mBank S.A. Group

IFRS Condensed Consolidated Financial Statements
for the first half of 2017

Contents

Selected financial data

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

SELECTED FINANCIAL DATA FOR THE GROUP		in PLN'000		in EUR'000	
		1st Half of 2017 period from 01.01.2017 to 30.06.2017	1st Half of 2016 period from 01.01.2016 to 30.06.2016	1st Half of 2017 period from 01.01.2017 to 30.06.2017	1st Half of 2016 period from 01.01.2016 to 30.06.2016
I.	Interest income	1 972 829	1 892 534	464 479	432 036
II.	Fee and commission income	822 416	717 193	193 628	163 724
III.	Net trading income	137 965	143 600	32 482	32 782
IV.	Operating profit	896 549	1 054 161	211 082	240 649
V.	Profit before income tax	712 226	907 848	167 685	207 248
VI.	Net profit attributable to Owners of mBank S.A.	488 478	696 286	115 006	158 951
VII.	Net profit attributable to non-controlling interests	3 569	2 414	840	551
VIII.	Net cash flows from operating activities	(3 639 758)	2 673 693	(856 938)	610 363
IX.	Net cash flows from investing activities	(207 028)	33 628	(48 742)	7 677
X.	Net cash flows from financing activities	(1 191 027)	1 303 871	(280 413)	297 653
XI.	Net increase / decrease in cash and cash equivalents	(5 037 813)	4 011 192	(1 186 093)	915 693
XII.	Basic earnings per share (in PLN/EUR)	11.55	16.48	2.72	3.76
XIII.	Diluted earnings per share (in PLN/EUR)	11.55	16.46	2.72	3.76
XIV.	Declared or paid dividend per share (in PLN/EUR)	-	-	-	-

SELECTED FINANCIAL DATA FOR THE GROUP		in PLN'000			in EUR'000		
		As at			As at		
		30.06.2017	31.12.2016	30.06.2016	30.06.2017	31.12.2016	30.06.2016
I.	Total assets	129 417 491	133 743 502	128 733 485	30 620 488	30 231 352	29 089 026
II.	Amounts due to the Central Bank	-	-	1	-	-	0
III.	Amounts due to other banks	8 641 320	8 486 753	12 058 197	2 044 557	1 918 344	2 724 708
IV.	Amounts due to customers	88 155 911	91 417 962	85 302 300	20 857 899	20 664 096	19 275 178
V.	Equity attributable to Owners of mBank S.A.	13 654 947	13 023 756	12 761 967	3 230 793	2 943 887	2 883 734
VI.	Non-controlling interests	25 488	27 405	35 032	6 031	6 195	7 916
VII.	Share capital	169 143	169 121	168 956	40 020	38 228	38 178
VIII.	Number of shares	42 285 676	42 280 127	42 238 924	42 285 676	42 280 127	42 238 924
IX.	Book value per share (in PLN/EUR)	322.92	308.03	302.14	76.40	69.63	68.27
X.	Total capital ratio	21.24	20.29	18.33	21.24	20.29	18.33

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

- for items of the statement of financial position – exchange rate announced by the National Bank of Poland as at 30 June 2017: EUR 1 = PLN 4.2265, 31 December 2016: EUR 1 = PLN 4.4240, 30 June 2016: EUR 1 = PLN 4.4255.

- 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 half of 2017 and 2016: EUR 1 = PLN 4.2474 and EUR 1 = PLN 4.3805 respectively.

IFRS Condensed Consolidated Financial Statements for the first half of 2017 PLN (000's)

Condensed consolidated income statement

	Note	Period from 01.04.2017 to 30.06.2017	Period from 01.01.2017 to 30.06.2017	Period from 01.04.2016 to 30.06.2016	Period from 01.01.2016 to 30.06.2016
Interest income	5	990 285	1 972 829	947 051	1 892 534
Interest expense	5	(225 506)	(459 043)	(262 608)	(531 673)
Net interest income		**764 779**	**1 513 786**	**684 443**	**1 360 861**
Fee and commission income	6	415 311	822 416	365 283	717 193
Fee and commission expense	6	(162 699)	(320 250)	(155 580)	(295 745)
Net fee and commission income		**252 612**	**502 166**	**209 703**	**421 448**
Dividend income	7	2 970	3 124	2 586	2 586
Net trading income, including:	8	61 068	137 965	59 513	143 600
Foreign exchange result		*57 912*	*134 319*	*66 065*	*137 882*
Other net trading income and result on hedge accounting		*3 156*	*3 646*	*(6 552)*	*5 718*
Gains less losses from investment securities, investments in subsidiaries and associates, including:	9	(18 298)	(16 662)	244 755	248 182
Gains less losses from investment securities		*(10 556)*	*(8 920)*	*244 755*	*248 624*
Gains less losses from investments in subsidiaries and associates		*(7 742)*	*(7 742)*	-	*(442)*
The share in the profits (losses) of joint ventures		-	-	(48)	(88)
Other operating income	10	102 739	149 048	55 081	149 168
Net impairment losses on loans and advances	11	(120 399)	(203 320)	(117 743)	(186 263)
Overhead costs	12	(433 494)	(960 103)	(427 329)	(854 374)
Amortisation		(51 596)	(102 678)	(63 370)	(117 097)
Other operating expenses	13	(84 998)	(126 777)	(53 041)	(113 862)
Operating profit		**475 383**	**896 549**	**594 550**	**1 054 161**
Taxes on the Group balance sheet items		(93 018)	(184 323)	(89 011)	(146 313)
Profit before income tax		**382 365**	**712 226**	**505 539**	**907 848**
Income tax expense	25	(109 242)	(220 179)	(116 344)	(209 148)
Net profit		**273 123**	**492 047**	**389 195**	**698 700**
Net profit attributable to:					
- Owners of mBank S.A.		269 700	488 478	388 504	696 286
- Non-controlling interests		3 423	3 569	691	2 414

Net profit attributable to Owners of mBank S.A.		**269 700**	**488 478**	**388 504**	**696 286**
Weighted average number of ordinary shares	14	**42 280 676**	**42 280 403**	**42 238 924**	**42 238 924**
Earnings per share (in PLN)	14	**6.38**	**11.55**	**9.20**	**16.48**
Weighted average number of ordinary shares for diluted earnings	14	**42 306 110**	**42 305 837**	**42 299 047**	**42 299 047**
Diluted earnings per share (in PLN)	14	**6.37**	**11.55**	**9.18**	**16.46**

IFRS Condensed Consolidated Financial Statements for the first half of 2017 PLN (000's)

