the two categories have been present for many quarters.

**Household loans and deposits**



## Financial position of mBank Group in Q1 2017

### Profit and Loss Account of mBank Group

The profit before tax generated by mBank Group in Q1 2017 stood at PLN 329.9 million, representing a decrease of 21.5% quarter on quarter, which was driven by the annual contribution to the resolution fund of the Bank Guarantee Fund. Total income increased quarter on quarter thanks to positive trends in the net trading income, whereas the core income remained stable. Net profit attributable to owners of mBank fell by 25.2% quarter on quarter to PLN 218.8 million.

PLN M	Q1 2016	Q4 2016	Q1 2017	QoQ change	YoY change
Interest income	945.5	1,003.3	982.5	-2.1%	3.9%
Interest expense	-269.1	-250.0	-233.5	-6.6%	-13.2%
<b>Net interest income</b>	<b>676.4</b>	<b>753.3</b>	<b>749.0</b>	<b>-0.6%</b>	<b>10.7%</b>
Fee and commission income	351.9	429.2	407.1	-5.2%	15.7%
Fee and commission expense	-140.2	-178.6	-157.6	-11.8%	12.4%
<b>Net fee and commission income</b>	<b>211.7</b>	<b>250.6</b>	<b>249.6</b>	<b>-0.4%</b>	<b>17.9%</b>
<b>Core income</b>	<b>888.2</b>	<b>1,003.9</b>	<b>998.6</b>	<b>-0.5%</b>	<b>12.4%</b>
Dividend income	0.0	0.3	0.2	-48.5%	-
Net trading income	84.1	26.6	76.9	188.8%	-8.6%
Gains less losses from investment securities, investments in subsidiaries and associates	3.4	10.7	1.6	-84.8%	-52.3%
The share in profits (losses) of investments in joint ventures	0.0	0.0	0.0	-	-
Other operating income	94.1	48.4	46.3	-4.4%	-50.8%
Other operating expenses	-60.8	-45.3	-41.8	-7.8%	-31.3%
<b>Total income</b>	<b>1,008.9</b>	<b>1,044.7</b>	<b>1,081.8</b>	<b>3.5%</b>	<b>7.2%</b>
Net impairment losses on loans and advances	-68.5	-39.7	-82.9	109.0%	21.0%
Overhead costs and amortization	-480.8	-491.9	-577.7	17.4%	20.2%
Taxes on bank balance sheet items	-57.3	-92.8	-91.3	-1.6%	59.3%
<b>Profit before income tax</b>	<b>402.3</b>	<b>420.3</b>	<b>329.9</b>	<b>-21.5%</b>	<b>-18.0%</b>
Income tax expense	-92.8	-127.5	-110.9	-13.0%	19.5%
<b>Net profit attributable to:</b>	<b>309.5</b>	<b>292.8</b>	<b>218.9</b>	<b>-25.2%</b>	<b>-29.3%</b>
<b>- Owners of mBank S.A.</b>	<b>307.8</b>	<b>292.5</b>	<b>218.8</b>	<b>-25.2%</b>	<b>-28.9%</b>
- Non-controlling interests	1.7	0.3	0.1	109.6%	-91.5%
ROA net	1.0%	0.9%	0.7%		
ROE gross	13.2%	14.1%	10.3%		
ROE net	10.1%	9.8%	6.8%		
Cost / Income ratio	47.7%	47.1%	53.4%		
Net interest margin	2.3%	2.3%	2.4%		
Common Equity Tier 1 ratio	16.2%	17.3%	18.8%		
Total capital ratio	19.0%	20.3%	21.6%		

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

**Total income** - calculated as the sum of net interest income, net fee and commission income, dividend income, net trading income, gains less losses from investment securities and investments in subsidiaries and associates, share in profits (losses) of investments in joint ventures, other operating income and other operating expenses.

**Overhead costs and amortization** - calculated as the sum of overhead costs and amortization.

**Net ROA** - net profit attributable to owners of the Bank / average total assets value; the average total assets are calculated based on balances at the end of each month.

**Gross ROE** - profit before tax / average equity value (excluding current year's profit); the average equity value is calculated based on balances at the end of each month.

**Net ROE** - net profit attributable to owners of the Bank / average equity value (excluding current year's profit); the average equity value is calculated based on balances at the end of each month.

**Cost / Income ratio** - overhead costs and amortization / total income.

**Net interest margin** - net interest income / average interest-earning assets; interest-earning assets are calculated as the sum of the following items: cash, balances with the central bank, loans and advances to banks, trading securities, derivative financial instruments, loans and advances to clients, investment securities. Average interest-earning assets are calculated based on balances at the end of each month.

### **Income of mBank Group**

The total income generated by mBank Group amounted to PLN 1,081.8 million, up by 3.5% quarter on quarter. The core income, i.e. net interest income and net fee and commission income, dropped slightly quarter on quarter (-0.5%) and stood at PLN 998.6 million.

mBank Group's net interest income, which went down slightly quarter on quarter (by PLN 4.3 million, i.e. -0.6%), was the main contributor to the total income generated by mBank Group in Q1. Interest income fell by PLN 20.8 million, i.e. 2.1% quarter on quarter and stood at PLN 982.5 million mainly due to a decrease in income from loans and advances (PLN 707.0 million, i.e. -PLN 11.1 million quarter on quarter). This was connected with a smaller number of days in Q1 2017 compared with Q4 2016.

At the same time, interest expenses decreased by PLN 16.5 million, i.e. 6.6% quarter on quarter, to PLN 233.5 million. In Q1 2017, interest expenses paid to clients decreased by PLN 14.7 million, i.e. 10.3%, which was the result of the inflow of funds to low-interest current accounts and the outflow of funds from term deposits of corporate clients. Interest expenses paid to banks also decreased (by PLN 3.2 million, i.e. 18.7%), which was related to the repayment of CHF loans taken out in Commerzbank totalling CHF 750 million in Q4 2016.

**Net interest margin** of mBank Group increased quarter on quarter and reached 2.4% in Q1 2017, compared with 2.3% in Q4 2016.

**Net fee and commission income** was the second largest item. It also dropped slightly (by PLN 1.1 million, i.e. 0.4%) quarter on quarter and stood at PLN 249.6 million.

**Fee and commission income** decreased by PLN 22.1 million, i.e. 5.2% quarter on quarter, mainly due to lower brokerage fees and commissions and securities issues (by PLN 15.6 million, i.e. 32.2% quarter on quarter). In Q4 2016, Dom Maklerski mBanku conducted several primary market transactions, which did not repeat in Q1 2017, while the equities trading on the WSE grew significantly in comparison to the previous quarter (+19.8%). Payment card-related commissions decreased by PLN 10.3 million, i.e. 10.3% quarter on quarter, which can be attributed to the lower number of non-cash transactions compared with Q4 2016, when the number of transactions grew seasonally (the number and value of non-cash transactions made by retail clients decreased by 0.8% and 5.2% quarter on quarter, respectively).

Fee and commission expenses in Q1 2017 amounted to PLN 157.6 million, which represents a decrease by PLN 21.0 million or 11.8% quarter on quarter, mainly due to a decrease in brokerage fees paid (by PLN 11.4 million, i.e. 60.4%) and costs related to payment cards (by PLN 6.2 million, i.e. 10.5%).

**Net trading income** amounted to PLN 76.9 million, representing an increase of PLN 50.3 million quarter on quarter. The increase was driven by higher FX income which went up by PLN 26.0 million, as well as other trading income which grew by PLN 24.3 million. The loss on interest rate instruments reported in Q4 2016 decreased significantly in Q1 2017.

**Gains less losses from investment securities** and on investments in subsidiaries and associates stood at PLN 1.6 million, compared with PLN 10.8 million in the previous quarter.

**Net other operating income** (other operating income net of other operating expenses) increased slightly to PLN 4.5 million from PLN 3.1 million in Q4 2016.

**Costs of mBank Group**

In Q1 2017, total overhead costs of mBank Group (including amortisation) stood at PLN 577.7 million and were up by 17.4% quarter on quarter. A significant increase in costs was driven by the annual contribution to the resolution fund of the Bank Guarantee Fund made in Q1 2017.

PLN M	Q1 2016	Q4 2016	Q1 2017	QoQ change	YoY change
Staff-related expenses	-217.9	-220.4	-223.3	1.3%	2.5%
Material costs, including	-160.9	-168.4	-164.2	-2.5%	2.0%
- logistic costs	-86.3	-84.0	-88.9	5.8%	3.0%
- IT costs	-32.2	-39.1	-38.4	-1.8%	19.4%
- marketing costs	-27.8	-29.8	-23.0	-22.8%	-17.2%
- consulting services costs	-12.0	-12.1	-11.2	-7.3%	-6.7%
- other material costs	-2.6	-3.4	-2.6	-22.5%	0.6%
Taxes and fees	-9.4	1.5	-5.2	-449.4%	-44.9%
Contributions and transfer to the Bank Guarantee Fund	-37.1	-49.2	-132.2	168.6%	256.0%
Contributions to the Social Benefits Fund	-1.8	-1.5	-1.7	15.6%	1.3%
Other	0.0	0.0	0.0	-	-
Amortization	-53.7	-53.9	-51.1	-5.1%	-4.9%
<b>Total overhead costs and amortization</b>	<b>-480.8</b>	<b>-491.9</b>	<b>-577.7</b>	<b>17.4%</b>	<b>20.2%</b>
Cost / Income ratio	47.7%	47.1%	53.4%	-	-
Employment (FTE)	6,527	6,528	6,536	0.1%	0.1%

In Q1 2017, personnel costs increased slightly quarter on quarter. Social insurance expenses rose by PLN 7.7 million due to higher contributions to the Social Insurance Fund. The headcount in mBank Group rose by 8 FTEs in the reported period.

Material costs in Q1 2017 declined by PLN 4.2 million, i.e. 2.5%, quarter on quarter. In the reported period costs of logistics rose by PLN 4.9 million, whereas marketing costs dropped by PLN 6.8 million.

In Q1 2017, an annual contribution of PLN 116.8 million was made to the resolution fund of the Bank Guarantee Fund. The quarterly contribution to the guarantee fund amounted to PLN 15.4 million.

Amortisation dropped by 5.1% quarter on quarter to PLN 51.1 million.

The cost to income ratio stood at 53.4% in Q1 2017, compared with 47.1% in Q4 2016. Upon adjusting total costs with the contribution to the resolution fund for three quarters of 2017, the cost to income ratio would reach 45.3%.

**Net impairment losses on loans and advances**

Net impairment losses on loans and advances in mBank Group amounted to PLN 82.9 million in Q1 2017. Net impairment losses increased by PLN 43.2 million, i.e. 109.0% quarter on quarter, which was attributable to positive net provisions in the corporate banking area in Q4 2016.

PLN M	Q1 2016	Q4 2016	Q1 2017	QoQ change	YoY change
Retail Banking	-64.7	-70.2	-78.5	11.9%	21.3%
Corporates and Financial Markets	-4.0	29.9	-5.0	-/+	24.5%
Other	0.2	0.6	0.6	-8.0%	186.5%
<b>Total net impairment losses on loans and advances</b>	<b>-68.5</b>	<b>-39.7</b>	<b>-82.9</b>	<b>109.0%</b>	<b>21.0%</b>

Net impairment losses on loans and advances in the Retail Banking were higher quarter on quarter, i.e. stood at PLN 78.5 million in Q1 2017 compared with PLN 70.2 million in Q4 2016, when the non-performing loan portfolio was sold.

Net impairment losses on loans and advances in Corporates and Financial Markets stood at PLN 5.0 million, representing an increase compared to the previous quarter, when provisions were positive. In Q4 2016, the release of net provisions was connected with the sale of the non-performing loan portfolio and the compensation payment made by KUKE (Export Credit Insurance Corporation).

**Consolidated statement of financial position**

The balance sheet total of mBank Group stood at PLN 130,488.4 million at the end of Q1 2017, down by 2.4% compared with the end of December 2016.

**Assets of mBank Group**

PLN M	31.03.2016	31.12.2016	31.03.2017	QoQ change	YoY change
Cash and balances with Central Bank	4,042.8	9,164.3	7,139.9	-22.1%	76.6%
Loans and advances to banks	1,120.2	3,082.9	1,976.9	-35.9%	76.5%
Trading securities	2,849.8	3,800.6	3,538.1	-6.9%	24.2%
Derivative financial instruments	2,799.2	1,808.8	1,680.8	-7.1%	-40.0%
Net loans and advances to customers	77,940.8	81,763.3	81,697.9	-0.1%	4.8%
Investment securities	31,618.5	31,393.4	31,689.9	0.9%	0.2%
Intangible assets	512.5	582.7	578.0	-0.8%	12.8%
Tangible assets	722.3	757.4	737.3	-2.7%	2.1%
Other assets	1,662.3	1,390.1	1,449.6	4.3%	-12.8%
<b>Total assets</b>	<b>123,268.4</b>	<b>133,743.5</b>	<b>130,488.4</b>	<b>-2.4%</b>	<b>5.9%</b>

Loans and advances to clients were the largest asset category of mBank Group at the end of Q1 2017. Their share in total assets increased to 62.6% compared with 61.1% at the end of 2016. At the end of Q1 2017, net loans and advances to clients stood at PLN 81,697.9 million, which represents a slight decrease quarter on quarter (by PLN 65.3 million, i.e. -0.1%). Excluding reverse repo/buy-sell-back transactions and the FX effect, the volume of net loans and advances increased by 2.0%.



Gross loans and advances to corporate clients went up quarter on quarter by PLN 666.3 million, i.e. 1.9%, to PLN 34,840.5 million (excluding reverse repo / buy-sell-back transactions and the FX effect, the volume of loans and advances to corporate clients grew by 3.6%).

The volume of loans to individual clients fell by PLN 611.9 million, i.e. 1.2% compared with the end of Q4 2016, to PLN 48,338.0 million. Mortgage and housing loans decreased slightly by 3.3% quarter on quarter, despite sales increase, due to strengthening of zloty. In Q1 2017, mBank Group sold PLN 798.1 million of mortgage loans and PLN 1,801.2 million of non-mortgage loans. Excluding the FX effect, loans to individual clients rose by 1.1%.

In Q1 2017, gross loans and advances to the public sector decreased by PLN 81.7 million, i.e. 6.7%. The value of those loans stood at PLN 1,146.5 million at the end of Q1.

At the end of Q1 2017, investment securities were the Bank's second largest asset category and stood at PLN 31,689.9 million, i.e. 24.3% of total assets, up by PLN 296.6 million, i.e. 0.9% quarter on quarter.

### **mBank Group's total liabilities and equity**

PLN M	31.03.2016	31.12.2016	31.03.2017	QoQ change	YoY change
Amounts due to other banks	10,972.4	8,486.8	8,767.3	3.3%	-20.1%
Derivative financial instruments	2,355.8	1,599.3	1,557.1	-2.6%	-33.9%
Amounts due to customers	81,133.9	91,418.0	88,744.0	-2.9%	9.4%
Debt securities in issue	9,698.0	12,660.4	13,260.8	4.7%	36.7%
Subordinated liabilities	3,801.7	3,943.3	2,250.5	-42.9%	-40.8%
Other liabilities	2,679.2	2,584.5	2,570.4	-0.6%	-4.1%
<b>Total Liabilities</b>	<b>110,641.0</b>	<b>120,692.3</b>	<b>117,150.1</b>	<b>-2.9%</b>	<b>5.9%</b>
<b>Total Equity</b>	<b>12,627.4</b>	<b>13,051.2</b>	<b>13,338.3</b>	<b>2.2%</b>	<b>5.6%</b>
<b>Total Liabilities and Equity</b>	<b>123,268.4</b>	<b>133,743.5</b>	<b>130,488.4</b>	<b>-2.4%</b>	<b>5.9%</b>

In Q1 2017, amounts due to clients, which are the Group's principal source of funding, decreased by PLN 2,673.9 million, i.e. 2.9% quarter on quarter. The share of amounts due to clients in total liabilities and equity reached 68.0%, compared with 68.4% at the end of 2016.

Amounts due to corporate clients decreased by PLN 3,832.8 million, i.e. 10.3% compared with the end of 2016, to PLN 33,550.7 million at the end of Q1 2017. The outflow of funds was observed both in current accounts and term deposits. Amounts due to individual clients increased slightly by PLN 334.2 million, i.e. 0.6%, to PLN 53,829.2 million in the period under review. The increase was driven by growing current accounts. Amounts due to the public sector stood at PLN 1,364.1 million, representing an increase of PLN 824.7 million, i.e. 152.8%.

Amounts due to other banks stood at PLN 8,767.3 million at the end of Q1 2017, accounting for 6.7% of total liabilities and equity of mBank Group. Compared with Q4 2016, amounts due to banks grew slightly by PLN 280.5 million, i.e. 3.3%.

The share of equity in total liabilities and equity of mBank Group increased quarter on quarter to 10.2% (compared to 9.8% at the end of 2016).

### Quality of the loan portfolio of mBank Group

As at March 31, 2017, the volume of non-performing loans (NPL) fell compared to the end of December 2016 due to repayments of impaired loans. The NPL ratio decreased quarter on quarter to 5.2%.

PLN M	31.03.2016	31.12.2016	31.03.2017	QoQ change	YoY change
Provisions for receivables with impairment	2,734.7	2,591.1	2,608.9	0.7%	-4.6%
Impairment provisions for exposures analysed according to portfolio approach	249.7	226.4	231.7	2.3%	-7.2%
<b>Provisions for receivables</b>	<b>2,984.3</b>	<b>2,817.5</b>	<b>2,840.5</b>	<b>0.8%</b>	<b>-4.8%</b>
<b>Receivables with impairment</b>	<b>4,662.8</b>	<b>4,537.2</b>	<b>4,392.5</b>	<b>-3.2%</b>	<b>-5.8%</b>
NPL ratio	5.8%	5.4%	5.2%		
Coverage ratio	64.0%	62.1%	64.7%		

**NPL Ratio** – receivables with impairment / total (gross) loans and advances to customers.

**Coverage ratio** – provisions for receivables with impairment / receivables with impairment.

The provision for loans and advances to clients increased slightly quarter on quarter (by PLN 23.0 million) and stood at PLN 2,840.5 million. At the same time, the provision for IBNI (Incurred But Not Identified) losses increased from PLN 226.4 million to PLN 231.7 million in the period under review.

The coverage ratio (including IBNI provisions) increased quarter on quarter from 62.1% to 64.7%.

### Performance of segments and the business lines

In Q1 2017, the Retail Banking segment made the biggest contribution to the profit before tax of mBank Group at 68.9%, i.e. a significant increase quarter on quarter compared with 54.1% in Q4 2016. The contribution of the Corporate and Investment Banking segment was 33.2% (compared to 44.9% in Q4 2016) and the profit before tax of the Financial Markets segment was negative.

The result of the Retail Banking segment was mainly driven by an increase in income by 3.0%, whereas the core income rose by 2.1% quarter on quarter, and an increase in costs related to the annual contribution to the resolution fund of the Bank Guarantee Fund.

The Corporate and Investment Banking segment's lower contribution to the Group's results was primarily due to higher net impairment losses on loans and advances at PLN 6.5 million against the Q4 2016 positive balance of PLN 31.6 million, and an increase of overhead costs connected with the contribution to the Bank Guarantee Fund. Moreover, the core income decreased by 3.6% quarter on quarter.

Total income of the Financial Markets segment reached PLN 70.0 million, up by 93.1% quarter on quarter, which was mainly due to an improvement of net trading income. However, the increase in income was offset by a considerable increase in overhead costs relating to the contribution to the Bank Guarantee Fund.