Condensed consolidated statement of comprehensive income

	Period from 01.04.2017 to 30.06.2017	Period from 01.01.2017 to 30.06.2017	Period from 01.04.2016 to 30.06.2016	Period from 01.01.2016 to 30.06.2016
Net profit	**273 123**	**492 047**	**389 195**	**698 700**
Other comprehensive income net of tax, including:	**71 921**	**137 622**	**(222 007)**	**(182 287)**
Items that may be reclassified subsequently to the income statement				
Exchange differences on translation of foreign operations (net)	331	151	257	193
Change in valuation of available for sale financial assets (net)	71 456	134 357	(221 708)	(183 096)
Cash flows hedges (net)	134	3 108	(556)	616
Items that will not be reclassified to the income statement				
Actuarial gains and losses relating to post-employment benefits (net)	-	6	-	-
Total comprehensive income (net)	**345 044**	**629 669**	**167 188**	**516 413**
Total comprehensive income (net), attributable to:				
- Owners of mBank S.A.	341 621	626 100	166 497	513 999
- Non-controlling interests	3 423	3 569	691	2 414

IFRS Condensed Consolidated Financial Statements for the first half of 2017 PLN (000's)

Condensed consolidated statement of financial position

ASSETS	Note	30.06.2017	31.12.2016	30.06.2016
Cash and balances with the Central Bank		5 855 425	9 164 281	6 433 221
Loans and advances to banks		2 259 136	3 082 855	1 680 830
Trading securities	15	3 296 641	3 800 634	3 233 150
Derivative financial instruments	16	1 325 089	1 808 847	2 411 457
Loans and advances to customers	18	83 377 025	81 763 277	80 774 809
Hedge accounting adjustments related to fair value of hedged items		-	-	73
Investment securities	19	30 469 641	31 393 352	31 644 303
Investments in joint ventures		-	-	7 271
Non-current assets held for sale	20	170 772	-	-
Intangible assets	21	627 900	582 663	503 561
Tangible assets	22	711 925	757 371	722 792
Current income tax assets		5 822	1 310	610
Deferred income tax assets	25	518 373	540 756	451 688
Other assets		799 742	848 156	869 720
Total assets		**129 417 491**	**133 743 502**	**128 733 485**

LIABILITIES AND EQUITY				
Liabilities				
Amounts due to the Central Bank		-	-	1
Amounts due to other banks		8 641 320	8 486 753	12 058 197
Derivative financial instruments	16	1 114 492	1 599 266	2 157 160
Amounts due to customers	23	88 155 911	91 417 962	85 302 300
Debt securities in issue		13 011 687	12 660 389	10 115 495
Hedge accounting adjustments related to fair value of hedged items		55 195	116 871	206 247
Liabilities held for sale	20	61 561	-	-
Other liabilities		2 209 342	2 178 790	1 949 265
Current income tax liabilities		67 912	104 999	59 622
Provisions for deferred income tax	25	1 294	1 208	909
Provisions	24	185 503	182 754	176 833
Subordinated liabilities		2 232 839	3 943 349	3 910 457
Total liabilities		**115 737 056**	**120 692 341**	**115 936 486**
Equity				
Equity attributable to Owners of mBank S.A.		**13 654 947**	**13 023 756**	**12 761 967**
Share capital:		**3 554 016**	**3 551 096**	**3 535 758**
- Registered share capital		169 143	169 121	168 956
- Share premium		3 384 873	3 381 975	3 366 802
Retained earnings:		**9 977 628**	**9 486 979**	**8 975 690**
- Profit from the previous years		9 489 150	8 267 697	8 279 404
- Profit for the current year		488 478	1 219 282	696 286
Other components of equity		**123 303**	**(14 319)**	**250 519**
Non-controlling interests		**25 488**	**27 405**	**35 032**
Total equity		**13 680 435**	**13 051 161**	**12 796 999**
Total liabilities and equity		**129 417 491**	**133 743 502**	**128 733 485**

Total capital ratio		**21.24**	**20.29**	**18.33**
Common Equity Tier 1 capital ratio		**18.47**	**17.32**	**15.61**
Book value		**13 654 947**	**13 023 756**	**12 761 967**
Number of shares		**42 285 676**	**42 280 127**	**42 238 924**
Book value per share (in PLN)		**322.92**	**308.03**	**302.14**

IFRS Condensed Consolidated Financial Statements for the first half of 2017 PLN (000's)

Condensed consolidated statement of changes in equity

Changes from 1 January to 30 June 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			
Equity as at 1 January 2017	**169 121**	**3 381 975**	**4 944 689**	**97 887**	**1 131 453**	**3 312 950**	**-**	**(6 004)**	**(3 068)**	**(1 545)**	**(3 702)**	**13 023 756**	**27 405**	**13 051 161**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**488 478**	**151**	**134 357**	**3 108**	**6**	**626 100**	**3 569**	**629 669**
Dividends paid	-	-	-	-	-	-	-	-	-	-	-	-	(5 486)	(5 486)
Transfer to general banking risk reserve	-	-	-	-	22 300	(22 300)	-	-	-	-	-	-	-	-
Transfer to supplementary capital	-	-	2 782 628	-	-	(2 782 628)	-	-	-	-	-	-	-	-
Issue of shares	22	-	-	-	-	-	-	-	-	-	-	22	-	22
Stock option program for employees	-	2 898	-	2 171	-	-	-	-	-	-	-	5 069	-	5 069
- value of services provided by the employees	-	-	-	*5 069*	-	-	-	-	-	-	-	*5 069*	-	*5 069*
- settlement of exercised options	-	*2 898*	-	*(2 898)*	-	-	-	-	-	-	-	-	-	-
Equity as at 30 June 2017	**169 143**	**3 384 873**	**7 727 317**	**100 058**	**1 153 753**	**508 022**	**488 478**	**(5 853)**	**131 289**	**1 563**	**(3 696)**	**13 654 947**	**25 488**	**13 680 435**

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			
Equity as at 1 January 2016	**168 956**	**3 366 802**	**4 883 602**	**103 972**	**1 095 453**	**2 190 755**	**-**	**(6 426)**	**442 354**	**859**	**(3 981)**	**12 242 346**	**32 618**	**12 274 964**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**1 219 282**	**422**	**(445 422)**	**(2 404)**	**279**	**772 157**	**2 942**	**775 099**
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)*	-	-	-	-	-	-	-	-	-	-
Equity as at 31 December 2016	**169 121**	**3 381 975**	**4 944 689**	**97 887**	**1 131 453**	**2 093 668**	**1 219 282**	**(6 004)**	**(3 068)**	**(1 545)**	**(3 702)**	**13 023 756**	**27 405**	**13 051 161**

IFRS Condensed Consolidated Financial Statements for the first half of 2017 PLN (000's)