PLN M	Q1 2016	Q4 2016	Q1 2017	QoQ change	YoY change	% share in profit before tax
Retail Banking	200.5	227.3	227.4	0.1%	13.4%	68.9%
Corporates and Investment Banking	109.4	188.9	109.4	-42.1%	0.1%	33.2%
Financial Markets	3.2	0.1	-2.2	-/+	-/+%	-0.7%
Other	0.8	4.0	-4.7	-/+	-/+	-1.5%
<b>Profit before tax of mBank Group</b>	<b>313.9</b>	<b>420.3</b>	<b>329.9</b>	<b>-21.5%</b>	<b>5.1%</b>	<b>100.0%</b>



## Retail Banking

mBank's Retail Banking segment serves 5,447 thousand individual clients and microenterprises in Poland, the Czech Republic and Slovakia online, directly through the call centre, via mobile banking and other state-of-the-art technological solutions, as well as in a network of 322 branches. The Bank offers a broad range of products and services including current and savings accounts, accounts for microenterprises, credit products, deposit products, payment cards, investment products, insurance products, brokerage services, and leasing for microenterprises.

### Key highlights

- Increase of core income to PLN 622.5 million in Q1 2017 i.e. up by 2.1% quarter on quarter and up by 16.9% year on year.
- Record high sales of PLN 1,801.2 million worth of non-mortgage loans, i.e. up by 18.9% quarter on quarter and up by 34.0% year on year.
- Increase of mortgage loans sales by 13.6% quarter on quarter and 11.9% year on year.
- Increase of retail deposits by 14.1% year on year, mainly current accounts; 6.0% share of mBank in retail deposits market .
- Increase in turnover on WSE stock market by 19.8% quarter on quarter. Brokerage Bureau share in the stock market amounted to 5.2%.
- Launch of an enhanced mobile application.

### Key financial data:

PLN M	Q1 2016	Q4 2016	Q1 2017	QoQ change	YoY change
Net interest income	412.6	467.5	473.3	1.2%	14.7%
Net fee and commission income	119.9	142.4	149.2	4.7%	24.4%
Dividend income	0.0	0.0	0.0	-	-
Net trading income	24.0	25.2	26.6	5.3%	10.5%
Gains less losses from investment securities, investments in subsidiaries and associates	0.0	0.1	0.0	-	-
Net other operating income	11.2	-7.9	-3.3	-59.0%	-129.1%
<b>Total income</b>	<b>567.7</b>	<b>627.3</b>	<b>645.8</b>	<b>3.0%</b>	<b>13.8%</b>
Net impairment losses on loans and advances	-64.7	-70.2	-78.5	11.9%	21.3%
Overhead costs and amortization	-271.2	-279.6	-290.1	3.8%	7.0%
Taxes on bank balance sheet items	-31.3	-50.2	-49.8	-1.0%	59.3%
<b>Profit before tax of Retail Banking</b>	<b>200.5</b>	<b>227.3</b>	<b>227.4</b>	<b>0.1%</b>	<b>13.4%</b>

## Key business data:

thou.	31.03.2016	31.12.2016	31.03.2017	QoQ change	YoY change
<b>Number of retail clients, including:</b>	<b>5,037.3</b>	<b>5,347.9</b>	<b>5,447.0</b>	<b>1.9%</b>	<b>8.1%</b>
Poland	4,195.3	4,455.3	4,536.9	1.8%	8.1%
Foreign branches	841.9	892.6	910.1	2.0%	8.1%
The Czech Republic	588.8	628.9	639.7	1.7%	8.6%
Slovakia	253.1	263.7	270.4	2.5%	6.8%
<b>PLN M</b>					
<b>Loans to retail clients, including:</b>	<b>46,410.2</b>	<b>48,926.1</b>	<b>48,307.0</b>	<b>-1.3%</b>	<b>4.1%</b>
<b>Poland</b>	<b>42,418.6</b>	<b>44,646.4</b>	<b>44,227.3</b>	<b>-0.9%</b>	<b>4.3%</b>
mortgage loans	33,260.5	34,112.7	33,128.8	-2.9%	-0.4%
non-mortgage loans	9,158.1	10,533.7	11,098.5	5.4%	21.2%
<b>Foreign branches</b>	<b>3,991.6</b>	<b>4,279.7</b>	<b>4,079.7</b>	<b>-4.7%</b>	<b>2.2%</b>
The Czech Republic	3,027.4	3,310.9	3,172.8	-4.2%	4.8%
Slovakia	964.2	968.8	906.9	-6.4%	-5.9%
<b>Deposits of retail clients, including:</b>	<b>47,358.9</b>	<b>53,662.8</b>	<b>54,028.9</b>	<b>0.7%</b>	<b>14.1%</b>
<b>Poland</b>	<b>40,747.2</b>	<b>45,727.6</b>	<b>46,083.9</b>	<b>0.8%</b>	<b>13.1%</b>
<b>Foreign branches</b>	<b>6,611.8</b>	<b>7,935.2</b>	<b>7,945.0</b>	<b>0.1%</b>	<b>20.2%</b>
The Czech Republic	4,687.3	5,630.5	5,598.6	-0.6%	19.4%
Slovakia	1,924.4	2,304.7	2,346.4	1.8%	21.9%
<b>Investment funds (Poland)</b>	<b>5,520.2</b>	<b>5,972.3</b>	<b>6,435.7</b>	<b>7.8%</b>	<b>16.6%</b>
<b>thou.</b>					
<b>Credit cards, including</b>	<b>333.0</b>	<b>340.3</b>	<b>345.9</b>	<b>1.7%</b>	<b>3.9%</b>
Poland	303.0	309.4	314.0	1.5%	3.6%
Foreign branches	30.0	30.9	31.9	3.4%	6.4%
<b>Debit cards, including:</b>	<b>3,256.7</b>	<b>3,438.4</b>	<b>3,491.3</b>	<b>1.5%</b>	<b>7.2%</b>
Poland	2,717.0	2,876.0	2,932.6	2.0%	7.9%
Foreign branches	539.7	562.4	558.7	-0.7%	3.5%

## Corporates and Financial Markets



The Corporates and Financial Markets segment serves 21,235 corporate clients including large enterprises (K1 - annual sales exceeding PLN 500 million), mid-sized enterprises (K2 - annual sales of PLN 30 – 500 million) and small enterprises (K3 - annual sales below PLN 30 million) through a network of dedicated 46 branches. mBank Group's offer of products and services for corporate clients focuses on traditional banking products and services (including corporate accounts, domestic and international money transfers, payment cards, cash services, and liquidity management products), corporate finance products, hedging instruments, equity capital market (ECM) services, debt capital market (DCM) instruments, mergers and acquisitions (M&A), leasing and factoring. The segment comprises two areas: Corporates and Investment Banking, and Financial Markets.

### Key highlights

- Increase in income by 5.9% quarter on quarter.
- Increase in corporate loans by 3.3% quarter on quarter, and increase in the share of mBank in loans for enterprises market to 6.2%.
- Increase in turnover on FX transactions with corporate clients by 13.6% accompanied by a stable number of customers in the Financial Markets segment.
- Providing corporate customers with a new mCompanyNet transaction platform and FX mPlatform - solutions tailored to the needs of corporate customers.
- The first billion zloty raised by mBank Hipoteczny thanks to 23 issues of bonds under the Private Bond Issue Program this year.
- mBank awarded for the best cash management in Poland by Global Finance.

### Key financial data:

#### Corporates and Investment Banking:

PLN M	Q1 2016	Q4 2016	Q1 2017	QoQ change	YoY change
Net interest income	180.6	197.9	193.2	-2.4%	7.0%
Net fee and commission income	88.5	107.0	100.7	-5.9%	13.7%
Dividend income	0.0	0.0	0.0	-	-
Net trading income	57.2	61.6	60.5	-1.8%	5.8%
Gains less losses from investment securities, investments in subsidiaries and associates	-0.4	0.0	0.3	-	-
Net other operating income	6.9	4.0	6.0	49.3%	-14.2%
<b>Total income</b>	<b>332.8</b>	<b>370.5</b>	<b>360.7</b>	<b>-2.6%</b>	<b>8.4%</b>
Net impairment losses on loans and advances	-3.6	31.5	-6.5	-120.5%	77.1%
Overhead costs and amortization	-174.6	-180.1	-211.6	17.5%	21.2%
Taxes on bank balance sheet items	-21.4	-33.0	-33.2	0.8%	55.2%
<b>Profit before tax of Corporates and Investment Banking</b>	<b>133.2</b>	<b>188.9</b>	<b>109.4</b>	<b>-42.1%</b>	<b>-17.8%</b>

Financial Markets:

PLN M	Q1 2016	Q4 2016	Q1 2017	QoQ change	YoY change
Net interest income	81.8	86.6	81.0	-6.5%	-1.0%
Net fee and commission income	-0.9	-1.3	-1.6	20.8%	76.6%
Dividend income	0.0	0.0	0.0	-	-
Net trading income	2.9	-58.9	-10.0	-83.1%	-/+
Gains less losses from investment securities, investments in subsidiaries and associates	3.9	10.4	1.3	-87.7%	-66.9%
Net other operating income	0.1	-0.6	-0.7	6.7%	-/+
<b>Total income</b>	<b>87.8</b>	<b>36.3</b>	<b>70.0</b>	<b>93.1%</b>	<b>-20.3%</b>
Net impairment losses on loans and advances	-0.3	-1.7	1.5	+/-	+/-
Overhead costs and amortization	-25.3	-26.5	-67.0	153.1%	163.7%
Taxes on bank balance sheet items	-4.3	-8.0	-6.8	-15.3%	59.2%
<b>Profit before tax of Financial Markets</b>	<b>57.9</b>	<b>0.1</b>	<b>-2.2</b>	<b>-/+</b>	<b>-/+</b>

**Key business data:**

	31.03.2016	31.12.2016	31.03.2017	QoQ change	YoY change
<b>Number of corporate clients</b>	<b>19,992</b>	<b>20,940</b>	<b>21,235</b>	<b>1.4%</b>	<b>6.2%</b>
K1	2,152	2,123	2,103	-0.9%	-2.3%
K2	5,896	6,067	6,770	11.6%	14.8%
K3	11,944	12,750	12,362	-3.0%	3.5%
<b>PLN M</b>					
<b>Loans to corporate clients, including</b>	<b>21,242.6</b>	<b>20,817.3</b>	<b>21,508.6</b>	<b>3.3%</b>	<b>1.3%</b>
K1	5,771.3	4,999.7	5,258.5	5.2%	-8.9%
K2	12,518.1	12,744.8	13,303.0	4.4%	6.3%
K3	2,920.5	2,957.9	2,802.0	-5.3%	-4.1%
Reverse repo/buy sell back transactions	4.8	0.0	2.4	-	-49.6%
Other	27.8	114.9	142.7	24.2%	5.1x
<b>Deposits of corporate clients, including</b>	<b>29,129.1</b>	<b>32,835.4</b>	<b>30,048.0</b>	<b>-8.5%</b>	<b>3.2%</b>
K1	13,713.5	12,659.0	11,282.1	-10.9%	-17.7%
K2	10,451.6	12,348.3	12,654.6	2.5%	21.1%
K3	4,459.0	6,276.4	4,662.8	-25.7%	4.6%
Repo transactions	455.9	1,131.9	997.4	-11.9%	118.8%
Other	49.1	419.8	451.1	7.5%	9.2x

### Summary of results of mBank Group's subsidiaries

In Q1 2017, the consolidated profits before tax generated by mBank Group subsidiaries amounted to PLN 67.4 million, compared with PLN 60.0 million a quarter earlier. The quarter-on quarter increase by 12.2% resulted mainly from higher results of mLeasing and mBank Hipoteczny.

The table below presents the profit before tax of the subsidiaries in Q1 2017, compared with Q4 2016 and Q1 2016.

PLN M	Q1 2016	Q4 2016	Q1 2017	QoQ change
mFinanse (formerly Aspiro)	36.4	36.9	37.4	1.4%
mLeasing	20.5	11.1	16.9	52.5%
mBank Hipoteczny	11.8	8.5	11.1	30.6%
mFaktoring	6.2	2.6	2.2	-13.1%
mLocum	10.7	1.9	0.9	-49.6%
mWealth Management <sup>1</sup>	5.5	0.0	0.0	-
Dom Maklerski mBanku <sup>1</sup>	3.2	0.0	0.0	-
Other <sup>2</sup>	-1.4	-1.0	-1.1	37.2%
<b>Total</b>	<b>93.0</b>	<b>60.0</b>	<b>67.4</b>	<b>12.2%</b>

<sup>1</sup> Companies were integrated into the organizational structure of mBank as of May 20, 2016.

<sup>2</sup> Other subsidiaries include mFinance France, mCentrum Operacji, BDH Development, Garbary, and Tele-Tech Investment.

## mFinanse

An open platform for financial services sale on the intermediaries market

The offer comprises loans, deposits, insurance products, investments and savings for both individual customers and companies

Nearly 600 experienced client advisors

Due to changes in mBank Hipoteczny's pricing policy, mFinanse recorded a 8.6% increase in mortgage loan sales quarter on quarter (328.4 million in Q1 2017 compared to 302.4 million in the previous quarter). Introducing a promotion for mortgage loan at the end of 2016 has had a positive impact on acquisitions and sales growth.

In Q1 2017, the company's profit from selling car loans dedicated to car dealers increased compared to Q4 2016 (PLN 78.0 million compared to PLN 71.6 million in Q4 2016). Additionally, In Q1 2017, the company improved sales results in the area of car leasing, incorporated in the offer in 2015.

In Q1 2017, the profit before tax of mFinanse stood at PLN 37.4 million compared to PLN 36.9 million a quarter earlier, mainly driven by higher sales of mortgage loans.

## mLeasing

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

3<sup>rd</sup> position on the overall leasing market in Poland with 7.5% market share

The total value of contracts signed in Q1 2017 amounted to PLN 1,128.9 million compared to PLN 928.0 million in Q4 2016, which represents an increase by 21.6% quarter on quarter.

The value of new movable assets purchased by mLeasing in Q1 2017 stood at PLN 1,035.7 million, giving it a 7.0% share in the market. The immovables held by the subsidiary were worth PLN 93.2 million, securing it a market share of 63.5%.

In Q1 2017, mLeasing generated a profit before tax of PLN 16.9 million, up by 52.5% quarter on quarter, mainly driven by lower cost of risk.



**Poland's largest mortgage bank**

**Focusing on financing commercial and public sector projects and investments of individual clients, market analyses and advisory services for investors and operators of commercial real estate industry**

**The largest issuer of covered bonds with a 41.0% market share. Outstanding securities worth PLN 4.6 billion**

On a basis of the prospectus of its new programme (approved by PFSA on August 26, 2016), mBank Hipoteczny placed a tranche of 7-year covered bonds worth EUR 24.9 million. The tranche is the cheapest financing from the issue of debt securities in the Group's history - at 0.94% (0.46% above the swap rate)

In Q1 2017, mBank Hipoteczny raised the first billion zloty thanks to 23 issues of bonds under the Private Bond Issue Program this year. Currently, mBH offer includes zero-coupon and coupon bonds denominated in PLN with maturity from 2 months to 1 year.

In Q1 2017, mBank Hipoteczny's gross loan portfolio totalled PLN 9.7 billion compared with PLN 9.5 billion at the end of 2016. i.e. +2.3%. 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 605.4 million in Q1 2017. The sales of commercial loans stood at PLN 143.9 million.

In Q1 2017, mBH reported a profit before tax of PLN 11.1 million compared with PLN 8.5 million in the previous quarter. The increase in the profit before tax was mainly driven by release of provisions and strengthening of zloty against other currencies.



**Condensed consolidated income statement**

	Note	1st Quarter (current year) period from 01.01.2017 to 31.03.2017	1st Quarter (previous year) period from 01.01.2016 to 31.03.2016
Interest income	5	982 544	945 483
Interest expense	5	(233 537)	(269 065)
<b>Net interest income</b>		<b>749 007</b>	<b>676 418</b>
Fee and commission income	6	407 105	351 910
Fee and commission expense	6	(157 551)	(140 165)
<b>Net fee and commission income</b>		<b>249 554</b>	<b>211 745</b>
Dividend income	7	154	-
Net trading income, including:	8	76 897	84 087
<i>Foreign exchange result</i>		76 407	71 817
<i>Other net trading income and result on hedge accounting</i>		490	12 270
Gains less losses from investment securities, investments in subsidiaries and associates, including:	9	1 636	3 427
<i>Gains less losses from investment securities</i>		1 636	3 869
<i>Gains less losses from investments in subsidiaries and associates</i>		-	(442)
The share in the profits (losses) of joint ventures		-	(40)
Other operating income	10	46 309	94 087
Net impairment losses on loans and advances	11	(82 921)	(68 520)
Overhead costs	12	(526 609)	(427 045)
Amortisation		(51 082)	(53 727)
Other operating expenses	13	(41 779)	(60 821)
<b>Operating profit</b>		<b>421 166</b>	<b>459 611</b>
Taxes on the Group balance sheet items		(91 305)	(57 302)
<b>Profit before income tax</b>		<b>329 861</b>	<b>402 309</b>
Income tax expense	24	(110 937)	(92 804)
<b>Net profit</b>		<b>218 924</b>	<b>309 505</b>
<b>Net profit attributable to:</b>			
- Owners of mBank S.A.		218 778	307 782
- Non-controlling interests		146	1 723
<b>Net profit attributable to Owners of mBank S.A.</b>		<b>218 778</b>	<b>307 782</b>
<b>Weighted average number of ordinary shares</b>	14	<b>42 280 127</b>	<b>42 238 924</b>
<b>Earnings per share (in PLN)</b>	14	<b>5.17</b>	<b>7.29</b>
<b>Weighted average number of ordinary shares for diluted earnings</b>	14	<b>42 309 758</b>	<b>42 295 299</b>
<b>Diluted earnings per share (in PLN)</b>	14	<b>5.17</b>	<b>7.28</b>

**Condensed consolidated statement of comprehensive income**

	1st Quarter (current year) period from 01.01.2017 to 31.03.2017	1st Quarter (previous year) period from 01.01.2016 to 31.03.2016
<b>Net profit</b>	<b>218 924</b>	<b>309 505</b>
<b>Other comprehensive income net of tax, including:</b>	<b>65 701</b>	<b>39 720</b>
<b>Items that may be reclassified subsequently to the income statement</b>		
Exchange differences on translation of foreign operations (net)	(180)	(64)
Change in valuation of available for sale financial assets (net)	62 901	38 612
Cash flows hedges (net)	2 974	1 172
<b>Items that will not be reclassified to the income statement</b>		
Actuarial gains and losses relating to post-employment benefits (net)	6	-
<b>Total comprehensive income (net)</b>	<b>284 625</b>	<b>349 225</b>
<b>Total comprehensive income (net), attributable to:</b>		
- Owners of mBank S.A.	284 479	347 502
- Non-controlling interests	146	1 723

**Condensed consolidated statement of financial position**

<b>ASSETS</b>	<b>Note</b>	<b>31.03.2017</b>	<b>31.12.2016</b>	<b>31.03.2016</b>
Cash and balances with the Central Bank		7 139 929	9 164 281	4 042 760
Loans and advances to banks		1 976 859	3 082 855	1 120 253
Trading securities	15	3 538 122	3 800 634	2 849 810
Derivative financial instruments	16	1 680 769	1 808 847	2 799 170
Loans and advances to customers	18	81 697 942	81 763 277	77 940 778
Hedge accounting adjustments related to fair value of hedged items		-	-	112
Investment securities	19	31 689 903	31 393 352	31 618 471
Investments in joint ventures		-	-	7 319
Intangible assets	20	577 955	582 663	512 481
Tangible assets	21	737 261	757 371	722 279
Current income tax assets		5 656	1 310	43 591
Deferred income tax assets	24	526 898	540 756	353 386
Other assets		917 087	848 156	1 257 970
<b>Total assets</b>		<b>130 488 381</b>	<b>133 743 502</b>	<b>123 268 380</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Liabilities</b>				
Amounts due to the Central Bank		4	-	2
Amounts due to other banks		8 767 283	8 486 753	10 972 444
Derivative financial instruments	16	1 557 117	1 599 266	2 355 838
Amounts due to customers	22	88 744 037	91 417 962	81 133 851
Debt securities in issue		13 260 781	12 660 389	9 697 975
Hedge accounting adjustments related to fair value of hedged items		82 501	116 871	170 695
Other liabilities		2 241 598	2 178 790	2 294 769
Current income tax liabilities		66 465	104 999	10 066
Provisions for deferred income tax	24	1 179	1 208	34 632
Provisions	23	178 659	182 754	169 038
Subordinated liabilities		2 250 473	3 943 349	3 801 673
<b>Total liabilities</b>		<b>117 150 097</b>	<b>120 692 341</b>	<b>110 640 983</b>
<b>Equity</b>				
<b>Equity attributable to Owners of mBank S.A.</b>		<b>13 310 733</b>	<b>13 023 756</b>	<b>12 593 056</b>
<b>Share capital:</b>		<b>3 551 096</b>	<b>3 551 096</b>	<b>3 535 758</b>
- Registered share capital		169 121	169 121	168 956
- Share premium		3 381 975	3 381 975	3 366 802
<b>Retained earnings:</b>		<b>9 708 255</b>	<b>9 486 979</b>	<b>8 584 772</b>
- Profit from the previous years		9 489 477	8 267 697	8 276 990
- Profit for the current year		218 778	1 219 282	307 782
<b>Other components of equity</b>		<b>51 382</b>	<b>(14 319)</b>	<b>472 526</b>
<b>Non-controlling interests</b>		<b>27 551</b>	<b>27 405</b>	<b>34 341</b>
<b>Total equity</b>		<b>13 338 284</b>	<b>13 051 161</b>	<b>12 627 397</b>
<b>Total liabilities and equity</b>		<b>130 488 381</b>	<b>133 743 502</b>	<b>123 268 380</b>
<b>Total capital ratio</b>		<b>21.59</b>	<b>20.29</b>	<b>19.01</b>
<b>Common Equity Tier 1 capital ratio</b>		<b>18.76</b>	<b>17.32</b>	<b>16.20</b>
<b>Book value</b>		<b>13 310 733</b>	<b>13 023 756</b>	<b>12 593 056</b>
<b>Number of shares</b>		<b>42 280 127</b>	<b>42 280 127</b>	<b>42 238 924</b>
<b>Book value per share (in PLN)</b>		<b>314.82</b>	<b>308.03</b>	<b>298.14</b>

**Condensed consolidated statement of changes in equity**

Changes from 1 January to 31 March 2017

	Share capital		Retained earnings					Other components of equity				Equity attributable to Owners of mBank S.A., total	Non-controlling interests	Total equity
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	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			
<b>Equity as at 1 January 2017</b>	<b>169 121</b>	<b>3 381 975</b>	<b>4 944 689</b>	<b>97 887</b>	<b>1 131 453</b>	<b>3 312 950</b>	-	<b>(6 004)</b>	<b>(3 068)</b>	<b>(1 545)</b>	<b>(3 702)</b>	<b>13 023 756</b>	<b>27 405</b>	<b>13 051 161</b>
<b>Total comprehensive income</b>	-	-	-	-	-	-	<b>218 778</b>	<b>(180)</b>	<b>62 901</b>	<b>2 974</b>	<b>6</b>	<b>284 479</b>	<b>146</b>	<b>284 625</b>
Transfer to general banking risk reserve	-	-	-	-	22 300	(22 300)	-	-	-	-	-	-	-	-
Transfer to supplementary capital	-	-	2 782 628	-	-	(2 782 628)	-	-	-	-	-	-	-	-
Stock option program for employees	-	-	-	2 498	-	-	-	-	-	-	-	2 498	-	2 498
- value of services provided by the employees	-	-	-	2 498	-	-	-	-	-	-	-	2 498	-	2 498
<b>Equity as at 31 March 2017</b>	<b>169 121</b>	<b>3 381 975</b>	<b>7 727 317</b>	<b>100 385</b>	<b>1 153 753</b>	<b>508 022</b>	<b>218 778</b>	<b>(6 184)</b>	<b>59 833</b>	<b>1 429</b>	<b>(3 696)</b>	<b>13 310 733</b>	<b>27 551</b>	<b>13 338 284</b>

Changes from 1 January to 31 December 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			
<b>Equity as at 1 January 2016</b>	<b>168 956</b>	<b>3 366 802</b>	<b>4 883 602</b>	<b>103 972</b>	<b>1 095 453</b>	<b>2 190 755</b>	-	<b>(6 426)</b>	<b>442 354</b>	<b>859</b>	<b>(3 981)</b>	<b>12 242 346</b>	<b>32 618</b>	<b>12 274 964</b>
<b>Total comprehensive income</b>	-	-	-	-	-	-	<b>1 219 282</b>	<b>422</b>	<b>(445 422)</b>	<b>(2 404)</b>	<b>279</b>	<b>772 157</b>	<b>2 942</b>	<b>775 099</b>
Dividends paid	-	-	-	-	-	-	-	-	-	-	-	-	(8 155)	(8 155)
Transfer to general banking risk reserve	-	-	-	-	36 000	(36 000)	-	-	-	-	-	-	-	-
Transfer to supplementary capital	-	-	61 087	-	-	(61 087)	-	-	-	-	-	-	-	-
Issue of shares	165	-	-	-	-	-	-	-	-	-	-	165	-	165
Stock option program for employees	-	15 173	-	(6 085)	-	-	-	-	-	-	-	9 088	-	9 088
- value of services provided by the employees	-	-	-	9 088	-	-	-	-	-	-	-	9 088	-	9 088
- settlement of exercised options	-	15 173	-	(15 173)	-	-	-	-	-	-	-	-	-	-
<b>Equity as at 31 December 2016</b>	<b>169 121</b>	<b>3 381 975</b>	<b>4 944 689</b>	<b>97 887</b>	<b>1 131 453</b>	<b>2 093 668</b>	<b>1 219 282</b>	<b>(6 004)</b>	<b>(3 068)</b>	<b>(1 545)</b>	<b>(3 702)</b>	<b>13 023 756</b>	<b>27 405</b>	<b>13 051 161</b>

Changes from 1 January to 31 March 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 - 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			
<b>Equity as at 1 January 2016</b>	<b>168 956</b>	<b>3 366 802</b>	<b>4 883 602</b>	<b>103 972</b>	<b>1 095 453</b>	<b>2 190 755</b>	-	<b>(6 426)</b>	<b>442 354</b>	<b>859</b>	<b>(3 981)</b>	<b>12 242 346</b>	<b>32 618</b>	<b>12 274 964</b>
<b>Total comprehensive income</b>	-	-	-	-	-	-	<b>307 782</b>	<b>(64)</b>	<b>38 612</b>	<b>1 172</b>	-	<b>347 502</b>	<b>1 723</b>	<b>349 225</b>
Transfer to general banking risk reserve	-	-	-	-	30 000	(30 000)	-	-	-	-	-	-	-	-
Transfer to supplementary capital	-	-	4 581	-	-	(4 581)	-	-	-	-	-	-	-	-
Stock option program for employees	-	-	-	3 208	-	-	-	-	-	-	-	3 208	-	3 208
- value of services provided by the employees	-	-	-	3 208	-	-	-	-	-	-	-	3 208	-	3 208
<b>Equity as at 31 March 2016</b>	<b>168 956</b>	<b>3 366 802</b>	<b>4 888 183</b>	<b>107 180</b>	<b>1 125 453</b>	<b>2 156 174</b>	<b>307 782</b>	<b>(6 490)</b>	<b>480 966</b>	<b>2 031</b>	<b>(3 981)</b>	<b>12 593 056</b>	<b>34 341</b>	<b>12 627 397</b>

**Condensed consolidated statement of cash flows**

	Period from 01.01.2017 to 31.03.2017	Period from 01.01.2016 to 31.03.2016
<b>A. Cash flows from operating activities</b>	<b>(2 332 090)</b>	<b>5 771</b>
<b>Profit before income tax</b>	<b>329 861</b>	<b>402 309</b>
<b>Adjustments:</b>	<b>(2 661 951)</b>	<b>(396 538)</b>
Income taxes paid	(168 689)	(143 666)
Amortisation, including amortisation of fixed assets provided under operating lease	63 219	65 200
Foreign exchange (gains) losses related to financing activities	(480 158)	(89 350)
(Gains) losses on investing activities	(1 832)	(233)
Impairment of investments in subsidiaries	-	442
Dividends received	(154)	-
Interest income (income statement)	(982 544)	(945 483)
Interest expense (income statement)	233 537	269 065
Interest received	960 255	792 267
Interest paid	(180 986)	(218 755)
Changes in loans and advances to banks	96 418	573 486
Changes in trading securities	16 090	99 472
Changes in assets and liabilities on derivative financial instruments	129 056	(212 016)
Changes in loans and advances to customers	(1 141)	519 660
Changes in investment securities	(127 191)	(644 901)
Changes in other assets	(41 900)	(285 397)
Changes in amounts due to other banks	568 816	(868 556)
Changes in amounts due to customers	(2 457 876)	8 996
Changes in debt securities in issue	(376 345)	205 723
Changes in provisions	(4 095)	(56 378)
Changes in other liabilities	93 569	533 886
<b>Net cash generated from/(used in) operating activities</b>	<b>(2 332 090)</b>	<b>5 771</b>
<b>B. Cash flows from investing activities</b>	<b>(104 600)</b>	<b>(74 785)</b>
<b>Investing activity inflows</b>	<b>12 940</b>	<b>7 636</b>
Disposal of shares in subsidiaries, net of cash disposed	-	500
Disposal of intangible assets and tangible fixed assets	12 786	7 136
Dividends received	154	-
<b>Investing activity outflows</b>	<b>117 540</b>	<b>82 421</b>
Acquisition of shares in subsidiaries	-	307
Purchase of intangible assets and tangible fixed assets	117 540	82 114
<b>Net cash generated from/(used in) investing activities</b>	<b>(104 600)</b>	<b>(74 785)</b>
<b>C. Cash flows from financing activities</b>	<b>(754 872)</b>	<b>377 725</b>
<b>Financing activity inflows</b>	<b>899 340</b>	<b>512 680</b>
Proceeds from loans and advances from other banks	-	15
Issue of debt securities	899 340	512 665
<b>Financing activity outflows</b>	<b>1 654 212</b>	<b>134 955</b>
Repayments of loans and advances from other banks	-	90 665
Repayments of other loans and advances	6 754	6 422
Decrease of subordinated liabilities	1 611 840	-
Payments of financial lease liabilities	151	87
Interest paid from loans and advances received from other banks and from subordinated liabilities	35 467	37 781
<b>Net cash generated from/(used in) financing activities</b>	<b>(754 872)</b>	<b>377 725</b>
<b>Net increase / decrease in cash and cash equivalents (A+B+C)</b>	<b>(3 191 562)</b>	<b>308 711</b>
Effects of exchange rate changes on cash and cash equivalents	(86 587)	(12 683)
Cash and cash equivalents at the beginning of the reporting period	15 000 049	6 656 382
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>11 721 900</b>	<b>6 952 410</b>

## mBank S.A. stand-alone financial information

## Income statement

	Note	1st Quarter (current year) period from 01.01.2017 to 31.03.2017	1st Quarter (previous year) period from 01.01.2016 to 31.03.2016
Interest income		862 990	829 391
Interest expense		(205 267)	(242 922)
<b>Net interest income</b>		<b>657 723</b>	<b>586 469</b>
Fee and commission income		337 777	270 447
Fee and commission expense		(135 600)	(125 802)
<b>Net fee and commission income</b>		<b>202 177</b>	<b>144 645</b>
Dividend income		154	22 090
Net trading income, including:		81 580	85 801
<i>Foreign exchange result</i>		<i>79 140</i>	<i>72 042</i>
<i>Other net trading income and result on hedge accounting</i>		<i>2 440</i>	<i>13 759</i>
Gains less losses from investment securities, investments in subsidiaries and associates, including:		1 636	3 602
<i>Gains less losses from investment securities</i>		<i>1 636</i>	<i>4 044</i>
<i>Gains less losses from investments in subsidiaries and associates</i>		<i>-</i>	<i>(442)</i>
Other operating income		9 702	25 311
Net impairment losses on loans and advances		(80 264)	(63 755)
Overhead costs		(466 346)	(356 332)
Amortisation		(45 379)	(47 334)
Other operating expenses		(15 355)	(20 512)
<b>Operating profit</b>		<b>345 628</b>	<b>379 985</b>
Taxes on the Bank's balance sheet items		(85 754)	(54 799)
Share in profits (losses) of entities under the equity method		52 802	52 326
<b>Profit before income tax</b>		<b>312 676</b>	<b>377 512</b>
Income tax expense		(96 934)	(74 021)
<b>Net profit</b>		<b>215 742</b>	<b>303 491</b>
<b>Net profit</b>		<b>215 742</b>	<b>303 491</b>
<b>Weighted average number of ordinary shares</b>	14	<b>42 280 127</b>	<b>42 238 924</b>
<b>Earnings per share (in PLN)</b>	14	<b>5.10</b>	<b>7.19</b>
<b>Weighted average number of ordinary shares for diluted earnings</b>	14	<b>42 309 758</b>	<b>42 295 299</b>
<b>Diluted earnings per share (in PLN)</b>	14	<b>5.10</b>	<b>7.18</b>

**mBank S.A. stand-alone financial information****Statement of comprehensive income**

	1st Quarter (current year) period from 01.01.2017 to 31.03.2017	1st Quarter (previous year) period from 01.01.2016 to 31.03.2016
<b>Net profit</b>	<b>215 742</b>	<b>303 491</b>
<b>Other comprehensive income net of tax, including:</b>	<b>64 961</b>	<b>33 969</b>
<b>Items that may be reclassified subsequently to the income statement</b>		
Exchange differences on translation of foreign operations (net)	(44)	(72)
Change in valuation of available for sale financial assets (net)	61 488	37 594
Cash flow hedges (net)	2 974	1 172
Share in other comprehensive income of entities under the equity method (net)	543	(4 725)
<b>Items that will not be reclassified to the income statement</b>		
Actuarial gains and losses relating to post-employment benefits (net)	-	-
<b>Total comprehensive income net of tax, total</b>	<b>280 703</b>	<b>337 460</b>

## mBank S.A. stand-alone financial information

## Statement of financial position

ASSETS	31.03.2017	31.12.2016	31.03.2016
Cash and balances with the Central Bank	7 048 466	9 158 751	4 004 188
Loans and advances to banks	6 421 898	7 308 769	3 689 098
Trading securities	3 574 651	3 837 606	2 950 507
Derivative financial instruments	1 683 936	1 818 306	2 796 895
Loans and advances to customers	72 039 727	72 304 131	70 650 891
Hedge accounting adjustments related to fair value of hedged items	-	-	112
Investment securities	30 725 152	30 467 780	30 780 514
Investments in subsidiaries	1 954 946	1 782 219	1 803 267
Intangible assets	531 731	540 452	465 786
Tangible assets	461 542	481 695	461 061
Current income tax assets	2 793	1 067	41 857
Deferred income tax assets	114 137	146 693	4 624
Other assets	390 281	367 796	317 345
<b>Total assets</b>	<b>124 949 260</b>	<b>128 215 265</b>	<b>117 966 145</b>
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the Central Bank	4	-	2
Amounts due to other banks	8 831 901	8 503 014	10 993 402
Derivative financial instruments	1 619 272	1 644 250	2 409 054
Amounts due to customers	96 813 408	98 960 320	85 904 281
Hedge accounting adjustments related to fair value of hedged items	59 516	87 566	131 686
Other liabilities	1 824 593	1 792 740	1 936 399
Current income tax liabilities	64 422	77 475	4 005
Provisions for deferred income tax	82	100	33 664
Provisions	178 585	182 648	168 964
Subordinated liabilities	2 250 473	3 943 349	3 801 673
<b>Total liabilities</b>	<b>111 642 256</b>	<b>115 191 462</b>	<b>105 383 130</b>
Equity			
<b>Share capital:</b>	<b>3 551 096</b>	<b>3 551 096</b>	<b>3 535 758</b>
- Registered share capital	169 121	169 121	168 956
- Share premium	3 381 975	3 381 975	3 366 802
<b>Retained earnings:</b>	<b>9 705 130</b>	<b>9 486 890</b>	<b>8 580 346</b>
- Profit for the previous year	9 489 388	8 267 551	8 276 855
- Net profit for the current year	215 742	1 219 339	303 491
<b>Other components of equity</b>	<b>50 778</b>	<b>(14 183)</b>	<b>466 911</b>
<b>Total equity</b>	<b>13 307 004</b>	<b>13 023 803</b>	<b>12 583 015</b>
<b>Total liabilities and equity</b>	<b>124 949 260</b>	<b>128 215 265</b>	<b>117 966 145</b>
<b>Total capital ratio</b>	<b>25.39</b>	<b>24.07</b>	<b>22.58</b>
<b>Common Equity Tier 1 capital ratio</b>	<b>22.10</b>	<b>20.59</b>	<b>19.29</b>
<b>Book value</b>	<b>13 307 004</b>	<b>13 023 803</b>	<b>12 583 015</b>
<b>Number of shares</b>	<b>42 280 127</b>	<b>42 280 127</b>	<b>42 238 924</b>
<b>Book value per share (in PLN)</b>	<b>314.73</b>	<b>308.04</b>	<b>297.90</b>



## mBank S.A. stand-alone financial information

## Statement of changes in equity

Changes from 1 January to 31 March 2017

	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	
<b>Equity as at 1 January 2017</b>	<b>169 121</b>	<b>3 381 975</b>	<b>4 384 011</b>	<b>26 891</b>	<b>1 095 143</b>	<b>3 980 845</b>	-	<b>(5 953)</b>	<b>(2 431)</b>	<b>(1 545)</b>	<b>(3 517)</b>	<b>(737)</b>	<b>13 023 803</b>
<b>Total comprehensive income</b>	-	-	-	-	-	-	<b>215 742</b>	<b>(44)</b>	<b>61 488</b>	<b>2 974</b>	-	<b>543</b>	<b>280 703</b>
Transfer to general banking risk reserve	-	-	-	-	20 000	(20 000)	-	-	-	-	-	-	-
Transfer to supplementary capital	-	-	2 761 506	-	-	(2 761 506)	-	-	-	-	-	-	-
Stock option program for employees	-	-	-	2 498	-	-	-	-	-	-	-	-	2 498
- value of services provided by the employees	-	-	-	2 498	-	-	-	-	-	-	-	-	2 498
<b>Equity as at 31 March 2017</b>	<b>169 121</b>	<b>3 381 975</b>	<b>7 145 517</b>	<b>29 389</b>	<b>1 115 143</b>	<b>1 199 339</b>	<b>215 742</b>	<b>(5 997)</b>	<b>59 057</b>	<b>1 429</b>	<b>(3 517)</b>	<b>(194)</b>	<b>13 307 004</b>

Changes from 1 January to 31 December 2016

	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	
<b>Equity as at 1 January 2016</b>	<b>168 956</b>	<b>3 366 802</b>	<b>4 384 011</b>	<b>32 976</b>	<b>1 065 143</b>	<b>2 791 517</b>	-	<b>(6 290)</b>	<b>441 758</b>	<b>859</b>	<b>(3 850)</b>	<b>465</b>	<b>12 242 347</b>
<b>Total comprehensive income</b>	-	-	-	-	-	-	<b>1 219 339</b>	<b>337</b>	<b>(444 189)</b>	<b>(2 404)</b>	<b>333</b>	<b>(1 202)</b>	<b>772 214</b>
Transfer to general banking risk reserve	-	-	-	-	30 000	(30 000)	-	-	-	-	-	-	-
Issue of shares	165	-	-	-	-	-	-	-	-	-	-	-	165
Other changes	-	-	-	-	-	(11)	-	-	-	-	-	-	(11)
Stock option program for employees	-	15 173	-	(6 085)	-	-	-	-	-	-	-	-	9 088
- value of services provided by the employees	-	-	-	9 088	-	-	-	-	-	-	-	-	9 088
- settlement of exercised options	-	15 173	-	(15 173)	-	-	-	-	-	-	-	-	-
<b>Equity as at 31 December 2016</b>	<b>169 121</b>	<b>3 381 975</b>	<b>4 384 011</b>	<b>26 891</b>	<b>1 095 143</b>	<b>2 761 506</b>	<b>1 219 339</b>	<b>(5 953)</b>	<b>(2 431)</b>	<b>(1 545)</b>	<b>(3 517)</b>	<b>(737)</b>	<b>13 023 803</b>