Changes from 1 January to 30 June 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			
Equity as at 1 January 2016	**168 956**	**3 366 802**	**4 883 602**	**103 972**	**1 095 453**	**2 190 755**	**-**	**(6 426)**	**442 354**	**859**	**(3 981)**	**12 242 346**	**32 618**	**12 274 964**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**696 286**	**193**	**(183 096)**	**616**	**-**	**513 999**	**2 414**	**516 413**
Transfer to general banking risk reserve	-	-	-	-	36 000	(36 000)	-	-	-	-	-	-	-	-
Transfer to supplementary capital	-	-	61 087	-	-	(61 087)	-	-	-	-	-	-	-	-
Stock option program for employees	-	-	-	5 622	-	-	-	-	-	-	-	5 622	-	5 622
- value of services provided by the employees	-	-	-	*5 622*	-	-	-	-	-	-	-	*5 622*	-	*5 622*
Equity as at 30 June 2016	**168 956**	**3 366 802**	**4 944 689**	**109 594**	**1 131 453**	**2 093 668**	**696 286**	**(6 233)**	**259 258**	**1 475**	**(3 981)**	**12 761 967**	**35 032**	**12 796 999**

IFRS Condensed Consolidated Financial Statements for the first half of 2017 PLN (000's)

Condensed consolidated statement of cash flows

	Period from 01.01.2017 to 30.06.2017	Period from 01.01.2016 to 30.06.2016
A. Cash flows from operating activities	**(3 639 758)**	**2 673 693**
Profit before income tax	**712 226**	**907 848**
Adjustments:	***(4 351 984)***	***1 765 845***
Income taxes paid	(262 621)	(245 873)
Amortisation, including amortisation of fixed assets provided under operating lease	126 592	140 366
Foreign exchange (gains) losses related to financing activities	(725 853)	498 415
(Gains) losses on investing activities	(3 482)	(251 664)
Impairment of financial assets	20 004	8 119
Dividends received	(3 124)	(2 586)
Interest income (income statement)	(1 972 829)	(1 892 534)
Interest expense (income statement)	459 043	531 673
Interest received	2 079 159	1 774 691
Interest paid	(344 857)	(488 614)
Changes in loans and advances to banks	(449 762)	1 085 628
Changes in trading securities	67 441	528
Changes in assets and liabilities on derivative financial instruments	51 547	(9 646)
Changes in loans and advances to customers	(1 755 788)	(2 365 218)
Changes in investment securities	1 095 676	(832 468)
Changes in other assets	57 431	101 473
Changes in amounts due to other banks	560 599	(746 535)
Changes in amounts due to customers	(3 047 739)	3 669 334
Changes in debt securities in issue	(343 751)	648 543
Changes in provisions	2 749	(48 583)
Changes in other liabilities	37 581	190 796
Net cash generated from/(used in) operating activities	**(3 639 758)**	**2 673 693**
B.Cash flows from investing activities	**(207 028)**	**33 628**
Investing activity inflows	**26 567**	**218 918**
Disposal of shares in subsidiaries, net of cash disposed	-	2 000
Disposal of intangible assets and tangible fixed assets	23 443	15 300
Dividends received	3 124	2 586
Other investing inflows	-	199 032
Investing activity outflows	**233 595**	**185 290**
Acquisition of shares in subsidiaries	2 622	310
Purchase of intangible assets and tangible fixed assets	230 973	184 980
Net cash generated from/(used in) investing activities	**(207 028)**	**33 628**
C. Cash flows from financing activities	**(1 191 027)**	**1 303 871**
Financing activity inflows	**899 362**	**1 672 300**
Proceeds from loans and advances from other banks	-	570 635
Proceeds from other loans and advances	-	439 000
Issue of debt securities	899 340	662 665
Issue of ordinary shares	22	-
Financing activity outflows	**2 090 389**	**368 429**
Repayments of loans and advances from other banks	-	91 710
Repayments of other loans and advances	6 754	6 422
Redemption of debt securities	400 000	200 000
Decrease of subordinated liabilities	1 611 840	-
Payments of financial lease liabilities	729	166
Dividends and other payments to shareholders	5 486	-
Interest paid from loans and advances received from other banks and from subordinated liabilities	65 580	70 131
Net cash generated from/(used in) financing activities	**(1 191 027)**	**1 303 871**
Net increase / decrease in cash and cash equivalents (A+B+C)	**(5 037 813)**	**4 011 192**
Effects of exchange rate changes on cash and cash equivalents	14 992	35 834
Cash and cash equivalents at the beginning of the reporting period	15 000 049	6 656 382
Cash and cash equivalents at the end of the reporting period	**9 977 228**	**10 703 408**

Explanatory notes to the condensed consolidated financial statements

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

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

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

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

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

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

As at 30 June 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, 16th Economic Registration Division, on 23 December 1986 in the Business Register under the number RHB 14036. The 9th Extraordinary General Meeting of Shareholders held on 4 March 1999 adopted the resolution changing the Bank's name to BRE Bank S.A. The new name of the Bank was entered in the Business Register on 23 March 1999. On 11 July 2001, the District Court in Warsaw issued the decision on the entry of the Bank in the National Court Register (KRS) under number KRS 0000025237.

On 22 November 2013, the District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register, registered the amendments to the Bank's By-lows arising from Resolution N°26 and Resolution N°27 of the 26th Annual General Meeting of mBank S.A., which was held on 11 April 2013. With the registration of changes in By-lows, the name of the Bank has changed from the current BRE Bank Spółka Akcyjna on mBank Spółka Akcyjna (abbreviated mBank S.A.).

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

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

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

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

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

As at 30 June 2017 the headcount of mBank S.A. amounted to 5 363 FTEs (Full Time Equivalents) and of the Group to 6 514 FTEs (30 June 2016: Bank to 5 359 FTEs, Group 6 529 FTEs).

As at 30 June 2017 the employment in mBank S.A. was 6 339 persons and in the Group 8 489 persons (30 June 2016: Bank 6 293 persons, Group 8 308 persons).

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

Corporates and Financial Markets Segment, including:

Corporate and Investment Banking

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

Financial Markets

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

Retail Banking Segment (including Private Banking)

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

Other

- mCentrum Operacji Sp. z o.o., subsidiary
- mLocum S.A., subsidiary
- BDH Development Sp. z o.o., subsidiary
- Future Tech Fundusz Inwestycyjny Zamknięty, subsidiary

Other information concerning companies of the Group

On 22 June 2017, the Future Tech Fundusz Inwestycyjny Zamknięty (the "Fund") was registered, in which mBank acquired 400 000 investment certificates accounting for 100% of the issue, worth in total PLN 221 200 thousand. As at 30 June 2017 the Bank held of 100% of the certificates issued by the Fund, so the Bank consolidate the Fund starting from June 2017. Quercus Towarzystwo Funduszy Inwestycyjnych S.A. is the entity managing the Fund S.A.