Changes from 1 January to 31 March 2016

	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	
<b>Equity as at 1 January 2016</b>	<b>168 956</b>	<b>3 366 802</b>	<b>4 384 011</b>	<b>32 976</b>	<b>1 065 143</b>	<b>2 791 517</b>	-	<b>(6 290)</b>	<b>441 758</b>	<b>859</b>	<b>(3 850)</b>	<b>465</b>	<b>12 242 347</b>
<b>Total comprehensive income</b>	-	-	-	-	-	-	<b>303 491</b>	<b>(72)</b>	<b>37 594</b>	<b>1 172</b>	-	<b>(4 725)</b>	<b>337 460</b>
Transfer to general banking risk reserve	-	-	-	-	30 000	(30 000)	-	-	-	-	-	-	-
Stock option program for employees	-	-	-	3 208	-	-	-	-	-	-	-	-	3 208
- value of services provided by the employees	-	-	-	3 208	-	-	-	-	-	-	-	-	3 208
<b>Equity as at 31 March 2016</b>	<b>168 956</b>	<b>3 366 802</b>	<b>4 384 011</b>	<b>36 184</b>	<b>1 095 143</b>	<b>2 761 517</b>	<b>303 491</b>	<b>(6 362)</b>	<b>479 352</b>	<b>2 031</b>	<b>(3 850)</b>	<b>(4 260)</b>	<b>12 583 015</b>

## mBank S.A. stand-alone financial information

## Statement of cash flows

	Period from 01.01.2017 to 31.03.2017	Period from 01.01.2016 to 31.03.2016
<b>A. Cash flows from operating activities</b>	<b>(2 207 622)</b>	<b>135 538</b>
<b>Profit before income tax</b>	<b>312 676</b>	<b>377 512</b>
<b>Adjustments:</b>	<b>(2 520 298)</b>	<b>(241 974)</b>
Income taxes paid	(108 464)	(118 647)
Amortisation	45 379	47 334
Foreign exchange (gains) losses related to financing activities	(480 158)	(88 623)
(Gains) losses on investing activities	(54 612)	(53 443)
Impairment of investments in subsidiaries	-	442
Dividends received	(154)	(22 090)
Interest income (income statement)	(862 990)	(829 391)
Interest expense (income statement)	205 267	242 922
Interest received	894 876	702 462
Interest paid	(194 317)	(228 573)
Changes in loans and advances to banks	(140 269)	759 787
Changes in trading securities	16 980	22
Changes in assets and liabilities on derivative financial instruments	144 596	(196 091)
Changes in loans and advances to customers	168 131	660 241
Changes in investment securities	(88 154)	(614 026)
Changes in other assets	(14 007)	(46 445)
Changes in amounts due to other banks	615 787	(1 028 480)
Changes in amounts due to customers	(2 750 673)	50 826
Changes in provisions	(4 063)	(56 380)
Changes in other liabilities	86 547	576 179
<b>Net cash generated from/(used in) operating activities</b>	<b>(2 207 622)</b>	<b>135 538</b>
<b>B. Cash flows from investing activities</b>	<b>(84 747)</b>	<b>(35 847)</b>
<b>Investing activity inflows</b>	<b>377</b>	<b>22 649</b>
Disposal of shares in subsidiaries, net of cash disposed	-	500
Disposal of intangible assets and tangible fixed assets	223	59
Dividends received	154	22 090
<b>Investing activity outflows</b>	<b>85 124</b>	<b>58 496</b>
Purchase of intangible assets and tangible fixed assets	85 124	58 496
<b>Net cash generated from/(used in) investing activities</b>	<b>(84 747)</b>	<b>(35 847)</b>
<b>C. Cash flows from financing activities</b>	<b>(984 184)</b>	<b>(136 133)</b>
<b>Financing activity inflows</b>	<b>791 720</b>	<b>-</b>
Security deposit due to issue of Eurobonds	791 720	-
<b>Financing activity outflows</b>	<b>1 775 904</b>	<b>136 133</b>
Repayments of loans and advances from other banks	-	89 670
Repayments of other loans and advances	6 754	6 422
Acquisition of shares in subsidiaries - increase of involvement	120 000	-
Decrease of subordinated liabilities	1 611 840	-
Payments of financial lease liabilities	1 843	2 260
Interest paid from loans and advances received from other banks, subordinated liabilities and long term issue	35 467	37 781
<b>Net cash generated from/(used in) financing activities</b>	<b>(984 184)</b>	<b>(136 133)</b>
<b>Net increase / decrease in cash and cash equivalents (A+B+C)</b>	<b>(3 276 553)</b>	<b>(36 442)</b>
Effects of exchange rate changes on cash and cash equivalents	(86 587)	(13 410)
Cash and cash equivalents at the beginning of the reporting period	14 987 684	6 892 431
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>11 624 544</b>	<b>6 842 579</b>

## Explanatory notes to the condensed consolidated financial statements

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

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

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

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

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

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

As at 31 March 2017, 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, 16<sup>th</sup> Economic Registration Division, on 23 December 1986 in the Business Register under the number RHB 14036. The 9<sup>th</sup> Extraordinary Meeting of Shareholders held on 4 March 1999 adopted the resolution changing the Bank's name to BRE Bank 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, 12<sup>th</sup> Commercial Division of the National Court Register, registered the amendments to the Bank's By-laws arising from Resolutions N°26 and Resolutions N°27 of the 26<sup>th</sup> Annual General Meeting of mBank S.A., which was held on 11 April 2013. With the registration of changes in By-laws, the name of the Bank has changed from the current BRE Bank Spółka Akcyjna on mBank Spółka Akcyjna (abbreviated mBank S.A.).

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

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

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

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

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

As at 31 March 2017 the headcount of mBank S.A. amounted to 5 352 FTEs (Full Time Equivalents) and of the Group to 6 507 FTEs (31 March 2016: Bank to 5 136 FTEs, Group 6 526 FTEs).

As at 31 March 2017 the employment in mBank S.A. was 6 292 persons and in the Group 8 379 persons (31 March 2016: Bank 6 135 persons, Group 8 377 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)
- mFactoring 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**

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

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

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

**2.1. Accounting basis**

The condensed consolidated financial statements of mBank S.A. Group have been prepared for the 3 - month period ended 31 March 2017.

The presented condensed consolidated financial statements for the first quarter of 2017 fulfill the requirements of the International Accounting Standard (IAS) 34 "Interim Financial Reporting", concerning interim financial statements and adopted for application by the European Union.

The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and, therefore, the presented condensed consolidated financial statements for the first quarter of 2017 should be read in conjunction with the mBank S.A. Group Consolidated Financial Statements for the year 2016, which have been prepared in accordance with IFRSs adopted for application by the European Union, on 1 March 2017 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 2016, with the exception of the application of new or amended standards and interpretations binding for annual periods beginning on or after 1 January 2017 and described under Note 2.30.

The data for the year 2016 presented in these mBank S.A. Group condensed consolidated financial statements was audited by the auditor.

The preparation of the financial statements in compliance with IFRS requires the application of specific accounting estimates. It also requires the Management Board to use its own judgment when applying the accounting policies adopted by the 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 27 April 2017.

## **2.2. Consolidation**

### Subsidiaries

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

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

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

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

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

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

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

Company	31.03.2017		31.12.2016		31.03.2016	
	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
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
mFactoring 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
Tele-Tech Investment Sp. z o.o.	100%	full	100%	full	100%	full
mFinance France S.A.	99.998%	full	99.998%	full	99.998%	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 which took place on 20 May 2016. The detailed rules for the division of these companies were described under Note 1 of mBank S.A. Group Consolidated Financial Statements for the year 2016, published on 1 March 2017.

### 2.3. Associates and joint ventures

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

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

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

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

The share of the Group in the profits (losses) of associates 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. Segment reporting**

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

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

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

## **2.8. Financial assets**

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

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



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

#### Financial assets valued at fair value through the income statement

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

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

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

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

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

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

The Group also designates the financial assets/financial liabilities at fair value through the income statement when doing so results in more relevant information, because either:

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

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

Interest income/expense on financial assets/financial liabilities designated at fair value (Note 2.4), except for derivatives the recognition of which is discussed in Note 2.14, is recognised in net interest income. The valuation and result on disposal of financial assets/financial liabilities designated at fair value is recognised in trading income.

As presented in this financial statements reporting periods, the Group did not designate any financial instrument on initial recognition as financial assets at fair value through the income statement.

#### Loans and receivables

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

### Financial assets held to maturity

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

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

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

### Financial assets available for sale

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

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

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

Gains and losses arising from changes in the fair value of available for sale financial assets are recognised in other comprehensive income until the derecognition of the respective financial asset in the statement of financial position or until its impairment: at such time the aggregate net gain or loss previously recognised in other comprehensive income is now recognised in the income statement. However, interest calculated using the effective interest rate is recognised in the income statement. Dividends on available for sale equity instruments are recognised in the income statement when the entity's right to receive payment is established.

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

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

## **2.9. Offsetting financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The conditions mentioned above are not satisfied and offsetting is inappropriate when: different financial instruments are used to emulate the features of a single financial instrument, financial assets and liabilities arise from financial instruments having the same 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.

## **2.10. 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 has been described below.

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

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. 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 to the Bank.

#### The list of definite loss events:

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

#### The list of required conditions for indefinite loss events is prepared separately for each following entity type:

- 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.

**Impairment triggers - retail portfolio**

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

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

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

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

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

**Calculation of impairment losses and provisions - corporate portfolio**

The intranet application IMPAIRMENT-KORPO is a tool used to calculate impairment losses for impaired exposures granted to corporate customers and banks. 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.

In the case of customers with evidence for impairment, a comparison of the carrying value of the gross credit exposure with the value of estimated future cash flows, discounted at the original effective interest rate is made. An impairment is recognized when the discounted value of future cash flows is lower than the gross carrying amount. This results in the impairment charge for balance sheet credit exposure and/or provision for off-balance sheet credit exposure.

Otherwise, impairment is not recognized and the exposure is classified to the IBNR (Incurred But Not Reported loss) portfolio, covered by a group provision. IBNR group charge for this portfolio is created in the amount of 5% of the gross carrying amount.

**Calculation of IBNR provision for portfolio with no evidence for impairment - corporate portfolio**

The amount of provision is an estimate of incurred loss and is assumed at the expected level of exposure at the impairment date, considering the book value of loss (in percentage terms) and the probability of default.

The probability of disclosure of a loss is modelled using logistic regression based on financial indicators and qualitative data on financed entity. The model is calibrated on the Bank's internal data, comprising a several years' period of observation of the corporate portfolio. On the basis of the monitoring period existing in the Bank, it was estimated that 6-8 months (depending on the size of the company) is the average period between the loss event occurrence and the possibility of its identification by the Bank (loss identification period "LIP"). Therefore, the Bank performs calculations on the basis of 6-8-month horizon for probability of default obtained via scaling the original 12-month PD-rating coming from the corporate PD model. The value of incurred loss is assumed at the level of the expected value of exposure in case of default (EAD) multiplied by PD and LGD.

In the opinion of the Management Board, the profile of the corporate rating system as a model sensitive to changes in economic cycle (Point-in-Time) as well as recognition of interim financial data and warning

indicators as rating assessment drivers should ensure adequate reflection of the amounts of the calculated portfolio provision to the changing market environment.

### **Calculation of impairment losses and provisions - retail portfolio**

In the retail area, impairment charges and provisions are determined for the portfolio exposure both with evidence for impairment and with no evidence for impairment. For the purpose of measuring impairment in the retail area, the Bank applies two approaches for determining credit risk parameters. In the case of the Polish market, the Bank applies parameters analogous to those derived from the AIRB methodology (advanced internal ratings based approach for calculating capital requirement for credit risk), after necessary adjustments aimed at elimination of differences between AIRB and IAS-. In the case of the Czech and Slovak markets, risk parameters are estimated based on migration matrices.

12-month loss identification period (LIP) based on the current internal data on banking processes and abilities to detect the incurred losses is applied in the retail area to estimate the probability of default.

### **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.

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

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

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

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

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

#### **2.13. 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.

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

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

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

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 host debt instrument in accordance with IAS 32.

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

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

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

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

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

**2.16. 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.

**2.17. Intangible assets**

The Group measures intangible assets initially at cost. After initial recognition, intangible assets are recognised at their cost of acquisition adjusted by the costs of improvement (rearrangement, development, reconstruction or modernisation) less any accumulated amortization and any accumulated impairment losses. 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 acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

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

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



Computer software

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

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

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

Development costs

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

"Development costs" useful lives are 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.

**2.18. Tangible fixed assets**

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

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

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

Buildings and structures	25-40 years,
Equipment	2-10 years,
Vehicles	5 years,
Information technology hardware	2-5 years,
Investments in third party fixed assets	10-40 years, no longer 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 arising need.

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

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

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

### **2.19. Inventories**

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

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

The Group classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or 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 place at the moment of sale or when the operation meets criteria of the operation classified as held for sale, if this moment took place previously. Disposal group which is to be taken out of usage may also be classified as discontinued operation.

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

The Group creates a deferred income tax on the temporary difference arising between the carrying amount of an asset or liability in the statement of financial position and its tax base. A taxable net difference is recognised in liabilities as "Provisions for deferred income tax". A deductible net difference is recognised under "Deferred income tax assets". Any change in the balance of the deferred tax assets

and liabilities in relation to the previous accounting period is recorded under the item "Income Tax". The balance sheet method is applied for the calculation of the deferred corporate income tax.

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

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

## **2.22. 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.

### 2.23. Prepayments, accruals and deferred income

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

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

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.

### 2.24. 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.

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

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

Revenue from leasing agreements is 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.

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

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

### 2.25. Provisions

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.

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

### Post-employment employee benefits

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

### Equity-settled share-based payment transactions

The Group runs programmes of remuneration based on and settled in own shares 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.

## **2.27. Equity**

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

### Registered share capital

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

#### ■ Own shares

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

#### Share premium

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

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

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

#### Retained earnings

Retained earnings include:

- other supplementary capital,
- other reserve capital,
- general 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 incentive programs based on Bank's shares.

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

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

#### Functional currency and presentation currency

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

#### Transactions and balances

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

Foreign exchange differences arising on account of such monetary items as financial assets measured at fair value through 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. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Changes in fair value of monetary items available for sale cover foreign exchange differences arising from valuation at amortised cost, which are recognised in the income statement.

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

#### Companies belonging to the Group

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

- assets and liabilities in each presented statement of financial position are converted at the average rate of exchange of the National Bank of Poland (NBP) in force at the end of this reporting period;
- revenues and expenses in each income statement are converted at the rate equal to the arithmetical mean of the average rates quoted by NBP on the last day of each of 3 months of each presented periods; whereas
- all resulting foreign exchange differences are recognised as a distinct item of other comprehensive income.

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

#### Leasing business

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

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

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

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

The assets concerned are not shown in these financial statements as they do not belong to the Group.

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

### **2.30. New standards, interpretations and amendments to published standards**

These financial statements include the requirements of all the International Accounting Standards and the International Financial Reporting Standards endorsed by the European Union, and the related with them interpretations which have been endorsed and binding for annual periods starting on 1 January 2017.

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

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

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

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

- IFRS 9, *Financial Instruments*, published by the International Accounting Standards Board on 24 July 2014, approved by European Union on 22 November 2016, 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.

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

In June 2015 the Group launched an IFRS 9 implementation project which actively engages the Bank's organizational units responsible for accounting, financial reporting and risk management as well as business, IT and organisation department.

The Group is currently implementing necessary solutions for the particular IFRS 9 requirements based on the results of gap analysis and defined methodological assumptions. The Group intends to complete the project by December 2017.

Information about the impact of adopting the standard on the presentation and valuation of these instruments in the financial statements was presented under Note 2.33 of the mBank Group Consolidated Financial Statements for the year 2016 published on 1 March 2017.

- IFRS 15, *Revenue from Contracts with Customers*, published by the International Accounting Standards Board on 28 May 2014, approved by European Union on 22 September 2016, 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, approved by European Union on 22 September 2016, binding for annual periods starting on or after 1 January 2018.

IFRS 15 introduces new principles of revenue recognition. The core principle is that an entity recognizes revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. According to a new IFRS 15 revenue is recognized when the customer obtains control of these goods or services. Depending on the fulfilment of certain conditions revenues are either recognized over time throughout the duration of the contract if a performance obligation is satisfied over time, or at a point in time when the customer obtains control of these goods or services.

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.

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

- 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 starting 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 starting 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.

- Annual Improvements to IFRS Standards 2014-2016 Cycle, changing 3 standards (IFRS 1, IFRS 12, IAS 28), published by International Accounting Standards Board on 8 December 2016, binding for annual periods starting on or after 1 January 2017 or on or after 1 January 2018.



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

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

Amendments to IFRS 15 clarify the guidance on the identification of performance obligation, the accounting of licensing of intellectual property and principal versus agent considerations in the context of presenting income on gross or net basis. The practical expedients on transition were also added when applying a new standard.

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.

- 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 annual 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 annual 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 IAS 40, *Transfers of Investment Property*, published by International Accounting Standards Board on 8 December 2016, binding for annual 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.

- IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*, published by International Accounting Standards Board on 8 December 2016, binding for annual periods starting on or after 1 January 2018.

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

### 2.31. Comparative data

The consolidated data as at 31 December 2016 and as at 31 March 2016 are comparable with the current accounting period and therefore has not been adjusted.

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

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

#### Impairment of loans and advances

The Group reviews its loan portfolio in terms of possible impairments at least once per quarter. In order to determine whether any impairment loss should be recognised in the income statement, the Group assesses whether any evidence exists that would indicate some measurable reduction of estimated future cash flows attached to the loan portfolio. The methodology and the assumptions (on the basis of which the estimated cash flow amounts and their anticipated timing are determined) are regularly verified. If the current value of estimated cash flows for portfolio of loans and advances which are impaired, change by +/-10%, the estimated loans and advances impairment would either decrease by PLN 45.6 million or increase by PLN 53.4 million respectively. This estimation was performed for portfolio of loans and advances individually assessed for impairment on the basis of future cash flows due to repayments and recovery from collateral. The rules of determining write-downs and provisions for impairment of credit exposures have been described under Note 2.10.

#### 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 were described under Note 3.16 of the mBank Group consolidated financial statements for the year 2016, published on 1 March 2017. If the current value of interest rates used for valuation change by +/- 1 bp, the fair value of financial instruments would either decrease or increase by PLN 9.3 million PLN respectively.

#### 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.

#### **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 their integration with the Bank.
- 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 date of 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 KUKI to support the Polish export market. This sub-segment also includes the results

of mFinance France S.A. as well as the results of mLeasing Sp. z o.o and mBank Hipoteczny S.A. with regard to activities concerning funding.

- Operations which are not included in the Retail Banking segment and the Corporates and Financial Markets segment are reported under "Other". This segment includes the results of mLocum S.A., mCentrum Operacji Sp. z o.o. and BDH Development Sp. z o.o.

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

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

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

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

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

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

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

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

**Business segment reporting on the activities of mBank S.A. Group  
for the period from 1 January to 31 March 2017  
(PLN'000)**

	Corporates & Financial Markets		Retail Banking (including Private Banking)	Other	Total figure for the Group	Statement of financial position reconciliation/ income statement reconciliation
	Corporate and Investment Banking	Financial Markets				
<b>Net interest income</b>	<b>193 200</b>	<b>80 991</b>	<b>473 337</b>	<b>1 479</b>	<b>749 007</b>	<b>749 007</b>
- sales to external clients	209 275	165 164	373 974	594	749 007	
- sales to other segments	(16 075)	(84 173)	99 363	885	-	
<b>Net fee and commission income</b>	<b>100 668</b>	<b>(1 574)</b>	<b>149 153</b>	<b>1 307</b>	<b>249 554</b>	<b>249 554</b>
<b>Dividend income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>154</b>	<b>154</b>	<b>154</b>
<b>Trading income</b>	<b>60 532</b>	<b>(9 975)</b>	<b>26 584</b>	<b>(244)</b>	<b>76 897</b>	<b>76 897</b>
<b>Gains less losses from investment securities, investments in subsidiaries and associates</b>	<b>354</b>	<b>1 282</b>	<b>-</b>	<b>-</b>	<b>1 636</b>	<b>1 636</b>
<b>Other operating income</b>	<b>17 651</b>	<b>84</b>	<b>7 670</b>	<b>20 904</b>	<b>46 309</b>	<b>46 309</b>
<b>Net impairment losses on loans and advances</b>	<b>(6 472)</b>	<b>1 508</b>	<b>(78 509)</b>	<b>552</b>	<b>(82 921)</b>	<b>(82 921)</b>
<b>Overhead costs</b>	<b>(194 264)</b>	<b>(64 513)</b>	<b>(259 630)</b>	<b>(8 202)</b>	<b>(526 609)</b>	<b>(526 609)</b>
<b>Amortisation</b>	<b>(17 318)</b>	<b>(2 441)</b>	<b>(30 493)</b>	<b>(830)</b>	<b>(51 082)</b>	<b>(51 082)</b>
<b>Other operating expenses</b>	<b>(11 686)</b>	<b>(761)</b>	<b>(10 919)</b>	<b>(18 413)</b>	<b>(41 779)</b>	<b>(41 779)</b>
<b>Operating profit</b>	<b>142 665</b>	<b>4 601</b>	<b>277 193</b>	<b>(3 293)</b>	<b>421 166</b>	<b>421 166</b>
<b>Taxes on Group balance sheet items</b>	<b>(33 237)</b>	<b>(6 807)</b>	<b>(49 754)</b>	<b>(1 507)</b>	<b>(91 305)</b>	<b>(91 305)</b>
<b>Gross profit of the segment</b>	<b>109 428</b>	<b>(2 206)</b>	<b>227 439</b>	<b>(4 800)</b>	<b>329 861</b>	<b>329 861</b>
Income tax					(110 937)	(110 937)
Net profit attributable to Owners of mBank S.A.					218 778	218 778
Net profit attributable to non-controlling interests					146	146
<b>Assets of the segment</b>	<b>34 629 413</b>	<b>44 138 473</b>	<b>50 403 983</b>	<b>1 316 512</b>	<b>130 488 381</b>	<b>130 488 381</b>
<b>Liabilities of the segment</b>	<b>29 419 737</b>	<b>31 377 181</b>	<b>55 414 472</b>	<b>938 707</b>	<b>117 150 097</b>	<b>117 150 097</b>
<b>Other items of the segment</b>						
Expenditures incurred on fixed assets and intangible assets	30 169	1 026	17 736	562	49 493	

**Business segment reporting on the activities of mBank S.A. Group  
for the period from 1 January to 31 December 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				
<b>Net interest income</b>	<b>750 522</b>	<b>314 536</b>	<b>1 762 440</b>	<b>5 345</b>	<b>2 832 843</b>	<b>2 832 843</b>
- sales to external clients	753 889	702 398	1 373 712	2 844	2 832 843	
- sales to other segments	(3 367)	(387 862)	388 728	2 501	-	
<b>Net fee and commission income</b>	<b>378 797</b>	<b>(4 560)</b>	<b>517 665</b>	<b>14 543</b>	<b>906 445</b>	<b>906 445</b>
<b>Dividend income</b>	<b>-</b>	<b>410</b>	<b>5</b>	<b>2 912</b>	<b>3 327</b>	<b>3 327</b>
<b>Trading income</b>	<b>243 641</b>	<b>(103 253)</b>	<b>100 272</b>	<b>3 971</b>	<b>244 631</b>	<b>244 631</b>
<b>Gains less losses from investment securities, investments in subsidiaries and associates</b>	<b>20 973</b>	<b>17 280</b>	<b>230 455</b>	<b>(7 427)</b>	<b>261 281</b>	<b>261 281</b>
<b>The share in the profits (losses) of joint ventures</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(107)</b>	<b>(107)</b>	<b>(107)</b>
<b>Other operating income</b>	<b>56 348</b>	<b>83</b>	<b>41 074</b>	<b>146 244</b>	<b>243 749</b>	<b>243 749</b>
<b>Net impairment losses on loans and advances</b>	<b>(76 548)</b>	<b>(1 653)</b>	<b>(284 922)</b>	<b>(2 271)</b>	<b>(365 394)</b>	<b>(365 394)</b>
<b>Overhead costs</b>	<b>(641 582)</b>	<b>(94 940)</b>	<b>(973 052)</b>	<b>(30 069)</b>	<b>(1 739 643)</b>	<b>(1 739 643)</b>
<b>Amortisation</b>	<b>(75 442)</b>	<b>(9 480)</b>	<b>(135 573)</b>	<b>(3 146)</b>	<b>(223 641)</b>	<b>(223 641)</b>
<b>Other operating expenses</b>	<b>(38 015)</b>	<b>(774)</b>	<b>(55 913)</b>	<b>(102 113)</b>	<b>(196 815)</b>	<b>(196 815)</b>
<b>Operating profit</b>	<b>618 694</b>	<b>117 649</b>	<b>1 202 451</b>	<b>27 882</b>	<b>1 966 676</b>	<b>1 966 676</b>
<b>Taxes on Group balance sheet items</b>	<b>(120 113)</b>	<b>(26 788)</b>	<b>(178 539)</b>	<b>(3 499)</b>	<b>(328 939)</b>	<b>(328 939)</b>
<b>Gross profit of the segment</b>	<b>498 581</b>	<b>90 861</b>	<b>1 023 912</b>	<b>24 383</b>	<b>1 637 737</b>	<b>1 637 737</b>
Income tax					(415 513)	(415 513)
Net profit attributable to Owners of mBank S.A.					1 219 282	1 219 282
Net profit attributable to non-controlling interests					2 942	2 942
<b>Assets of the segment</b>	<b>34 384 935</b>	<b>46 111 056</b>	<b>51 914 792</b>	<b>1 332 719</b>	<b>133 743 502</b>	<b>133 743 502</b>
<b>Liabilities of the segment</b>	<b>32 083 584</b>	<b>32 622 759</b>	<b>55 026 967</b>	<b>959 031</b>	<b>120 692 341</b>	<b>120 692 341</b>
<b>Other items of the segment</b>						
Expenditures incurred on fixed assets and intangible assets	205 793	14 575	164 157	826	385 351	

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

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



Geographical areas reporting on the activities of mBank S.A. Group for the period	from 1 January to 31 March 2017			from 1 January to 31 December 2016			from 1 January to 31 March 2016		
	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total
<b>Net interest income</b>	712 313	36 694	<b>749 007</b>	2 688 897	143 946	<b>2 832 843</b>	642 700	33 718	<b>676 418</b>
<b>Net fee and commission income</b>	250 384	(830)	<b>249 554</b>	897 425	9 020	<b>906 445</b>	209 938	1 807	<b>211 745</b>
<b>Dividend income</b>	154	-	<b>154</b>	3 327	-	<b>3 327</b>	-	-	<b>-</b>
<b>Trading income</b>	75 229	1 668	<b>76 897</b>	238 867	5 764	<b>244 631</b>	83 244	843	<b>84 087</b>
<b>Gains less losses from investment securities, investments in subsidiaries and associates</b>	1 636	-	<b>1 636</b>	216 977	44 304	<b>261 281</b>	3 427	-	<b>3 427</b>
<b>The share in the profits (losses) of joint ventures</b>	-	-	<b>-</b>	(107)	-	<b>(107)</b>	(40)	-	<b>(40)</b>
<b>Other operating income</b>	45 759	550	<b>46 309</b>	235 153	8 596	<b>243 749</b>	93 889	198	<b>94 087</b>
<b>Net impairment losses on loans and advances</b>	(81 310)	(1 611)	<b>(82 921)</b>	(359 198)	(6 196)	<b>(365 394)</b>	(67 522)	(998)	<b>(68 520)</b>
<b>Overhead costs</b>	(494 197)	(32 412)	<b>(526 609)</b>	(1 618 554)	(121 089)	<b>(1 739 643)</b>	(397 035)	(30 010)	<b>(427 045)</b>
<b>Amortisation</b>	(50 020)	(1 062)	<b>(51 082)</b>	(219 558)	(4 083)	<b>(223 641)</b>	(52 780)	(947)	<b>(53 727)</b>
<b>Other operating expenses</b>	(41 350)	(429)	<b>(41 779)</b>	(193 995)	(2 820)	<b>(196 815)</b>	(60 514)	(307)	<b>(60 821)</b>
<b>Operating profit</b>	418 598	2 568	<b>421 166</b>	1 889 234	77 442	<b>1 966 676</b>	455 307	4 304	<b>459 611</b>
<b>Taxes on the Group balance sheet items</b>	(85 128)	(6 177)	<b>(91 305)</b>	(308 055)	(20 884)	<b>(328 939)</b>	(53 542)	(3 760)	<b>(57 302)</b>
<b>Gross profit of the segment</b>	<b>333 470</b>	<b>(3 609)</b>	<b>329 861</b>	<b>1 581 179</b>	<b>56 558</b>	<b>1 637 737</b>	401 765	544	<b>402 309</b>
Income tax			(110 937)			(415 513)			(92 804)
Net profit attributable to Owners of mBank S.A.			218 778			1 219 282			307 782
Net profit attributable to non-controlling interests			146			2 942			1 723
<b>Assets of the segment, including:</b>	125 208 193	5 280 188	<b>130 488 381</b>	128 304 364	5 439 138	<b>133 743 502</b>	119 151 000	4 117 380	<b>123 268 380</b>
- tangible assets	1 303 913	11 303	1 315 216	1 327 824	12 210	1 340 034	1 225 026	9 734	1 234 760
- deferred income tax assets	524 495	2 403	526 898	538 184	2 572	540 756	348 762	4 624	353 386
<b>Liabilities of the segment</b>	109 153 743	7 996 354	<b>117 150 097</b>	112 706 515	7 985 826	<b>120 692 341</b>	103 946 883	6 694 100	<b>110 640 983</b>



**5. Net interest income**

	the period	from 01.01.2017 to 31.03.2017	from 01.01.2016 to 31.03.2016
<b>Interest income</b>			
Loans and advances including the unwind of the impairment provision discount		706 996	663 278
Investment securities		170 794	178 405
Cash and short-term placements		15 187	11 958
Trading debt securities		24 261	15 797
Interest income on derivatives classified into banking book		44 510	59 116
Interest income on derivatives concluded under the fair value hedge		15 928	11 959
Interest income on derivatives concluded under the cash flow hedge		4 359	3 854
Other		509	1 116
<b>Total interest income</b>		<b>982 544</b>	<b>945 483</b>
<b>Interest expense</b>			
Arising from amounts due to banks		(13 761)	(19 267)
Arising from amounts due to customers		(128 313)	(173 768)
Arising from issue of debt securities		(67 749)	(56 941)
Arising from subordinated liabilities		(18 236)	(16 741)
Other		(5 478)	(2 348)
<b>Total interest expense</b>		<b>(233 537)</b>	<b>(269 065)</b>

Interest income related to impaired financial assets amounted to PLN 22 536 thousand (31 March 2016: PLN 22 654 thousand).

**6. Net fee and commission income**

	the period	from 01.01.2017 to 31.03.2017	from 01.01.2016 to 31.03.2016
<b>Fee and commission income</b>			
Payment cards-related fees		88 862	88 450
Credit-related fees and commissions		81 364	68 567
Commissions for agency service regarding sale of insurance products of external financial entities		47 703	36 777
Fees from brokerage activity and debt securities issue		32 863	26 009
Commissions from bank accounts		46 554	42 134
Commissions from money transfers		28 171	26 439
Commissions due to guarantees granted and trade finance commissions		16 674	13 503
Commissions for agency service regarding sale of other products of external financial entities		34 313	24 595
Commissions on trust and fiduciary activities		6 589	6 220
Fees from portfolio management services and other management-related fees		3 457	2 723
Fees from cash services		12 690	11 395
Other		7 865	5 098
<b>Total fee and commission income</b>		<b>407 105</b>	<b>351 910</b>

	the period	from 01.01.2017 to 31.03.2017	from 01.01.2016 to 31.03.2016
<b>Fee and commission expense</b>			
Payment cards-related fees		(52 803)	(54 590)
Commissions paid to external entities for sale of the Bank's products		(32 622)	(25 022)
Commissions paid for agency service regarding sale of insurance products of external financial entities		(1 484)	(1 426)
Discharged brokerage fees		(7 508)	(7 592)
Cash services		(10 602)	(8 731)
Fees to NBP and KIR		(2 106)	(1 889)
Other discharged fees		(50 426)	(40 915)
<b>Total fee and commission expense</b>		<b>(157 551)</b>	<b>(140 165)</b>

## 7. Dividend income

	the period	from 01.01.2017 to 31.03.2017	from 01.01.2016 to 31.03.2016
Securities available for sale		154	-
<b>Total dividend income</b>		<b>154</b>	<b>-</b>

## 8. Net trading income

	the period	from 01.01.2017 to 31.03.2017	from 01.01.2016 to 31.03.2016
<b>Foreign exchange result</b>			
Net exchange differences on translation		166 844	(52 091)
Net transaction gains/(losses)		(90 437)	123 908
<b>Other net trading income and result on hedge accounting</b>		<b>490</b>	<b>12 270</b>
Interest-bearing instruments		(887)	10 110
Equity instruments		283	746
Market risk instruments		2 350	1 434
Result on fair value hedge accounting, including:		(1 850)	3 673
- Net profit on hedged items		34 370	(70 617)
- Net profit on fair value hedging instruments		(36 220)	74 290
Ineffective portion of cash flow hedge		594	(3 693)
<b>Total net trading income</b>		<b>76 897</b>	<b>84 087</b>

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

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

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

	the period	from 01.01.2017 to 31.03.2017	from 01.01.2016 to 31.03.2016
Sale/redemption of financial assets available for sale		1 636	3 869
Impairment of investments in subsidiaries		-	(442)
<b>Total gains less losses from investment securities and investments in subsidiaries and associates</b>		<b>1 636</b>	<b>3 427</b>

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.

## 10. Other operating income

	the period	from 01.01.2017 to 31.03.2017	from 01.01.2016 to 31.03.2016
Income from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories		29 959	59 655
Income from services provided		6 679	8 250
Net income from operating lease		1 613	2 078
Income due to release of provisions for future commitments		649	394
Income from recovering receivables designated previously as prescribed, remitted or uncollectible		542	1 531
Income from compensations, penalties and fines received		213	5
Other		6 654	22 174
<b>Total other operating income</b>		<b>46 309</b>	<b>94 087</b>

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.

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

Net income from operating lease for the first quarter of 2017 and the first quarter of 2016 is presented below.

	the period	from 01.01.2017 to 31.03.2017	from 01.01.2016 to 31.03.2016
<b>Net income from operating lease, including:</b>			
- Income from operating lease		13 750	13 551
- Depreciation cost of fixed assets provided under operating lease		(12 137)	(11 473)
<b>Total net income from operating lease</b>		<b>1 613</b>	<b>2 078</b>

## 11. Net impairment losses on loans and advances

	the period	from 01.01.2017 to 31.03.2017	from 01.01.2016 to 31.03.2016
Net impairment losses on amounts due from other banks		(11)	279
Net impairment losses on loans and advances to customers		(84 894)	(73 274)
Net impairment losses on off-balance sheet contingent liabilities due to customers		1 984	4 475
<b>Total net impairment losses on loans and advances</b>		<b>(82 921)</b>	<b>(68 520)</b>

## 12. Overhead costs

	the period	from 01.01.2017 to 31.03.2017	from 01.01.2016 to 31.03.2016
Staff-related expenses		(223 275)	(217 862)
Material costs, including:		(164 150)	(160 879)
- logistics cost		(88 943)	(86 339)
- IT costs		(38 431)	(32 191)
- marketing costs		(22 983)	(27 770)
- consulting costs		(11 185)	(11 987)
- other material costs		(2 608)	(2 592)
Taxes and fees		(5 185)	(9 409)
Contributions and transfers to the Bank Guarantee Fund		(132 227)	(37 146)
Contributions to the Social Benefits Fund		(1 772)	(1 749)
<b>Total overhead costs</b>		<b>(526 609)</b>	<b>(427 045)</b>

Staff-related expenses for the first quarter of 2017 and the first quarter of 2016 is presented below.

	the period	from 01.01.2017 to 31.03.2017	from 01.01.2016 to 31.03.2016
Wages and salaries		(180 687)	(176 720)
Social security expenses		(32 827)	(32 089)
Remuneration concerning share-based payments, including:		(3 033)	(3 363)
- share-based payments settled in mBank S.A. shares		(2 498)	(3 207)
- cash-settled share-based payments		(535)	(156)
Other staff expenses		(6 728)	(5 690)
<b>Staff-related expenses, total</b>		<b>(223 275)</b>	<b>(217 862)</b>

### 13. Other operating expenses

	the period	from 01.01.2017 to 31.03.2017	from 01.01.2016 to 31.03.2016
Costs arising from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories		(23 553)	(42 134)
Provisions for future commitments		(2 702)	(1 336)
Donations made		(2 500)	(2 515)
Compensation, penalties and fines paid		(255)	(53)
Costs arising from provisions created for other receivables (excluding loans and advances)		(897)	(70)
Costs of sale of services		(687)	(535)
Costs arising from receivables and liabilities recognised as prescribed, remitted and uncollectible		-	(88)
Impairment losses on non-financial assets		-	(788)
Other operating costs		(11 185)	(13 302)
<b>Total other operating expenses</b>		<b>(41 779)</b>	<b>(60 821)</b>

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

Costs of services provided concern non-banking services.