On 2 June 2017, mBank S.A. signed a preliminary conditional agreement on the sale of mLocum S.A. shares to Archicom S.A. According to the agreement mBank S.A. will sale in two tranches all shares held by the Bank representing 79.99% of the share capital of mLocum. Detailed information about this transaction is provided under Note 20.

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 6 - month period ended 30 June 2017.

The presented condensed consolidated financial statements of mBank Group for the first half 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 half 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 Group's 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, while the data for the first half of 2016 years was reviewed by an 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 Group's companies continue 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 July 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 only 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.

IFRS Condensed Consolidated Financial Statements for the first half of 2017 PLN (000's)

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 accounting 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	30.06.2017		31.12.2016		30.06.2016	
	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
Garbary Sp. z o.o.	100%	full	100%	full	100%	full
mBank Hipoteczny S.A.	100%	full	100%	full	100%	full
mCentrum Operacji Sp. z o.o.	100%	full	100%	full	100%	full
mFaktoring S.A.	100%	full	100%	full	100%	full
mLeasing Sp. z o.o.	100%	full	100%	full	100%	full
Tele-Tech Investment Sp. z o.o.	100%	full	100%	full	100%	full
Future Tech Fundusz Inwestycyjny Zamknięty	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

Beginning in June 2017, the Group started the consolidation of the Fund Future Tech Fundusz Inwestycyjny Zamknięty. Information about the Fund is included under Note 1 and in item 9 Selected explanatory information.

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 in governing bodies. 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 each reporting date the Group determines whether there was an objective evidence for impairment of an investment in an associate or a joint venture. If there was an objective evidence for impairment, the Group calculates impairment comparing the recoverable amount of the investment with its carrying value.

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

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 and joint ventures have been adjusted, wherever necessary, to assure consistency with the accounting principles applied by the Group.

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

2.4. Interest income and expenses

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

The effective interest rate method is a method of calculation of the amortised initial value of financial assets or financial liabilities and allocation of interest income or interest expense to the proper periods. The effective interest rate is the interest rate at which the discounted future payments or future cash inflows in the expected life of the financial instrument, are equal to the net present carrying value of the respective financial asset or liability. When calculating the effective interest rate, the Group estimates the cash flows taking into account all the contractual terms of the financial instrument, but without taking into account possible future losses on account of non-recovered loans and advances. This calculation takes into account all the fees paid or received between the parties to the contract, which constitute an integral component of the effective interest rate, as well as transaction expenses and any other premiums or discounts.

Following the recognition of an impairment loss on a financial asset or a group of similar financial assets, the interest income is calculated on the net value of financial assets and recognised using the interest rate at which the future cash flows were discounted for the purpose of valuation of impairment.

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

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

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

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

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

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

2.5. Fee and commission income

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

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

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

In addition, revenue from fee and commission include income from a fee on insurance products sold through the Internet platform for the distribution of premium in installments. The fee for the distribution of premium in installments 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 from the Statements of Financial Position if Group loses control over any contractual rights attached to that asset, which usually takes place if the financial instrument is disposed of or if all cash flows attached to the instrument are transferred to an independent third party.

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

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

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

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

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

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

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

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

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

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

Interest income/expense on financial assets/financial liabilities designated at fair value (Note 2.4), except for derivatives the recognition of which is discussed in Note 2.14, 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 financial assets are presented in net interest income. Gains and losses from sale of available for sale financial assets 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 directly 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 amount of net gains or losses 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 value. 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 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 each 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 are objective evidences 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 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 process of 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.

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

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

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

a) governments and central banks,
b) banks,
c) corporations, including specialised lending,
d) local government units,
e) insurers,

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

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

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

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

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 by the insurance company.

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 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.

In the case of exposures for which the discounted value of future cash flows is higher than the gross carrying amount, 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 39. 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 of such loans and advances 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. Sale and repurchase agreements

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

Securities sold with a repurchase clause (repos/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 repackaging) or based on a valuation technique whose variables include only data from observable markets.

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

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

2.16. Borrowings and deposits taken

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

Goodwill

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

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

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

Computer software

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

Capitalised costs attached to the development of software are amortised over the period of their estimated useful life (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 arrising need.

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

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

The carrying amount of tangible fixed assets is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from from the derecognition of tangible fixed assets are included in profit or loss when the item is derecognised. Gains are not classified as revenue.

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

2.19. 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 and its sale must be highly probable, i.e., the appropriate level of management must be committed to a plan to sell the asset, and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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

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

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

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

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

2.21. 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

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

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

2.23. 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 arrangement 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 arrangement 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 technical-insurance 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 risk reserve,
- undistributed profit for the previous year,
- net profit (loss) for the current year.

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

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

Dividends for a given year, which have been approved by the General Meeting but not distributed at the end of the reporting period, are shown under the liabilities 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 differences component of that gain or loss is recognised in other comprehensive income. Coversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange differences 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,
- 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.

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

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 Bank launched an IFRS 9 implementation project which actively engages the Bank's and Group companies 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 requirements based on the results of gap analysis and defined methodological assumptions. The Group intends to complete the project by December 2017.

  As at 30 June 2017, it is not possible to estimate the overall impact of IFRS 9 implementation on the Group's financial situation and own funds. In the Group's opinion, disclosing quantitative data that would not reflect the potential impact of all aspects of IFRS 9 on the Group's financial situation and own funds could have a negative impact on the informative value of the financial statement for its users. Nevertheless, taking into account the current regulations, changes in the requirements regarding classification and measurement and impairment of financial assets, would have moderately negative impact on the Group's own funds. However, the impact of changes can be reliably estimated only in the consecutive periods.

  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 annuals 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 annuals 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 annuals 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 Bank 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 Bank.

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

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

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

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

- Amendments to IAS 40, *Transfers of Investment Property*, published by International Accounting Standards Board on 8 December 2016, binding for annuals periods starting on or after 1 January 2018.

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

- IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*, published by International Accounting Standards Board on 8 December 2016, binding for annuals 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.

- IFRIC Interpretation 23 Uncertainty over Income Tax Treatments, published by International Accounting Standards Board on 7 June 2017, binding for annuals periods starting on or after 1 January 2019.

  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.

- IFRS 17, Insurance contracts, published by International Accounting Standards Board on 18 May 2017, binding for annuals periods starting on or after 1 January 2021

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

2.31. Comparative data

The data as at 31 December 2016 and as at 30 June 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.