### 14. Earnings per share

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

	the period	from 01.01.2017 to 31.03.2017	from 01.01.2016 to 31.03.2016
<b>Basic:</b>			
Net profit attributable to Owners of mBank S.A.		218 778	307 782
Weighted average number of ordinary shares		42 280 127	42 238 924
<b>Net basic profit per share (in PLN per share)</b>		<b>5.17</b>	<b>7.29</b>
<b>Diluted:</b>			
Net profit attributable to Owners of mBank S.A., applied for calculation of diluted earnings per share		218 778	307 782
Weighted average number of ordinary shares		42 280 127	42 238 924
Adjustments for:			
- share options		29 631	56 375
Weighted average number of ordinary shares for calculation of diluted earnings per share		42 309 758	42 295 299
<b>Diluted earnings per share (in PLN per share)</b>		<b>5.17</b>	<b>7.28</b>

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

	the period	from 01.01.2017 to 31.03.2017	from 01.01.2016 to 31.03.2016
<b>Basic:</b>			
Net profit		215 742	303 491
Weighted average number of ordinary shares		42 280 127	42 238 924
<b>Net basic profit per share (in PLN per share)</b>		<b>5.10</b>	<b>7.19</b>
<b>Diluted:</b>			
Net profit applied for calculation of diluted earnings per share		215 742	303 491
Weighted average number of ordinary shares		42 280 127	42 238 924
Adjustments for:			
- share options		29 631	56 375
Weighted average number of ordinary shares for calculation of diluted earnings per share		42 309 758	42 295 299
<b>Diluted earnings per share (in PLN per share)</b>		<b>5.10</b>	<b>7.18</b>

## 15. Trading securities

	31.03.2017			31.12.2016			31.03.2016		
	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
<b>Debt securities:</b>	<b>2 439 724</b>	<b>1 094 507</b>	<b>3 534 231</b>	<b>3 042 194</b>	<b>754 263</b>	<b>3 796 457</b>	<b>2 389 947</b>	<b>452 978</b>	<b>2 842 925</b>
Issued by government	2 162 548	1 094 507	3 257 055	2 748 766	754 263	3 503 029	2 117 453	452 978	2 570 431
- government bonds	2 162 548	1 094 507	3 257 055	2 748 766	754 263	3 503 029	2 117 453	449 510	2 566 963
- treasury bills	-	-	-	-	-	-	-	3 468	3 468
Other debt securities	277 176	-	277 176	293 428	-	293 428	272 494	-	272 494
- bank's bonds	84 480	-	84 480	109 904	-	109 904	160 752	-	160 752
- deposit certificates	12 097	-	12 097	16 146	-	16 146	35 196	-	35 196
- corporate bonds	180 599	-	180 599	167 378	-	167 378	76 546	-	76 546
<b>Equity securities:</b>	<b>3 891</b>	<b>-</b>	<b>3 891</b>	<b>4 177</b>	<b>-</b>	<b>4 177</b>	<b>6 885</b>	<b>-</b>	<b>6 885</b>
- listed	3 736	-	3 736	4 022	-	4 022	4 232	-	4 232
- unlisted	155	-	155	155	-	155	2 653	-	2 653
<b>Total debt and equity securities:</b>	<b>2 443 615</b>	<b>1 094 507</b>	<b>3 538 122</b>	<b>3 046 371</b>	<b>754 263</b>	<b>3 800 634</b>	<b>2 396 832</b>	<b>452 978</b>	<b>2 849 810</b>

## 16. Derivative financial instruments

	31.03.2017		31.12.2016		31.03.2016	
	assets	liabilities	assets	liabilities	assets	liabilities
Held for trading derivative financial instruments classified into banking book	277 403	73 112	118 395	160 894	361 722	51 583
Held for trading derivative financial instruments classified into trading book	1 324 757	1 623 531	1 639 881	1 607 660	2 135 639	2 304 056
Derivative financial instruments held for fair value hedging	190 049	26 516	196 634	26 026	246 441	103
Derivative financial instruments held for cash flow hedging	38 266	955	30 926	1 786	55 368	96
Offsetting effect	(149 706)	(166 997)	(176 989)	(197 100)	-	-
<b>Total derivative financial instruments assets/liabilities</b>	<b>1 680 769</b>	<b>1 557 117</b>	<b>1 808 847</b>	<b>1 599 266</b>	<b>2 799 170</b>	<b>2 355 838</b>

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.

### 17. Derivatives held for hedges

The Group applies fair value hedge accounting for:

- 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. The hedged risk results from changes in interest rates.

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

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

The period from April 2017 to March 2022 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 01.01.2017 to 31.03.2017	from 01.01.2016 to 31.03.2016
Interest income on derivatives concluded under the fair value hedge (Note 5)	15 928	11 959
Net profit on hedged items (Note 8)	34 370	(70 617)
Net profit on fair value hedging instruments (Note 8)	(36 220)	74 290
<b>The total results of fair value hedge accounting recognised in the income statement</b>	<b>14 078</b>	<b>15 632</b>

The following note presents other comprehensive income due to cash flow hedges as at 31 March 2017 and 31 March 2016.

	the period	from 01.01.2017 to 31.03.2017	from 01.01.2016 to 31.03.2016
<b>Other comprehensive income from cash flow hedge at the beginning of the period</b>		<b>(1 907)</b>	<b>1 061</b>
- Unrealised gains/losses included in other comprehensive income during the reporting period		3 671	1 447
<b>Accumulated other comprehensive income at the end of the reporting period (gross)</b>		<b>1 764</b>	<b>2 508</b>
Deferred income tax on accumulated other comprehensive income at the end of the reporting period		(335)	(477)
<b>Accumulated net other comprehensive income at the end of the reporting period</b>		<b>1 429</b>	<b>2 031</b>
Impact on other comprehensive income in the reporting period (gross)		3 671	1 447
Deferred tax on cash flow hedges		(697)	(275)
<b>Impact on other comprehensive income in the reporting period (net)</b>		<b>2 974</b>	<b>1 172</b>

	the period	from 01.01.2017 to 31.03.2017	from 01.01.2016 to 31.03.2016
<b>Gains/losses recognised in comprehensive income (gross) during the reporting period, including:</b>			
- Unrealised gains/losses included in other comprehensive income (gross)		3 671	1 447
- Amount included as interest income in income statement		4 359	3 854
- Ineffective portion of hedge recognised in other net trading income		594	(3 693)
<b>Impact on other comprehensive income in the reporting period (gross)</b>		<b>8 624</b>	<b>1 608</b>

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

	the period	from 01.01.2017 to 31.03.2017	from 01.01.2016 to 31.03.2016
Interest income on derivatives concluded under the cash flow hedge (Note 5)		4 359	3 854
Ineffective portion of cash flow hedge (Note 8)		594	(3 693)
<b>The total results of cash flow hedge accounting recognised in the income statement</b>		<b>4 953</b>	<b>161</b>

### 18. Loans and advances to customers

	31.03.2017	31.12.2016	31.03.2016
<b>Loans and advances to individuals:</b>	<b>48 337 964</b>	<b>48 949 829</b>	<b>46 511 010</b>
- current receivables	6 794 178	6 458 369	6 033 935
- term loans, including:	41 543 786	42 491 460	40 477 075
housing and mortgage loans	34 207 426	35 369 113	34 107 363
<b>Loans and advances to corporate entities:</b>	<b>34 840 546</b>	<b>34 174 289</b>	<b>32 805 430</b>
- current receivables	4 770 289	4 125 405	4 727 546
- term loans:	28 295 392	28 267 897	26 585 648
corporate & institutional enterprises	4 954 597	5 037 182	5 179 461
medium & small enterprises	23 340 795	23 230 715	21 406 187
- reverse repo / buy-sell-back transactions	81 275	56 676	4 002
- other	1 693 590	1 724 311	1 488 234
<b>Loans and advances to public sector</b>	<b>1 146 488</b>	<b>1 228 230</b>	<b>1 430 531</b>
<b>Other receivables</b>	<b>213 468</b>	<b>228 424</b>	<b>178 140</b>
<b>Total (gross) loans and advances to customers</b>	<b>84 538 466</b>	<b>84 580 772</b>	<b>80 925 111</b>
Provisions for loans and advances to customers (negative amount)	(2 840 524)	(2 817 495)	(2 984 333)
<b>Total (net) loans and advances to customers</b>	<b>81 697 942</b>	<b>81 763 277</b>	<b>77 940 778</b>
Short-term (up to 1 year)	26 993 896	26 909 693	25 937 174
Long-term (over 1 year)	54 704 046	54 853 584	52 003 604



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

Loans to micro enterprises in the presented reporting periods amounted to respectively: 31 March 2017: PLN 5 560 051 thousand, 31 December 2016 – PLN 5 340 274 thousand, 31 March 2016 – PLN 5 044 998 thousand.

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

	31.03.2017	31.12.2016	31.03.2016
<b>Housing and mortgage loans to individuals (in PLN 000's), including:</b>	<b>34 207 426</b>	<b>35 369 113</b>	<b>34 107 363</b>
- PLN	9 896 566	9 500 619	8 462 919
- CHF	17 606 034	18 725 950	18 681 023
- EUR	3 646 920	3 915 620	3 988 353
- CZK	2 712 884	2 850 232	2 613 659
- USD	307 365	336 694	319 671
- Other currency	37 657	39 998	41 738
<b>Housing and mortgage loans to individuals in original currencies (main currencies in 000's)</b>			
- PLN	9 896 566	9 500 619	8 462 919
- CHF	4 461 629	4 548 114	4 785 098
- EUR	864 240	885 086	934 391
- CZK	17 401 437	17 411 313	16 563 112
- USD	77 903	80 562	85 042

### Provisions for loans and advances

	31.03.2017	31.12.2016	31.03.2016
<b>Incurred but not identified losses</b>			
Gross balance sheet exposure	80 145 950	80 043 614	76 262 317
Impairment provisions for exposures analysed according to portfolio approach	(231 651)	(226 430)	(249 660)
<b>Net balance sheet exposure</b>	<b>79 914 299</b>	<b>79 817 184</b>	<b>76 012 657</b>
<b>Receivables with impairment</b>			
Gross balance sheet exposure	4 392 516	4 537 158	4 662 794
Provisions for receivables with impairment	(2 608 873)	(2 591 065)	(2 734 673)
<b>Net balance sheet exposure</b>	<b>1 783 643</b>	<b>1 946 093</b>	<b>1 928 121</b>

The table below presents the structure of concentration of mBank S.A. Group's exposures in particular sectors according to the new sector division based on the chain value concept introduced in January 2017, where under one single sector have been focused entities operating activities related to a given market (suppliers, manufacturers, vendors). Data as at 31 December 2016 and 31 March 2016 were adjusted accordingly and presented in a new breakdown according to the classification binding in the Group.

No.	Sectors	Principal exposure (in PLN thousand)		%	Principal exposure (in PLN thousand)		%
		31.03.2017			31.12.2016		
1.	Household customers	48 337 964	57.18	48 949 829	57.87	46 511 010	57.47
2.	Real estate activities	5 830 803	6.90	6 082 294	7.19	4 993 376	6.17
3.	Construction	3 815 478	4.51	3 814 574	4.51	3 738 965	4.62
4.	Food sector	2 209 283	2.61	2 323 053	2.75	2 454 294	3.03
5.	Transport and logistics	2 194 818	2.60	2 074 745	2.45	1 871 517	2.31
6.	Wholesale trade	1 841 086	2.18	976 637	1.15	949 651	1.17
7.	Metals	1 829 034	2.16	1 941 590	2.30	1 928 758	2.38
8.	Motorization	1 634 148	1.93	1 516 123	1.79	1 596 579	1.97
9.	Chemicals and chemical products	1 349 021	1.60	1 276 245	1.51	1 394 509	1.72
10.	Wood, furniture and paper products	1 224 763	1.45	1 212 920	1.43	1 389 136	1.72
11.	Construction materials	1 223 929	1.45	1 178 707	1.39	1 322 185	1.63
12.	Rental and leasing activities	1 184 883	1.40	1 213 395	1.43	960 929	1.19
13.	Retail trade	1 055 171	1.25	894 650	1.06	957 101	1.18
14.	Power, power and heating distribution	1 023 546	1.21	1 294 717	1.53	969 623	1.20
15.	Public administration	843 572	1.00	909 234	1.08	1 086 111	1.34
16.	Scientific and technical activities	800 345	0.95	688 975	0.81	700 314	0.87
17.	Fuels	767 895	0.91	1 002 124	1.19	1 130 429	1.40
18.	Information and communication	704 498	0.83	785 461	0.93	644 437	0.80
19.	Hotels and restaurants	643 403	0.76	728 771	0.86	652 204	0.81
20.	Other manufacturing activity	541 843	0.64	441 558	0.52	497 934	0.62
21.	Textiles and wearing apparel	494 748	0.59	492 531	0.58	571 078	0.71
22.	Services	475 366	0.56	471 301	0.56	371 874	0.46
23.	Media	466 403	0.55	460 466	0.54	396 686	0.49
24.	Municipal services	458 583	0.54	412 509	0.49	401 601	0.50
25.	Financial activities	428 617	0.51	249 696	0.30	513 224	0.63
26.	Agriculture, forestry and fishing	398 480	0.47	391 489	0.46	371 408	0.46
27.	IT	398 152	0.47	205 974	0.24	179 532	0.22
28.	Human health and social work activities	397 675	0.47	385 791	0.46	342 667	0.42
29.	Arts, entertainment and recreation	324 218	0.38	326 472	0.39	332 148	0.41
30.	Pharmaceutical products	318 157	0.38	255 425	0.30	228 785	0.28
31.	Household equipment	260 439	0.31	183 302	0.22	220 911	0.27
32.	Education and scientific research	120 102	0.14	136 654	0.16	142 919	0.18
33.	Electronics	102 453	0.12	229 589	0.27	195 703	0.24
34.	Mining	92 363	0.11	69 282	0.08	90 298	0.11

As at 31 March 2017, the total exposure of the Group in the above sectors (excluding household customers) amounted to 41.94% of the credit portfolio (31 December 2016 – 40.93%, 31 March 2016 – 41.51%).

**19. Investment securities**

	31.03.2017			31.12.2016			31.03.2016		
	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
<b>Debt securities</b>	<b>25 108 528</b>	<b>6 512 273</b>	<b>31 620 801</b>	<b>24 652 766</b>	<b>6 674 486</b>	<b>31 327 252</b>	<b>25 730 874</b>	<b>5 689 473</b>	<b>31 420 347</b>
Issued by government	22 992 244	6 512 273	29 504 517	21 576 835	6 674 486	28 251 321	22 706 513	5 689 473	28 395 986
- government bonds	22 500 390	6 507 003	29 007 393	21 576 835	6 674 486	28 251 321	20 852 960	5 689 473	26 542 433
- treasury bills	491 854	5 270	497 124	-	-	-	1 853 553	-	1 853 553
Issued by central bank	649 827	-	649 827	1 816 077	-	1 816 077	2 199 923	-	2 199 923
Other debt securities	1 466 457	-	1 466 457	1 259 854	-	1 259 854	824 438	-	824 438
- bank's bonds	136 617	-	136 617	140 880	-	140 880	209 846	-	209 846
- deposit certificates	45 362	-	45 362	50 466	-	50 466	-	-	-
- corporate bonds	1 247 169	-	1 247 169	1 031 538	-	1 031 538	574 367	-	574 367
- communal bonds	37 309	-	37 309	36 970	-	36 970	40 225	-	40 225
<b>Equity securities:</b>	<b>69 102</b>	<b>-</b>	<b>69 102</b>	<b>66 100</b>	<b>-</b>	<b>66 100</b>	<b>198 124</b>	<b>-</b>	<b>198 124</b>
Unlisted	69 102	-	69 102	66 100	-	66 100	198 124	-	198 124
<b>Total debt and equity securities:</b>	<b>25 177 630</b>	<b>6 512 273</b>	<b>31 689 903</b>	<b>24 718 866</b>	<b>6 674 486</b>	<b>31 393 352</b>	<b>25 928 998</b>	<b>5 689 473</b>	<b>31 618 471</b>
Short-term (up to 1 year)	5 759 394	62 685	5 822 079	4 684 730	58 224	4 742 954	7 852 114	101 050	7 953 164
Long-term (over 1 year)	19 418 236	6 449 588	25 867 824	20 034 136	6 616 262	26 650 398	18 076 884	5 588 423	23 665 307

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.

Presented above equity securities valued at fair value include provisions for impairment of PLN 19 135 thousand (31 December 2016: PLN 19 135 thousand, 31 March 2016: PLN 11 457 thousand).

As at 31 March 2017, equity securities include fair value of preferred shares of Visa Inc. in the amount of PLN 41 272 thousand (as at 31 December 2016: PLN 38 392 thousand). As at 31 March 2016, equity securities included fair value of Visa Europe Ltd. in the amount of PLN 167 514 thousand.

**20. Intangible assets**

	31.03.2017	31.12.2016	31.03.2016
Goodwill	3 532	3 532	3 532
Patents, licences and similar assets, including:	332 277	347 524	325 749
- computer software	255 398	268 308	236 816
Other intangible assets	3 825	4 082	11 354
Intangible assets under development	238 321	227 525	171 846
<b>Total intangible assets</b>	<b>577 955</b>	<b>582 663</b>	<b>512 481</b>

**21. Tangible assets**

	31.03.2017	31.12.2016	31.03.2016
Tangible assets, including:	672 760	682 812	675 572
- land	1 335	1 335	1 335
- buildings and structures	185 131	186 928	192 310
- equipment	170 726	174 152	171 271
- vehicles	240 808	239 399	231 016
- other fixed assets	74 760	80 998	79 640
Fixed assets under construction	64 501	74 559	46 707
<b>Total tangible assets</b>	<b>737 261</b>	<b>757 371</b>	<b>722 279</b>

**22. Amounts due to customers**

	31.03.2017	31.12.2016	31.03.2016
<b>Individual customers:</b>	<b>53 829 152</b>	<b>53 494 909</b>	<b>47 835 448</b>
Current accounts	39 112 324	38 051 354	33 513 853
Term deposits	14 651 009	15 380 844	14 272 175
Other liabilities:	65 819	62 711	49 420
- liabilities in respect of cash collaterals	28 890	31 098	22 851
- other	36 929	31 613	26 569
<b>Corporate customers:</b>	<b>33 550 651</b>	<b>37 383 484</b>	<b>32 617 774</b>
Current accounts	20 331 919	22 065 224	16 327 155
Term deposits	7 098 219	8 911 873	11 221 635
Loans and advances received	4 001 438	4 201 768	3 632 563
Repo transactions	1 471 055	1 600 487	846 583
Other liabilities:	648 020	604 132	589 838
- liabilities in respect of cash collaterals	438 599	392 425	467 130
- other	209 421	211 707	122 708
<b>Public sector customers:</b>	<b>1 364 234</b>	<b>539 569</b>	<b>680 629</b>
Current accounts	469 862	466 078	349 974
Term deposits	893 576	65 507	327 876
Other liabilities:	796	7 984	2 779
- liabilities in respect of cash collaterals	-	3	-
- other	796	7 981	2 779
<b>Total amounts due to customers</b>	<b>88 744 037</b>	<b>91 417 962</b>	<b>81 133 851</b>
Short-term (up to 1 year)	83 249 993	85 191 150	75 714 867
Long-term (over 1 year)	5 494 044	6 226 812	5 418 984

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

In the presented reporting periods the value of liabilities in respect of current accounts and term deposits accepted from micro enterprises amounted to respectively: 31 March 2017: PLN 4 720 461 thousand, 31 December 2016: PLN 4 920 454 thousand, 31 March 2016: PLN 3 820 237 thousand.