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

The Group reviews its loan portfolio in terms of possible impairments at least once per quarter. In order to determine whether any impairment loss should be recognised in the income statement, the Group assesses whether any evidence exists that would indicate some measurable reduction of estimated future cash flows attached to the loan portfolio. The methodology and the assumptions (on the basis of which the estimated cash flow amounts and their anticipated timing are determined) are regularly verified. If the current value of estimated cash flows for portfolio of loans and advances which are impaired, change by +/-10%, the estimated loans and advances impairment would either decrease by PLN 47.0 million or increase by PLN 49.2 million respectively. This estimation was performed for portfolio of loans and advances individually assessed for impairment on the basis of future cash flows due to repayments and recovery from collateral. The rules of determining write-downs and provisions for impairment of credit exposures have been described under Note 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 9.1 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 KUKE to support the Polish export market. This sub-segment also includes the results of mFinance France S.A. as well as the results of mLeasing Sp. z o.o and mBank Hipoteczny S.A. with regard to activities concerning funding.
- Operations which are not included in the Retail Banking segment and the Corporates and Financial Markets segment are reported under "Other". This segment includes the results of mLocum S.A., mCentrum Operacji Sp. z o.o., BDH Development Sp. z o.o. and Future Tech Fundusz Inwestycyjny Zamknięty.

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

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

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

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

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

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

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

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

Business segment reporting on the activities of mBank S.A. Group
for the period from 1 January to 30 June 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				
Net interest income	**391 704**	**147 338**	**971 091**	**3 653**	**1 513 786**	**1 513 786**
- sales to external clients	427 784	307 819	776 440	1 743	1 513 786	-
- sales to other segments	(36 080)	(160 481)	194 651	1 910	-	-
Net fee and commission income	**200 067**	**(3 604)**	**298 938**	**6 765**	**502 166**	**502 166**
Dividend income	**-**	**8**	**-**	**3 116**	**3 124**	**3 124**
Trading income	**118 611**	**(34 483)**	**54 455**	**(618)**	**137 965**	**137 965**
Gains less losses from investment securities, investments in subsidiaries and associates	**(6 982)**	**2 814**	**-**	**(12 494)**	**(16 662)**	**(16 662)**
Other operating income	**32 891**	**164**	**16 837**	**99 156**	**149 048**	**149 048**
Net impairment losses on loans and advances	**(47 827)**	**2 062**	**(158 418)**	**863**	**(203 320)**	**(203 320)**
Overhead costs	**(319 452)**	**(70 198)**	**(554 169)**	**(16 284)**	**(960 103)**	**(960 103)**
Amortisation	**(35 022)**	**(4 812)**	**(61 151)**	**(1 693)**	**(102 678)**	**(102 678)**
Other operating expenses	**(22 002)**	**(1 738)**	**(33 295)**	**(69 742)**	**(126 777)**	**(126 777)**
Operating profit	**311 988**	**37 551**	**534 288**	**12 722**	**896 549**	**896 549**
Taxes on Group balance sheet items	**(68 584)**	**(14 459)**	**(98 308)**	**(2 972)**	**(184 323)**	**(184 323)**
Gross profit of the segment	**243 404**	**23 092**	**435 980**	**9 750**	**712 226**	**712 226**
Income tax					(220 179)	(220 179)
Net profit attributable to Owners of mBank S.A.					488 478	488 478
Net profit attributable to non-controlling interests					3 569	3 569
Assets of the segment	**35 837 907**	**40 928 514**	**51 166 616**	**1 484 454**	**129 417 491**	**129 417 491**
Liabilities of the segment	**29 317 788**	**30 079 428**	**55 692 967**	**646 873**	**115 737 056**	**115 737 056**
Other items of the segment						
Expenditures incurred on fixed assets and intangible assets	77 363	3 983	72 350	858	154 554	

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				
Net interest income	**750 522**	**314 536**	**1 762 440**	**5 345**	**2 832 843**	**2 832 843**
- 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	-	
Net fee and commission income	**378 797**	**(4 560)**	**517 665**	**14 543**	**906 445**	**906 445**
Dividend income	**-**	**410**	**5**	**2 912**	**3 327**	**3 327**
Trading income	**243 641**	**(103 253)**	**100 272**	**3 971**	**244 631**	**244 631**
Gains less losses from investment securities, investments in subsidiaries and associates	**20 973**	**17 280**	**230 455**	**(7 427)**	**261 281**	**261 281**
The share in the profits (losses) of joint ventures	**-**	**-**	**-**	**(107)**	**(107)**	**(107)**
Other operating income	**56 348**	**83**	**41 074**	**146 244**	**243 749**	**243 749**
Net impairment losses on loans and advances	**(76 548)**	**(1 653)**	**(284 922)**	**(2 271)**	**(365 394)**	**(365 394)**
Overhead costs	**(641 582)**	**(94 940)**	**(973 052)**	**(30 069)**	**(1 739 643)**	**(1 739 643)**
Amortisation	**(75 442)**	**(9 480)**	**(135 573)**	**(3 146)**	**(223 641)**	**(223 641)**
Other operating expenses	**(38 015)**	**(774)**	**(55 913)**	**(102 113)**	**(196 815)**	**(196 815)**
Operating profit	**618 694**	**117 649**	**1 202 451**	**27 882**	**1 966 676**	**1 966 676**
Taxes on Group balance sheet items	**(120 113)**	**(26 788)**	**(178 539)**	**(3 499)**	**(328 939)**	**(328 939)**
Gross profit of the segment	**498 581**	**90 861**	**1 023 912**	**24 383**	**1 637 737**	**1 637 737**
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
Assets of the segment	**34 384 935**	**46 111 056**	**51 914 792**	**1 332 719**	**133 743 502**	**133 743 502**
Liabilities of the segment	**32 083 584**	**32 622 759**	**55 026 967**	**959 031**	**120 692 341**	**120 692 341**
Other items of the segment						
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 30 June 2016
(PLN'000)