**23. Provisions**

	31.03.2017	31.12.2016	31.03.2016
For off-balance sheet granted contingent liabilities *	41 088	43 435	41 148
For legal proceedings	115 092	113 192	100 069
Other	22 479	26 127	27 821
<b>Total provisions</b>	<b>178 659</b>	<b>182 754</b>	<b>169 038</b>

\* includes valuation of financial guarantees

**Movements in the provisions**

	31.03.2017	31.12.2016	31.03.2016
<b>As at the beginning of the period (by type)</b>	<b>182 754</b>	<b>225 416</b>	<b>225 416</b>
For off-balance sheet granted contingent liabilities	43 435	45 606	45 606
For legal proceedings	113 192	99 582	99 582
Other	26 127	80 228	80 228
<b>Change in the period (due to)</b>	<b>(4 095)</b>	<b>(42 662)</b>	<b>(56 378)</b>
- increase of provisions	25 706	137 911	25 656
- release of provisions	(24 988)	(119 387)	(29 642)
- write-offs	(1 763)	(61 488)	(667)
- utilization	(47)	-	-
- reclassification	(2 587)	-	(51 727)
- foreign exchange differences	(416)	302	2
<b>As at the end of the period (by type)</b>	<b>178 659</b>	<b>182 754</b>	<b>169 038</b>
For off-balance sheet granted contingent liabilities	41 088	43 435	41 148
For legal proceedings	115 092	113 192	100 069
Other	22 479	26 127	27 821

**24. Assets and provisions for deferred income tax**

<b>Deferred income tax assets</b>	<b>31.03.2017</b>	<b>31.12.2016</b>	<b>31.03.2016</b>
<b>As at the beginning of the period</b>	<b>859 609</b>	<b>778 252</b>	<b>778 252</b>
Changes recognized in the income statement	7 634	65 208	55 494
Changes recognized in other comprehensive income	(16 494)	16 120	(11 728)
Other changes	1 335	29	36
<b>As at the end of the period</b>	<b>852 084</b>	<b>859 609</b>	<b>822 054</b>
<b>Provisions for deferred income tax</b>	<b>31.03.2017</b>	<b>31.12.2016</b>	<b>31.03.2016</b>
<b>As at the beginning of the period</b>	<b>(320 061)</b>	<b>(413 145)</b>	<b>(413 145)</b>
Changes recognized in the income statement	(4 450)	4 687	(89 928)
Changes recognized in other comprehensive income	(1 854)	88 393	(227)
Other changes	-	4	-
<b>As at the end of the period</b>	<b>(326 365)</b>	<b>(320 061)</b>	<b>(503 300)</b>
<b>Income tax</b>	<b>31.03.2017</b>	<b>31.12.2016</b>	<b>31.03.2016</b>
Current income tax	(114 121)	(485 408)	(58 370)
Deferred income tax recognised in the income statement	3 184	69 895	(34 434)
<b>Income tax recognised in the income statement</b>	<b>(110 937)</b>	<b>(415 513)</b>	<b>(92 804)</b>
Recognised in other comprehensive income	(30 691)	102 708	(23 130)
<b>Total income tax</b>	<b>(141 628)</b>	<b>(312 805)</b>	<b>(115 934)</b>

**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.

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

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

	31.03.2017		31.12.2016		31.03.2016	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets</b>						
<b>Loans and advances to banks</b>	<b>1 976 859</b>	<b>1 974 422</b>	<b>3 082 855</b>	<b>3 079 257</b>	<b>1 120 253</b>	<b>1 119 744</b>
<b>Loans and advances to customers</b>	<b>81 697 942</b>	<b>83 013 758</b>	<b>81 763 277</b>	<b>82 917 783</b>	<b>77 940 778</b>	<b>78 416 369</b>
<b>Loans and advances to individuals</b>	<b>46 768 165</b>	<b>48 065 643</b>	<b>47 434 490</b>	<b>48 649 710</b>	<b>44 966 678</b>	<b>45 833 435</b>
current accounts	6 149 055	6 187 445	5 843 990	5 885 276	5 368 247	5 396 759
term loans including:	40 619 110	41 878 198	41 590 500	42 764 434	39 598 431	40 436 676
- housing and mortgage loans	33 694 140	34 736 220	34 853 185	35 827 969	33 601 733	34 333 473
<b>Loans and advances to corporate entities</b>	<b>33 570 520</b>	<b>33 586 696</b>	<b>32 872 882</b>	<b>32 812 343</b>	<b>31 366 442</b>	<b>30 982 363</b>
current accounts	4 568 522	4 540 708	3 934 915	3 905 205	4 527 523	4 481 019
term loans	27 257 430	27 301 420	27 210 974	27 179 853	25 394 626	25 057 051
- corporate & institutional enterprises	4 922 807	4 905 722	5 008 394	4 975 669	4 998 897	4 926 522
- medium & small enterprises	22 334 623	22 395 698	22 202 580	22 204 184	20 395 729	20 130 529
reverse repo / buy sell back transactions	81 275	81 275	56 676	56 676	4 002	4 002
other	1 663 293	1 663 293	1 670 317	1 670 609	1 440 291	1 440 291
<b>Loans and advances to public sector</b>	<b>1 145 789</b>	<b>1 147 951</b>	<b>1 227 481</b>	<b>1 227 306</b>	<b>1 429 519</b>	<b>1 422 432</b>
<b>Other receivables</b>	<b>213 468</b>	<b>213 468</b>	<b>228 424</b>	<b>228 424</b>	<b>178 139</b>	<b>178 139</b>
<b>Financial liabilities</b>						
<b>Amounts due to other banks</b>	<b>8 767 283</b>	<b>8 843 826</b>	<b>8 486 753</b>	<b>8 509 677</b>	<b>10 972 444</b>	<b>10 710 835</b>
<b>Amounts due to customers</b>	<b>88 744 037</b>	<b>88 809 934</b>	<b>91 417 962</b>	<b>91 535 698</b>	<b>81 133 851</b>	<b>81 288 460</b>
<b>Debt securities in issue</b>	<b>13 260 781</b>	<b>13 599 065</b>	<b>12 660 389</b>	<b>12 909 157</b>	<b>9 697 975</b>	<b>9 642 852</b>
<b>Subordinated liabilities</b>	<b>2 250 473</b>	<b>2 166 394</b>	<b>3 943 349</b>	<b>3 853 900</b>	<b>3 801 673</b>	<b>3 708 384</b>

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

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

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

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

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

31.03.2017	Including:	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
<b>RECURRING FAIR VALUE MEASUREMENTS</b>				
<b>FINANCIAL ASSETS</b>				
<b>TRADING SECURITIES</b>	<b>3 538 122</b>	<b>3 263 954</b>	<b>155</b>	<b>274 013</b>
<i>Debt securities</i>	<b>3 534 231</b>	<b>3 260 218</b>	-	<b>274 013</b>
- government bonds	3 257 055	3 257 055	-	-
- deposit certificates	12 097	-	-	12 097
- banks bonds	84 480	-	-	84 480
- corporate bonds	180 599	3 163	-	177 436
<i>Equity securities</i>	<b>3 891</b>	<b>3 736</b>	<b>155</b>	-
- listed	3 736	3 736	-	-
- unlisted	155	-	155	-
<b>DERIVATIVE FINANCIAL INSTRUMENTS</b>	<b>1 680 769</b>	-	<b>1 680 417</b>	<b>352</b>
<i>Derivative financial instruments held for trading</i>	<b>1 456 240</b>	-	<b>1 455 888</b>	<b>352</b>
- interest rate derivatives	983 315	-	983 315	-
- foreign exchange derivatives	444 652	-	444 652	-
- market risks derivatives	28 273	-	27 921	352
<i>Derivative financial instruments held for hedging</i>	<b>224 529</b>	-	<b>224 529</b>	-
- derivatives designated as fair value hedges	189 021	-	189 021	-
- derivatives designated as cash flow hedges	35 508	-	35 508	-
<b>INVESTMENT SECURITIES</b>	<b>31 689 903</b>	<b>30 079 852</b>	<b>649 827</b>	<b>960 224</b>
<i>Debt securities</i>	<b>31 620 801</b>	<b>30 078 920</b>	<b>649 827</b>	<b>892 054</b>
- government bonds	29 007 393	29 007 393	-	-
- treasury bills	497 124	497 124	-	-
- money bills	649 827	-	649 827	-
- deposit certificates	45 362	-	-	45 362
- banks bonds	136 617	-	-	136 617
- corporate bonds	1 247 169	574 403	-	672 766
- communal bonds	37 309	-	-	37 309
<i>Equity securities</i>	<b>69 102</b>	<b>932</b>	-	<b>68 170</b>
- unlisted	69 102	932	-	68 170
<b>TOTAL FINANCIAL ASSETS</b>	<b>36 908 794</b>	<b>33 343 806</b>	<b>2 330 399</b>	<b>1 234 589</b>
<b>FINANCIAL LIABILITIES</b>				
<b>Derivative financial instruments</b>	<b>1 557 117</b>	-	<b>1 557 117</b>	-
<i>Derivative financial instruments held for trading</i>	<b>1 540 551</b>	-	<b>1 540 551</b>	-
- interest rate derivatives	977 567	-	977 567	-
- foreign exchange derivatives	534 957	-	534 957	-
- market risks derivatives	28 027	-	28 027	-
<i>Derivative financial instruments held for hedging</i>	<b>16 566</b>	-	<b>16 566</b>	-
- derivatives designated as fair value hedges	19 323	-	19 323	-
- derivatives designated as cash flow hedges	(2 757)	-	(2 757)	-
<b>Total financial liabilities</b>	<b>1 557 117</b>	-	<b>1 557 117</b>	-
<b>TOTAL RECURRING FAIR VALUE MEASUREMENTS</b>				
<b>FINANCIAL ASSETS</b>	<b>36 908 794</b>	<b>33 343 806</b>	<b>2 330 399</b>	<b>1 234 589</b>
<b>FINANCIAL LIABILITIES</b>	<b>1 557 117</b>	-	<b>1 557 117</b>	-



Assets Measured at Fair Value Based on Level 3 - changes in the period from 1 January to 31 March of 2017	Debt trading securities	Derivative financial instruments	Debt investment securities	Equity investment securities
<b>As at the beginning of the period</b>	<b>290 544</b>	-	<b>901 885</b>	<b>65 261</b>
<b>Gains and losses for the period:</b>	<b>2 184</b>	-	<b>1 345</b>	<b>2 909</b>
Recognised in profit or loss:	2 184	-	-	-
Net trading income	2 184	-	-	-
Recognised in other comprehensive income:	-	-	1 345	2 909
Available for sale financial assets	-	-	1 345	2 909
Purchases	205 683	352	129 029	-
Redemptions	(10 000)	-	-	-
Sales	(876 454)	-	(145 318)	-
Issues	662 056	-	5 113	-
<b>As at the end of the period</b>	<b>274 013</b>	<b>352</b>	<b>892 054</b>	<b>68 170</b>

In the first quarter of 2017, there were no transfers of financial instruments between levels of the fair value hierarchy.

With regard to financial instruments valued in repetitive way to the fair value classified as level 1 and 2 in hierarchy of fair value, any cases in which transfer between these levels may occur, are monitored by 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 price for a debt treasury bonds the above terms are respectively 2 and 5 working days.

31.12.2016	Including:	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
<b>RECURRING FAIR VALUE MEASUREMENTS</b>				
<b>FINANCIAL ASSETS</b>				
<b>TRADING SECURITIES</b>	<b>3 800 634</b>	<b>3 509 935</b>	<b>155</b>	<b>290 544</b>
<b>Debt securities</b>	<b>3 796 457</b>	<b>3 505 913</b>	-	<b>290 544</b>
- government bonds	3 503 029	3 503 029	-	-
- deposit certificates	16 146	-	-	16 146
- banks bonds	109 904	-	-	109 904
- corporate bonds	167 378	2 884	-	164 494
<b>Equity securities</b>	<b>4 177</b>	<b>4 022</b>	<b>155</b>	-
- listed	4 022	4 022	-	-
- unlisted	155	-	155	-
<b>DERIVATIVE FINANCIAL INSTRUMENTS</b>	<b>1 808 847</b>	-	<b>1 808 847</b>	-
<b>Derivative financial instruments held for trading</b>	<b>1 584 027</b>	-	<b>1 584 027</b>	-
- interest rate derivatives	1 173 304	-	1 173 304	-
- foreign exchange derivatives	369 381	-	369 381	-
- market risks derivatives	41 342	-	41 342	-
<b>Derivative financial instruments held for hedging</b>	<b>224 820</b>	-	<b>224 820</b>	-
- derivatives designated as fair value hedges	196 634	-	196 634	-
- derivatives designated as cash flow hedges	28 186	-	28 186	-
<b>INVESTMENT SECURITIES</b>	<b>31 393 352</b>	<b>28 610 129</b>	<b>1 816 077</b>	<b>967 146</b>
<b>Debt securities</b>	<b>31 327 252</b>	<b>28 609 290</b>	<b>1 816 077</b>	<b>901 885</b>
- government bonds	28 251 321	28 251 321	-	-
- money bills	1 816 077	-	1 816 077	-
- deposit certificates	50 466	-	-	50 466
- banks bonds	140 880	-	-	140 880
- corporate bonds	1 031 538	357 969	-	673 569
- communal bonds	36 970	-	-	36 970
<b>Equity securities</b>	<b>66 100</b>	<b>839</b>	-	<b>65 261</b>
- unlisted	66 100	839	-	65 261
<b>TOTAL FINANCIAL ASSETS</b>	<b>37 002 833</b>	<b>32 120 064</b>	<b>3 625 079</b>	<b>1 257 690</b>

31.12.2016	Including:	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
<b>FINANCIAL LIABILITIES</b>				
<b>Derivative financial instruments</b>	<b>1 599 266</b>	-	<b>1 599 266</b>	-
<b>Derivative financial instruments held for trading</b>	<b>1 580 737</b>	-	<b>1 580 737</b>	-
- interest rate derivatives	1 195 992	-	1 195 992	-
- foreign exchange derivatives	353 784	-	353 784	-
- market risks derivatives	30 961	-	30 961	-
<b>Derivative financial instruments held for hedging</b>	<b>18 529</b>	-	<b>18 529</b>	-
- derivatives designated as fair value hedges	19 485	-	19 485	-
- derivatives designated as cash flow hedges	(956)	-	(956)	-
<b>Total financial liabilities</b>	<b>1 599 266</b>	-	<b>1 599 266</b>	-

**TOTAL RECURRING FAIR VALUE MEASUREMENTS**

<b>FINANCIAL ASSETS</b>	<b>37 002 833</b>	<b>32 120 064</b>	<b>3 625 079</b>	<b>1 257 690</b>
<b>FINANCIAL LIABILITIES</b>	<b>1 599 266</b>	-	<b>1 599 266</b>	-

Assets Measured at Fair Value Based on Level 3 - changes in period from 1 January to 31 December of 2016	Debt trading securities	Derivative financial instruments	Debt investment securities	Equity investment securities
<b>As at the beginning of the period</b>	<b>371 229</b>	<b>420</b>	<b>816 614</b>	<b>198 624</b>
<b>Gains and losses for the period:</b>	<b>556</b>	<b>(420)</b>	<b>(12 531)</b>	<b>83 301</b>
Recognised in profit or loss:	556	(420)	-	250 147
<i>Net trading income</i>	556	(420)	-	7 959
<i>Gains less losses from investment securities, investments in subsidiaries and associates</i>	-	-	-	242 188
<i>Recognised in other comprehensive income:</i>	-	-	(12 531)	(166 846)
<i>Available for sale financial assets</i>	-	-	(12 531)	(166 846)
Purchases	1 719 767	-	616 264	5 238
Redemptions	(365 693)	-	-	-
Sales	(4 567 069)	-	(1 110 093)	(221 902)
Issues	3 130 780	-	552 540	-
Transfers into Level 3	974	-	39 091	-
<b>As at the end of the period</b>	<b>290 544</b>	-	<b>901 885</b>	<b>65 261</b>

Transfers between levels in 2016	Transfers into Level 1	Transfers out of Level 1	Transfers into Level 2	Transfers out of Level 2
<b>TRADING SECURITIES</b>	-	<b>(974)</b>	-	-
<i>Debt securities</i>	-	(974)	-	-
<b>INVESTMENT SECURITIES</b>	-	<b>(39 091)</b>	-	-
<i>Debt securities</i>	-	(39 091)	-	-

In 2016 there were two transfers from level 1 to level 3 of fair value hierarchy. One transfer resulted from unavailability of market price for communal bonds, and the other from low liquidity of bank bonds.

31.03.2016	Including:	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
<b>RECURRING FAIR VALUE MEASUREMENTS</b>				
<b>FINANCIAL ASSETS</b>				
<b>TRADING SECURITIES</b>	<b>2 849 810</b>	<b>2 575 647</b>	<b>2 653</b>	<b>271 510</b>
<b>Debt securities</b>	<b>2 842 925</b>	<b>2 571 415</b>	-	<b>271 510</b>
- government bonds	2 566 963	2 566 963	-	-
- treasury bills	3 468	3 468	-	-
- deposit certificates	35 196	-	-	35 196
- banks bonds	160 752	984	-	159 768
- corporate bonds	76 546	-	-	76 546
<b>Equity securities</b>	<b>6 885</b>	<b>4 232</b>	<b>2 653</b>	-
- listed	4 232	4 232	-	-
- unlisted	2 653	-	2 653	-
<b>DERIVATIVE FINANCIAL INSTRUMENTS</b>	<b>2 799 170</b>	-	<b>2 798 273</b>	<b>897</b>
<b>Derivative financial instruments held for trading</b>	<b>2 497 361</b>	-	<b>2 496 464</b>	<b>897</b>
- interest rate derivatives	1 933 106	-	1 933 106	-
- foreign exchange derivatives	534 905	-	534 008	897
- market risks derivatives	29 350	-	29 350	-
<b>Derivative financial instruments held for hedging</b>	<b>301 809</b>	-	<b>301 809</b>	-
- derivatives designated as fair value hedges	246 441	-	246 441	-
- derivatives designated as cash flow hedges	55 368	-	55 368	-
<b>INVESTMENT SECURITIES</b>	<b>31 618 471</b>	<b>28 437 034</b>	<b>2 199 923</b>	<b>981 514</b>
<b>Debt securities</b>	<b>31 420 347</b>	<b>28 436 211</b>	<b>2 199 923</b>	<b>784 213</b>
- government bonds	26 542 433	26 542 433	-	-
- treasury bills	1 853 553	1 853 553	-	-
- money bills	2 199 923	-	2 199 923	-
- banks bonds	209 846	-	-	209 846
- corporate bonds	574 367	-	-	574 367
- communal bonds	40 225	40 225	-	-
<b>Equity securities</b>	<b>198 124</b>	<b>823</b>	-	<b>197 301</b>
- unlisted	198 124	823	-	197 301
<b>TOTAL FINANCIAL ASSETS</b>	<b>37 267 451</b>	<b>31 012 681</b>	<b>5 000 849</b>	<b>1 253 921</b>
<b>FINANCIAL LIABILITIES</b>				
<b>Derivative financial instruments</b>	<b>2 355 838</b>	-	<b>2 355 838</b>	-
<b>Derivative financial instruments held for trading</b>	<b>2 355 639</b>	-	<b>2 355 639</b>	-
- interest rate derivatives	1 952 997	-	1 952 997	-
- foreign exchange derivatives	377 286	-	377 286	-
- market risks derivatives	25 356	-	25 356	-
<b>Derivative financial instruments held for hedging</b>	<b>199</b>	-	<b>199</b>	-
- derivatives designated as fair value hedges	103	-	103	-
- derivatives designated as cash flow hedges	96	-	96	-
<b>Total financial liabilities</b>	<b>2 355 838</b>	-	<b>2 355 838</b>	-
<b>TOTAL RECURRING FAIR VALUE MEASUREMENTS</b>				
<b>FINANCIAL ASSETS</b>	<b>37 267 451</b>	<b>31 012 681</b>	<b>5 000 849</b>	<b>1 253 921</b>
<b>FINANCIAL LIABILITIES</b>	<b>2 355 838</b>	-	<b>2 355 838</b>	-

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

In the first quarter of 2016, there were no transfers of financial instruments between levels of the fair value hierarchy.

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

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

### **Level 1**

As at 31 March 2017, 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 3 257 055 thousand (see Note 15) and the fair value of investment government bonds and treasury bills in the amount of PLN 29 504 517 thousand (see Note 19) (31 December 2016 respectively: PLN 3 503 029 thousand and 28 251 321 thousand, 31 March 2016 respectively: PLN 2 570 431 thousand and PLN 28 395 986 thousand). Level 1 includes the fair value of corporate bonds in the amount of PLN 577 566 thousand (31 December 2016 – 360 853 thousand, 31 March 2016 - 0). As at 31 March 2016, the level 1 also included bonds issued by banks in the amount of PLN 984 thousand as well as the fair value of local government bonds in the amount of PLN 40 225 thousand.

In addition, as at 31 March 2017 level 1 includes the value of the registered privileged shares of Giełda Papierów Wartościowych in the amount of PLN 932 thousand (31 December 2016: PLN 839 thousand, 31 March 2016: PLN 823 thousand) and the value of the shares of listed companies in the amount of PLN 3 736 thousand (31 December 2016: PLN 4 022 thousand, 31 March 2016: PLN 4 232 thousand).

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

### **Level 2**

Level 2 of the fair value hierarchy mainly includes the fair values of bills issued by NBP in the amount of PLN 649 827 thousand (31 December 2016: PLN 1 816 077 thousand, 31 March 2016: PLN 2 199 923 thousand;), whose valuation is based on a NPV model (discounted future cash flows) fed with interest rate curves generated by transformation of quotations taken directly from active and liquid financial markets.

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

As at 31 March 2017, 31 December 2016, and 31 March 2016, 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 1 128 758 thousand (31 December 2016: PLN 1 155 459 thousand, 31 March 2016: PLN 1 055 723 thousand).