	Corporates & Financial Markets		Retail Banking (including Private Banking)	Other	Total figure for the Group	Statement of financial position reconciliation/ income statement reconciliation
	Corporate and Investment Banking	Financial Markets				
Net interest income	**363 223**	**156 399**	**838 515**	**2 724**	**1 360 861**	**1 360 861**
- sales to external clients	354 635	357 995	646 536	1 695	1 360 861	
- sales to other segments	8 588	(201 596)	191 979	1 029	-	
Net fee and commission income	**177 936**	**(1 684)**	**238 757**	**6 439**	**421 448**	**421 448**
Dividend income	**-**	**17**	**5**	**2 564**	**2 586**	**2 586**
Trading income	**125 906**	**(36 500)**	**50 549**	**3 645**	**143 600**	**143 600**
Gains less losses from investment securities, investments in subsidiaries and associates	**20 973**	**4 375**	**230 511**	**(7 677)**	**248 182**	**248 182**
The share in the profits (losses) of joint ventures	**-**	**-**	**-**	**(88)**	**(88)**	**(88)**
Other operating income	**29 397**	**422**	**27 407**	**91 942**	**149 168**	**149 168**
Net impairment losses on loans and advances	**(47 275)**	**266**	**(140 331)**	**1 077**	**(186 263)**	**(186 263)**
Overhead costs	**(316 375)**	**(45 877)**	**(474 143)**	**(17 979)**	**(854 374)**	**(854 374)**
Amortisation	**(36 411)**	**(4 562)**	**(74 607)**	**(1 517)**	**(117 097)**	**(117 097)**
Other operating expenses	**(20 798)**	**(55)**	**(24 515)**	**(68 494)**	**(113 862)**	**(113 862)**
Operating profit	**296 576**	**72 801**	**672 148**	**12 636**	**1 054 161**	**1 054 161**
Taxes on Group balance sheet items	**(54 049)**	**(11 730)**	**(79 401)**	**(1 133)**	**(146 313)**	**(146 313)**
Gross profit of the segment	**242 527**	**61 071**	**592 747**	**11 503**	**907 848**	**907 848**
Income tax					(209 148)	(209 148)
Net profit attributable to Owners of mBank S.A.					696 286	696 286
Net profit attributable to non-controlling interests					2 414	2 414
Assets of the segment	**33 913 097**	**43 129 525**	**50 129 616**	**1 561 247**	**128 733 485**	**128 733 485**
Liabilities of the segment	**30 157 101**	**34 171 216**	**50 905 243**	**702 926**	**115 936 486**	**115 936 486**
Other items of the segment						
Expenditures incurred on fixed assets and intangible assets	80 229	2 257	36 487	636	119 609	

IFRS Condensed Consolidated Financial Statements for the first half of 2017 PLN (000's)

Geographical areas reporting on the activities of mBank S.A. Group for the period	from 1 January to 30 June 2017			from 1 January to 31 December 2016			from 1 January to 30 June 2016		
	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total
Net interest income	1 439 400	74 386	**1 513 786**	2 688 897	143 946	**2 832 843**	1 291 966	68 895	**1 360 861**
Net fee and commission income	500 505	1 661	**502 166**	897 425	9 020	**906 445**	419 442	2 006	**421 448**
Dividend income	3 124	-	**3 124**	3 327	-	**3 327**	2 586	-	**2 586**
Trading income	134 572	3 393	**137 965**	238 867	5 764	**244 631**	141 326	2 274	**143 600**
Gains less losses from investment securities, investments in subsidiaries and associates	(16 662)	-	**(16 662)**	216 977	44 304	**261 281**	203 832	44 350	**248 182**
The share in the profits (losses) of joint ventures	-	-	**-**	(107)	-	**(107)**	(88)	-	**(88)**
Other operating income	147 949	1 099	**149 048**	235 153	8 596	**243 749**	142 776	6 392	**149 168**
Net impairment losses on loans and advances	(200 650)	(2 670)	**(203 320)**	(359 198)	(6 196)	**(365 394)**	(185 620)	(643)	**(186 263)**
Overhead costs	(895 624)	(64 479)	**(960 103)**	(1 618 554)	(121 089)	**(1 739 643)**	(793 899)	(60 475)	**(854 374)**
Amortisation	(100 611)	(2 067)	**(102 678)**	(219 558)	(4 083)	**(223 641)**	(115 158)	(1 939)	**(117 097)**
Other operating expenses	(125 714)	(1 063)	**(126 777)**	(193 995)	(2 820)	**(196 815)**	(113 165)	(697)	**(113 862)**
Operating profit	886 289	10 260	**896 549**	1 889 234	77 442	**1 966 676**	993 998	60 163	**1 054 161**
Taxes on the Group balance sheet items	(172 876)	(11 447)	**(184 323)**	(308 055)	(20 884)	**(328 939)**	(136 974)	(9 339)	**(146 313)**
Gross profit of the segment	**713 413**	**(1 187)**	712 226	**1 581 179**	**56 558**	**1 637 737**	857 024	50 824	**907 848**
Income tax			(220 179)			(415 513)			(209 148)
Net profit attributable to Owners of mBank S.A.			488 478			1 219 282			696 286
Net profit attributable to non-controlling interests			3 569			2 942			2 414
Assets of the segment, including:	124 043 077	5 374 414	**129 417 491**	128 304 364	5 439 138	**133 743 502**	123 934 257	4 799 228	**128 733 485**
- tangible assets	1 328 536	11 289	1 339 825	1 327 824	12 210	1 340 034	1 216 430	9 923	1 226 353
- deferred income tax assets	515 890	2 483	518 373	538 184	2 572	540 756	447 627	4 061	451 688
Liabilities of the segment	107 181 727	8 555 329	**115 737 056**	112 706 515	7 985 826	**120 692 341**	108 525 050	7 411 436	**115 936 486**

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5. Net interest income

the period	from 01.01.2017 to 30.06.2017	from 01.01.2016 to 30.06.2016
Interest income		
Loans and advances including the unwind of the impairment provision discount	1 445 462	1 334 618
Investment securities	340 974	353 866
Cash and short-term placements	30 031	26 443
Trading debt securities	42 268	32 865
Interest income on derivatives classified into banking book	73 073	106 693
Interest income on derivatives concluded under the fair value hedge	31 539	28 244
Interest income on derivatives concluded under the cash flow hedge	7 089	7 932
Other	2 393	1 873
Total interest income	**1 972 829**	**1 892 534**
Interest expense		
Arising from amounts due to banks	(30 595)	(37 831)
Arising from amounts due to customers	(248 546)	(338 005)
Arising from issue of debt securities	(134 717)	(117 167)
Arising from subordinated liabilities	(35 216)	(33 736)
Other	(9 969)	(4 934)
Total interest expense	**(459 043)**	**(531 673)**

Interest income related to impaired financial assets amounted to PLN 44 278 thousand (for the period ended 30 June 2016: PLN 46 612 thousand).