Level 3 includes also the fair value of local government bonds in the amount of PLN 37 309 thousand (31 December 2016: PLN 36 970 thousand, 31 March 2016 - 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 also includes the fair value of equity securities amounting to PLN 68 170 thousand (31 December 2016: PLN 65 261 thousand, 31 March 2016: PLN 197 301 thousand). As at 31 March 2017, these amount includes the value of preferred stock in Visa Inc. in the amount of PLN 41 272 thousand (31 December 2016: PLN 38 392 thousand). As at 31 March 2016 this amount included the value of Visa Europe Ltd. shares in the amount of PLN 167 514 thousand which was valued 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 valued using the market multiples method. The market multiples method, consists of valuating the equity capital of a company by using a relation between the market values of the own equity capital or market values of the total capital invested in comparable companies (goodwill) and selected economic and financial figures.

## Selected explanatory information

### 1. Compliance with international financial reporting standards

The presented condensed consolidated report for the first quarter of 2017 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

- Costs of the contribution to the Deposit Guarantee Scheme and Resolution for the year 2017

In accordance with the Act of 10 June 2016 on the Bank Guarantee Fund, Deposit Guarantee Scheme and Resolution (BFG), and in connection with the letter from the BGF dated on 19 January 2017 addressed to the Polish Banks Association, in the first quarter of 2017 the Group recognised in the consolidated income statement the amount of PLN 116 823 thousand, representing the full-year costs of the contribution to the resolution fund for the year 2017 while the Bank presented in its stand-alone income statement the similar costs in the amount of PLN 113 223 thousand.

- 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 three months of 2017 amounted to PLN 84 666 thousand and PLN 90 217 thousand respectively.

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

In the first quarter of 2017, events as indicated above did not occur in the Group.

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

In the first quarter of 2017, mBank Hipoteczny S.A. issued mortgage bonds in the amount of EUR 24 900 thousand and bonds in the amount of PLN 907 000. In the same time the company redeemed bonds in the amount of PLN 838 000 thousand.

On 8 March 2017, mBank S.A. repurchased subordinated bonds in the amount of CHF 400 000 thousand. (equivalent to PLN 1 611 840 thousand at the average NBP exchange rate as of 8 March 2017), issued on 8 March 2007, and acquired by Commerzbank AG.

Moreover, on 14 March 2017, the company mFinance France S.A. (mFF) issued Eurobonds with a nominal value of CHF 200 000 thousand (PLN 807 320 thousand at the average exchange rate of the National Bank of Poland as of 14 March 2017) maturing on 28 March 2023. On the basis of an agreement dated on 14 March 2017, the funds from the issue in the amount of CHF 199 275 thousand (PLN 791 720 thousand at the average exchange rate of the National Bank of Poland as at 28 March 2017) were placed by mFF in mBank as a security deposit used to back the guarantee issued by mBank to secure all amounts that may be payable in respect of debt securities issued under the Issue Eurobonds Programme.

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

On 30 March 2017, the 30th Ordinary General Meeting of mBank S.A., adopted the resolution on division of the 2016 net profit which does not provide for the payment of dividend for the year 2016.

#### **8. Significant events after the end of the first quarter of 2017, which are not reflected in the financial statements**

Events as indicated above did not occur in the Group.

#### **9. Effect of changes in the structure of the entity in the first quarter of 2017, including business combinations, acquisitions or disposal of subsidiaries, long-term investments, restructuring, and discontinuation of business activities**

In the first quarter of 2017, events as indicated above did not occur in the Group.

#### **10. Changes in contingent liabilities and commitments**

In the first quarter of 2017, there were no changes in contingent liabilities and commitments of credit nature, i.e., guarantees, letters of credit or unutilised loan amounts, other than resulting from current operating activities of the Group. There was no single case of granting of guarantees or any other contingent liability of any material value for the Group.

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

In the first quarter of 2017, events as indicated above did not occur in the Group.

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

In the first quarter of 2017, 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 first quarter of 2017, events as indicated above did not occur in the Group.

#### **15. Acquisitions and disposals of tangible fixed asset items**

In the first quarter of 2017, there were no material transactions of acquisition or disposal of any tangible fixed assets, with the exception of typical lease and property development operations that are performed by the companies of the Group.

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

In the first quarter of 2017, events as indicated above did not occur in the Group.

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

In the first quarter of 2017, events as indicated above did not occur in the Group.



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

In the first quarter of 2017, events as indicated above did not occur in the Group.

**19. Corrections of errors from previous reporting periods**

In the first quarter of 2017, events as indicated above did not occur in the Group.

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

In the first quarter of 2017, 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 2017.

**22. Registered share capital**

The total number of ordinary shares as at 31 March 2017 was 42 280 127 shares (31 December 2016: 42 280 127 shares, 31 March 2016 - 42 238 924 shares) at PLN 4 nominal value each. All issued shares were fully paid up.

REGISTERED SHARE CAPITAL (THE STRUCTURE) AS AT 31 MARCH 2017						
Share type	Type of privilege	Type of limitation	Number of shares	Series / face value of issue in PLN	Paid up	Registered on
ordinary bearer*	-	-	9 988 000	39 952 000	fully paid in cash	1986
ordinary registered*	-	-	12 000	48 000	fully paid in cash	1986
ordinary bearer	-	-	2 500 000	10 000 000	fully paid in cash	1994
ordinary bearer	-	-	2 000 000	8 000 000	fully paid in cash	1995
ordinary bearer	-	-	4 500 000	18 000 000	fully paid in cash	1997
ordinary bearer	-	-	3 800 000	15 200 000	fully paid in cash	1998
ordinary bearer	-	-	170 500	682 000	fully paid in cash	2000
ordinary bearer	-	-	5 742 625	22 970 500	fully paid in cash	2004
ordinary bearer	-	-	270 847	1 083 388	fully paid in cash	2005
ordinary bearer	-	-	532 063	2 128 252	fully paid in cash	2006
ordinary bearer	-	-	144 633	578 532	fully paid in cash	2007
ordinary bearer	-	-	30 214	120 856	fully paid in cash	2008
ordinary bearer	-	-	12 395 792	49 583 168	fully paid in cash	2010
ordinary bearer	-	-	16 072	64 288	fully paid in cash	2011
ordinary bearer	-	-	36 230	144 920	fully paid in cash	2012
ordinary bearer	-	-	35 037	140 148	fully paid in cash	2013
ordinary bearer	-	-	36 044	144 176	fully paid in cash	2014
ordinary bearer	-	-	28 867	115 468	fully paid in cash	2015
ordinary bearer	-	-	41 203	164 812	fully paid in cash	2016
<b>Total number of shares</b>			<b>42 280 127</b>			
<b>Total registered share capital</b>				<b>169 120 508</b>		
<b>Nominal value per share (PLN)</b>		<b>4</b>				

\* As at the end of the reporting period

On 30 March 2017, the 30th Ordinary General Meeting of mBank S.A., adopted the resolution on amending the By-laws of mBank S.A. and authorization of the Management Board of mBank S.A. upon the consent of the Supervisory Board of mBank S.A. to increase the share capital of mBank S.A. by an amount not higher than PLN 60 000 000 through the issue of bearer shares with the option to exclude pre-emptive rights of existing shareholders of mBank S.A. in whole or in part.

**23. Material share packages**

In the first quarter of 2017, there were no changes in the holding of material share packages of the Bank.

Commerzbank AG is a shareholder holding over 5% of the share capital and votes at the General Meeting and as at 31 March 2017 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.

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

	Number of shares held as at the date of publishing the report for Q4 2016	Number of shares acquired from the date of publishing the report for Q4 2016 to the date of publishing the report for Q1 2017	Number of shares sold from the date of publishing the report for Q4 2016 to the date of publishing the report for Q1 2017	Number of shares held as at the date of publishing the report for Q1 2017
<b>Management Board</b>				
1. Cezary Stypułkowski	12 359	-	-	12 359
2. Lidia Jabłonowska-Luba	-	-	-	-
3. Przemysław Gdański	3 500	-	1 500	2 000
4. Christoph Heins	-	-	-	-
5. Hans-Dieter Kemler	-	-	-	-
6. Cezary Kocik	1 394	-	1 394	-
7. Krzysztof Dąbrowski	670	-	-	670

As at the date of publishing the report for the fourth quarter of 2016 and as at the date of publishing the report for the first quarter of 2017, the Members of the Management Board had no and they have no rights to Bank's shares.

As at the date of publishing the report for the fourth quarter of 2016, 4 180 shares of the Bank were held by Mr. Jarosław Mastalerz, Vice President of the Management Board, who resigned from his function in the Bank on 30 March 2017. The resignation took place on 31 March 2017.

As at the date of publishing the report for the fourth quarter of 2016 and as at the date of publishing the report for the first quarter of 2017, the Members of the Supervisory Board of mBank S.A. had neither Bank shares nor rights to Bank shares.

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

As at 31 March 2017, the Bank was not involved in any proceedings before a court, arbitration body, or public administration authority concerning liabilities of the Bank or its subsidiaries, which represent at least 10% of the Bank's equity. Moreover, the total value of claims concerning liabilities of the Bank or its subsidiary in all proceedings before a court, an arbitration body or a public administration authority as at 31 March 2017 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

From 14 August 2008, 170 entities who were clients of Interbrok Investment E. Drózdź 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 were 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 last hearing was on 24 February 2017. The case is pending.

#### 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. At the hearing on 19 December 2016, the Court decided that the case would proceed as a class action and dismissed the Bank's application for establishing a cash deposit. The Bank filed a complaint against the above mentioned decision. The Court of Appeal dismissed the Bank's complaint and the case is to be heard by the Regional Court. The number of group members currently consists of 1 175 persons.

As at 31 March 2017, the Bank was not involved in any proceedings before a court, arbitration body, or public administration authority concerning receivables of the Bank or its subsidiaries, which represent at least 10% of the Bank's equity. The total value of claims concerning receivables of the Bank or its subsidiaries in all proceedings before a court, an arbitration body or a public administration authority underway at 31 March 2017 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 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.

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.

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 31 March 2017, 31 December 2016 and 31 March 2016 were as follows:

### mBank Group consolidated data

	31.03.2017	31.12.2016	31.03.2016
<b>1. Contingent liabilities granted and received</b>	<b>31 395 401</b>	<b>31 292 889</b>	<b>28 108 894</b>
<b>Commitments granted</b>	<b>28 578 947</b>	<b>28 681 726</b>	<b>26 339 011</b>
- financing	22 483 611	22 799 950	21 350 033
- guarantees and other financial facilities	6 091 906	5 881 446	4 988 648
- other commitments	3 430	330	330
<b>Commitments received</b>	<b>2 816 454</b>	<b>2 611 163</b>	<b>1 769 883</b>
- financial commitments	150 001	24 579	16 000
- guarantees	2 666 453	2 586 584	1 753 883
<b>2. Derivative financial instruments (nominal value of contracts)</b>	<b>415 158 037</b>	<b>429 230 340</b>	<b>455 454 178</b>
Interest rate derivatives	321 044 573	334 491 101	365 772 901
Currency derivatives	85 071 484	88 280 960	83 039 131
Market risk derivatives	9 041 980	6 458 279	6 642 146
<b>Total off-balance sheet items</b>	<b>446 553 438</b>	<b>460 523 229</b>	<b>483 563 072</b>

### mBank stand-alone data

	31.03.2017	31.12.2016	31.03.2016
<b>1. Contingent liabilities granted and received</b>	<b>38 375 779</b>	<b>37 656 294</b>	<b>31 650 593</b>
<b>Commitments granted</b>	<b>35 559 927</b>	<b>35 069 332</b>	<b>29 905 889</b>
- financing	21 528 906	21 695 678	19 790 103
- guarantees and other financial facilities	14 027 921	13 373 654	10 115 786
- other commitments	3 100	-	-
<b>Commitments received</b>	<b>2 815 852</b>	<b>2 586 962</b>	<b>1 744 704</b>
- financial commitments received	150 000	779	-
- guarantees received	2 665 852	2 586 183	1 744 704
<b>2. Derivative financial instruments (nominal value of contracts)</b>	<b>417 730 269</b>	<b>431 926 772</b>	<b>457 864 434</b>
Interest rate derivatives	321 799 424	335 475 955	366 459 894
Currency derivatives	86 888 865	89 992 538	84 762 394
Market risk derivatives	9 041 980	6 458 279	6 642 146
<b>Total off-balance sheet items</b>	<b>456 106 048</b>	<b>469 583 066</b>	<b>489 515 027</b>

## 27. Transactions with related entities

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

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

The amounts of transactions with related entities, i.e., balances of receivables and liabilities and related costs and income as at 31 March 2017, 31 December 2016 and 31 March 2016 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		
	31.03.2017	31.12.2016	31.03.2016	31.03.2017	31.12.2016	31.03.2016
<b>As at the end of the period</b>						
<b>Statement of Financial Position</b>						
Assets	1 180 390	701 675	586 246	826	1 783	562
Liabilities	8 216 214	10 282 116	12 884 316	872 092	919 574	853 401
<b>Income Statement</b>						
Interest income	29 305	125 233	34 768	71	789	174
Interest expense	(33 390)	(145 705)	(38 209)	(1 111)	(5 797)	(1 341)
Fee and commission income	-	-	-	4	27	4
Other operating income	9	18	6	17	67	17
Overhead costs, amortisation and other operating expenses	(2 814)	(9 503)	(2 533)	-	(28)	-
<b>Contingent liabilities granted and received</b>						
Contingent liabilities granted	1 453 980	1 295 444	1 253 635	10 813	14 448	13 368
Contingent liabilities received	1 512 921	1 442 052	832 691	19 434	12 422	13 723

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 31 March 2017 recognised in the income statement for that period amounted to PLN 8 456 985 (in the period from 1 January to 31 March 2016: PLN 8 958 453).

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

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

As at 31 March 2017, 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 21 September 2016 for the duration of the Programme, i.e. to 26 September 2020.

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

## 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

### Changes in the Management Board of mBank S.A.

- On 1 March 2017, Vice-President of the Management Board, Mr. Hans-Dieter Kemler resigned from his function at the Bank. The resignation is to take effect as of 30 April 2017. Mr. Kemler decided to resign as he was offered the position of a member of the management board in German Landesbank Hessen Thuringen (Helaba) responsible for financial markets, Treasury and asset management.
- On 30 March 2017, Vice President of the Management Board – Head of Operations and Information Technology, Mr. Jarosław Mastalerz, resigned from his function in the Bank. The resignation took place on 31 March 2017. The reason for the Mr. Mastalerz resignation is his intention to engage in

development and commercializing of new technologies in the finance sector within the project realized in cooperation with the Bank.

- On 30 March 2017, Vice President of the Management Board – Chief Financial Officer, Mr. Christoph Heins, resigned from his function in the Bank. The resignation will take place on 30 June 2017.
- By the resolution of the Supervisory Board of mBank S.A., on 30 March 2017, Mr. Krzysztof Dąbrowski was appointed to the position of Vice President of the Management Board of mBank S.A. – the Head of Operations and Information Technology with the effect as of 1 April 2017 until the end of the current term of office of the Management Board.
- By the resolution of the Supervisory Board of mBank S.A., on 30 March 2017, Mr. Andreas Böger was appointed to the position of Vice President of the Management Board of mBank S.A. - Chief Financial Officer with the effect as of 1 July 2017 until the end of the current term of office of the Management Board.
- By the resolution of the Supervisory Board of mBank S.A., on 30 March 2017, Mr. Frank Bock was appointed to the position of Vice President of the Management Board of mBank S.A. - Head of Financial Markets with the effect as of 1 May 2017 until the end of the current term of office of the Management Board.

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

On 30 March 2017, the 30<sup>th</sup> Ordinary General Meeting of mBank S.A., elected 12-member Supervisory Board of mBank S.A. for a joint term of three years, with the following composition:

1. Maciej Leśny – Chairman of the Supervisory Board,
2. Stephan Engels – Deputy Chairman of the Supervisory Board,
3. Tomasz Bieske,
4. Andre Carls,
5. Marcus Chromik,
6. Janusz Fiszer,
7. Mirosław Godlewski,
8. Jörg Hessenmüller,
9. Thorsten Kanzler,
10. Ralph Michael Mandel,
11. Teresa Mokrysz,
12. Agnieszka Słomka-Gołębiowska.

### 30. Factors affecting the results in the coming quarter

Apart from operating activity of the Bank and mBank Group entities, there are no other events expected in the second quarter of 2017 that would have a significant impact on the profit of this period.

### 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 mBank Group.

- Recommendations of the Polish Financial Supervision Authority (KNF) regarding additional capital requirements

On 4 October 2016, Polish Financial Supervision Authority 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 CRR Regulation.



On 20 October 2016, the Bank received the KNF decision concerning the maintenance of mBank S.A. own funds, on the individual basis, to cover the 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). 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.).

On 15 December 2016, the Bank received the KNF decision concerning the maintenance of mBank S.A. own funds, on the consolidated basis, to cover the additional capital requirement securing the risk related to the foreign currency mortgage loans for households at the level of 3.25 p.p. above the total capital ratio. Simultaneously, for the Tier 1 capital ratio and Common Equity Tier 1 capital ratio additional capital requirement amounts to 2.44 p.p. and 1.82 p.p. respectively. 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 3.72 p.p. on the consolidated basis, covered at least in 75% by Tier 1 capital (equivalent to 2.79 p.p.). The KNF also informed that the recommended by the KNF minimum capital ratios for mBank S.A., on the individual basis, amount to 13.61% for the Tier 1 capital ratio and 17.56% for the total capital ratio, while on the consolidated basis, the minimum capital ratios amount to 13.19% for the Tier 1 capital ratio and 17.00% for the total capital ratio.

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

■ Recommendations of Financial Stability Committee (FSC) on the restructuring of the FX housing loans portfolio

On 13 January 2017, FSC endorsed the resolution No 14/2017 on the recommendation on the restructuring of the FX housing loans portfolio. The resolution includes a list of recommendations, the most important of which are:

- to increase the minimum LGD for exposures secured by mortgages on residential property, the purchase of which was financed by an FX loan by means of a dedicated resolution of the Ministry of Finance (this regulatory measure is addressed to banks that apply internal ratings based approach to the calculation of the capital charge for credit risk, among others to mBank S.A.);
- to increase by the KNF the additional capital requirements related to FX housing loans by taking into account additional risk types: operational risk, market risk and collective risk of default;
- to impose a systemic risk buffer of 3% by the Ministry of Finance that would apply to all exposures on the territory of the Republic of Poland;
- to increase the risk weight used by the banks to calculate capital requirements to the level of 150% for FX exposures secured by mortgages on immovable property by means of a dedicated resolution of the Ministry of Finance.

At the date of publication of these financial statements, the final method of implementation of the FSC recommendation is not known. Therefore, the Bank is not able at the moment to estimate the potential impact of the proposed solutions on the capital ratios and financial statements of mBank S.A. and mBank Group.

■ The individual recommendation of the KNF concerning dividend for the year 2016

On 13 March 2017, the Bank received a letter from the Polish Financial Supervision Authority with individual recommendation to increase own funds by retaining total net profit generated by the Bank between 1 January 2016 and 31 December 2016. On 30 March 2017, the 30th Ordinary General Meeting of mBank S.A. adopted a resolution, according to which the net profit generated by the Bank in 2016 in the amount of PLN 1 219 339 249.57 will be allocated as follows: PLN 20 000 000.00 for the general banking risk reserve, and the remaining part of profit in the amount of 1 199 339 249.57 will be left undivided.

**Signature of the Management Board of mBank S.A.**

Date	First and last name	Position	Signature
27.04.2017	Cezary Stypułkowski	President of the Management Board	
27.04.2017	Lidia Jabłonowska-Luba	Vice-President of the Management Board, Chief Risk Officer	
27.04.2017	Krzysztof Dąbrowski	Vice-President of the Management Board, Head of Operations and IT	
27.04.2017	Przemysław Gdański	Vice President of the Management Board, Head of Corporate & Investment Banking	
27.04.2017	Christoph Heins	Vice-President of the Management Board, Chief Financial Officer	
27.04.2017	Hans-Dieter Kemler	Vice-President of the Management Board, Head of Financial Markets	
27.04.2017	Cezary Kocik	Vice-President of the Management Board, Head of Retail Banking	