6. Net fee and commission income

the period	from 01.01.2017 to 30.06.2017	from 01.01.2016 to 30.06.2016
Fee and commission income		
Payment cards-related fees	182 038	168 733
Credit-related fees and commissions	159 836	138 406
Commissions for agency service regarding sale of insurance products of external financial entities	93 932	78 068
Fees from brokerage activity and debt securities issue	68 406	57 995
Commissions from bank accounts	91 801	84 516
Commissions from money transfers	57 576	53 899
Commissions due to guarantees granted and trade finance commissions	34 136	28 586
Commissions for agency service regarding sale of other products of external financial entities	71 626	51 285
Commissions on trust and fiduciary activities	13 085	12 573
Fees from portfolio management services and other management-related fees	7 467	5 701
Fees from cash services	26 088	23 364
Other	16 425	14 067
Total fee and commission income	**822 416**	**717 193**

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the period	from 01.01.2017 to 30.06.2017	from 01.01.2016 to 30.06.2016
Fee and commission expense		
Payment cards-related fees	(113 141)	(111 021)
Commissions paid to external entities for sale of the Bank's products	(65 090)	(55 645)
Commissions paid for agency service regarding sale of insurance products of external financial entities	(1 239)	(2 752)
Discharged brokerage fees	(14 849)	(20 232)
Cash services	(24 603)	(22 745)
Fees to NBP and KIR	(5 225)	(4 727)
Other discharged fees	(96 103)	(78 623)
Total fee and commission expense	**(320 250)**	**(295 745)**

7. Dividend income

the period	from 01.01.2017 to 30.06.2017	from 01.01.2016 to 30.06.2016
Trading securities	8	22
Securities available for sale	3 116	2 564
Total dividend income	**3 124**	**2 586**

8. Net trading income

the period	from 01.01.2017 to 30.06.2017	from 01.01.2016 to 30.06.2016
Foreign exchange result	**134 319**	**137 882**
Net exchange differences on translation	98 874	245 781
Net transaction gains/(losses)	35 445	(107 899)
Other net trading income and result on hedge accounting	**3 646**	**5 718**
Interest-bearing instruments	6 619	3 887
Equity instruments	436	1 514
Market risk instruments	3 812	4 514
Result on fair value hedge accounting, including:	(2 953)	5 462
- Net profit on hedged items	61 676	(106 208)
- Net profit on fair value hedging instruments	(64 629)	111 670
Ineffective portion of cash flow hedge	(4 268)	(9 659)
Total net trading income	**137 965**	**143 600**

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

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

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

the period	from 01.01.2017 to 30.06.2017	from 01.01.2016 to 30.06.2016
Sale/redemption of financial assets available for sale	3 342	256 301
Impairment of available for sale equity securities	(4 751)	(7 677)
Impairment of available for sale debt securities	(7 511)	-
Impairment of investments in subsidiaries	(7 742)	(442)
Total gains less losses from investment securities and investments in subsidiaries and associates	**(16 662)**	**248 182**

In 2017 and 2016, the impairment of equity securities available for sale relates to the company Polski Standard Płatności Sp. z o. o.

In 2017, the impairment of debt securities relates to the bonds issued by the Sygnity S.A.

In 2017, the item "Impairment of investments in subsidiaries" relates to the mLocum shares in connection with the sale transaction to Archicom S.A., as described under Note 20.

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

10. Other operating income

the period	from 01.01.2017 to 30.06.2017	from 01.01.2016 to 30.06.2016
Income from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories	115 253	98 968
Income from services provided	11 829	11 301
Net income from operating lease	3 564	4 462
Income due to release of provisions for future commitments	1 243	1 578
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	986	1 892
Income from compensations, penalties and fines received	304	43
Other	15 869	30 924
Total other operating income	**149 048**	**149 168**

Income from sale or liquidation of tangible fixed assets, intangible assets as well as assets held for disposal and inventories 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 half of 2017 and the first half of 2016 is presented below.

the period	from 01.01.2017 to 30.06.2017	from 01.01.2016 to 30.06.2016
Net income from operating lease, including:		
- Income from operating lease	27 478	27 731
- Depreciation cost of fixed assets provided under operating lease	(23 914)	(23 269)
Total net income from operating lease	**3 564**	**4 462**

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11. Net impairment losses on loans and advances

the period	from 01.01.2017 to 30.06.2017	from 01.01.2016 to 30.06.2016
Net impairment losses on amounts due from banks	(215)	629
Net impairment losses on loans and advances to customers	(209 321)	(189 271)
Net impairment losses on contingent liabilities due to customers	6 216	2 379
Total net impairment losses on loans and advances	**(203 320)**	**(186 263)**

12. Overhead costs

the period	from 01.01.2017 to 30.06.2017	from 01.01.2016 to 30.06.2016
Staff-related expenses	(447 180)	(436 770)
Material costs, including:	(349 491)	(319 694)
- logistics cost	(178 985)	(168 788)
- IT costs	(81 286)	(66 084)
- marketing costs	(52 775)	(57 434)
- consulting costs	(30 579)	(22 910)
- other material costs	(5 866)	(4 478)
Taxes and fees	(10 669)	(20 115)
Contributions and transfers to the Bank Guarantee Fund	(149 096)	(74 179)
Contributions to the Social Benefits Fund	(3 667)	(3 616)
Total overhead costs	**(960 103)**	**(854 374)**

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

the period	from 01.01.2017 to 30.06.2017	from 01.01.2016 to 30.06.2016
Wages and salaries	(361 919)	(355 422)
Social security expenses	(62 597)	(60 696)
Employee contributions related to post-employment benefits	(50)	-
Remuneration concerning share-based payments, including:	(6 136)	(6 477)
- share-based payments settled in mBank S.A. shares	(5 069)	(5 621)
- cash-settled share-based payments	(1 067)	(856)
Other staff expenses	(16 478)	(14 175)
Total staff-related expenses	**(447 180)**	**(436 770)**

13. Other operating expenses

the period	from 01.01.2017 to 30.06.2017	from 01.01.2016 to 30.06.2016
Costs arising from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories	(81 876)	(72 274)
Provisions for future commitments	(15 108)	(8 585)
Donations made	(2 555)	(2 538)
Compensation, penalties and fines paid	(645)	(113)
Costs arising from provisions created for other receivables (excluding loans and advances)	(1 040)	(2 042)
Costs of sale of services	(1 179)	(1 004)
Costs arising from receivables and liabilities recognised as prescribed, remitted and uncollectible	(3)	(111)
Impairment losses on non-financial assets	-	(788)
Impairment provisions created for tangible fixed assets and intangible assets	-	(1 000)
Other operating costs	(24 371)	(25 407)
Total other operating expenses	**(126 777)**	**(113 862)**

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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 6 months

the period	from 01.01.2017 to 30.06.2017	from 01.01.2016 to 30.06.2016
Basic:		
Net profit attributable to Owners of mBank S.A.	488 478	696 286
Weighted average number of ordinary shares	42 280 403	42 238 924
Net basic profit per share (in PLN per share)	**11.55**	**16.48**
Diluted:		
Net profit attributable to Owners of mBank S.A., applied for calculation of diluted earnings per share	488 478	696 286
Weighted average number of ordinary shares	42 280 403	42 238 924
Adjustments for:		
- share options	25 434	60 123
Weighted average number of ordinary shares for calculation of diluted earnings per share	42 305 837	42 299 047
Diluted earnings per share (in PLN per share)	**11.55**	**16.46**

15. Trading securities

	30.06.2017			31.12.2016			30.06.2016		
	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
Debt securities:	**2 683 289**	**608 568**	**3 291 857**	**3 042 194**	**754 263**	**3 796 457**	**2 184 042**	**1 040 022**	**3 224 064**
Issued by government	2 460 096	608 568	3 068 664	2 748 766	754 263	3 503 029	1 914 738	1 040 022	2 954 760
- government bonds	2 460 096	603 581	3 063 677	2 748 766	754 263	3 503 029	1 914 738	1 040 022	2 954 760
- treasury bills	-	4 987	4 987	-	-	-	-	-	-
Other debt securities	223 193	-	223 193	293 428	-	293 428	269 304	-	269 304
- bank's bonds	63 918	-	63 918	109 904	-	109 904	165 371	-	165 371
- deposit certificates	12 093	-	12 093	16 146	-	16 146	1 009	-	1 009
- corporate bonds	147 182	-	147 182	167 378	-	167 378	102 924	-	102 924
Equity securities:	**4 784**	**-**	**4 784**	**4 177**	**-**	**4 177**	**9 086**	**-**	**9 086**
- listed	4 629	-	4 629	4 022	-	4 022	6 549	-	6 549
- unlisted	155	-	155	155	-	155	2 537	-	2 537
Total debt and equity securities:	**2 688 073**	**608 568**	**3 296 641**	**3 046 371**	**754 263**	**3 800 634**	**2 193 128**	**1 040 022**	**3 233 150**

16. Derivative financial instruments

	30.06.2017		31.12.2016		30.06.2016	
	assets	liabilities	assets	liabilities	assets	liabilities
Held for trading derivative financial instruments classified into banking book	225 039	70 441	118 395	160 894	152 491	207 336
Held for trading derivative financial instruments classified into trading book	1 107 282	1 186 519	1 639 881	1 607 660	2 048 527	2 054 457
Derivative financial instruments held for fair value hedging	146 645	26 007	196 634	26 026	265 168	54
Derivative financial instruments held for cash flow hedging	25 290	1 759	30 926	1 786	35 246	-
Offsetting effect	(179 167)	(170 234)	(176 989)	(197 100)	(89 975)	(104 687)
Total derivative financial instruments assets/liabilities	**1 325 089**	**1 114 492**	**1 808 847**	**1 599 266**	**2 411 457**	**2 157 160**

The Group uses the following derivative instruments:

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

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

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. An Interest Rate Swap is the hedging instrument changing the fixed interest rate to a variable interest rate.

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

The Group applies cash flow hedge accounting of the part of loans portfolio 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 July 2017 to July 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".

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

the period	from 01.01.2017 to 30.06.2017	from 01.01.2016 to 30.06.2016
Interest income on derivatives concluded under the fair value hedge (Note 5)	31 539	28 244
Net profit on hedged items (Note 8)	61 676	(106 208)
Net profit on fair value hedging instruments (Note 8)	(64 629)	111 670
The total results of fair value hedge accounting recognised in the income statement	**28 586**	**33 706**

The following note presents other comprehensive income due to cash flow hedges as at 30 June 2017 and 30 June 2016.

the period	from 01.01.2017 to 30.06.2017	from 01.01.2016 to 30.06.2016
Other comprehensive income from cash flow hedge at the beginning of the period (gross)	**(1 907)**	**1 061**
- Unrealised gains/losses included in other comprehensive income during the reporting period	3 836	761
Accumulated other comprehensive income at the end of the reporting period (gross)	**1 929**	**1 822**
Deferred income tax on accumulated other comprehensive income at the end of the reporting period	(366)	(347)
Accumulated net other comprehensive income at the end of the reporting period	**1 563**	**1 475**
Impact on other comprehensive income in the reporting period (gross)	3 836	761
Deferred tax on cash flow hedges	(728)	(145)
Impact on other comprehensive income in the reporting period (net)	**3 108**	**616**

the period	from 01.01.2017 to 30.06.2017	from 01.01.2016 to 30.06.2016
Gains/losses rocognised in comprehensive income (gross) during the reporting period, including:		
- Unrealised gains/losses included in other comprehensive income (gross)	3 836	761
- Amount included as interest income in income statement in the reporting period	7 089	7 932
- Ineffective portion of hedge recognised in other net trading income	(4 268)	(9 659)
Impact on other comprehensive income in the reporting period (gross)	**6 657**	**(966)**

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

the period	from 01.01.2017 to 30.06.2017	from 01.01.2016 to 30.06.2016
Interest income on derivatives concluded under the cash flow hedge (Note 5)	7 089	7 932
Ineffective portion of cash flow hedge (Note 8)	(4 268)	(9 659)
The total results of cash flow hedge accounting recognised in the income statement	**2 821**	**(1 727)**

18. Loans and advances to customers

	30.06.2017	31.12.2016	30.06.2016
Loans and advances to individuals:	**48 757 793**	**48 949 829**	**48 272 191**
- current receivables	7 039 110	6 458 369	6 276 593
- term loans, including:	41 718 683	42 491 460	41 995 598
- housing and mortgage loans	34 005 417	35 369 113	35 220 185
Loans and advances to corporate entities:	**36 142 978**	**34 174 289**	**33 936 902**
- current receivables	5 126 975	4 125 405	4 725 577
- term loans:	29 077 561	28 267 897	27 424 522
- corporate & institutional enterprises	4 840 701	5 037 182	5 293 658
- medium & small enterprises	24 236 860	23 230 715	22 130 864
- reverse repo / buy-sell-back transactions	93 825	56 676	131 734
- other	1 844 617	1 724 311	1 655 069
Loans and advances to public sector	**1 081 106**	**1 228 230**	**1 357 033**
Other receivables	**239 484**	**228 424**	**296 038**
Total (gross) loans and advances to customers	**86 221 361**	**84 580 772**	**83 862 164**
Provisions for loans and advances to customers (negative amount)	(2 844 336)	(2 817 495)	(3 087 355)
Total (net) loans and advances to customers	**83 377 025**	**81 763 277**	**80 774 809**
Short-term (up to 1 year)	27 827 783	26 909 693	26 897 267
Long-term (over 1 year)	55 549 242	54 853 584	53 877 542

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

Loans to micro enterprises in the presented reporting periods amounted to respectively: 30 June 2017: PLN 5 676 382 thousand, 31 December 2016 – PLN 5 340 274 thousand, 30 June 2016 – PLN 5 218 229 thousand.

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

	30.06.2017	31.12.2016	30.06.2016
Housing and mortgage loans to individuals (in PLN 000's), including:	**34 005 417**	**35 369 113**	**35 220 185**
- PLN	10 385 844	9 500 619	8 813 526
- CHF	16 912 392	18 725 950	19 139 631
- EUR	3 541 317	3 915 620	4 068 909
- CZK	2 851 789	2 850 232	2 817 765
- USD	279 505	336 694	333 159
- Other currency	34 570	39 998	47 195
Housing and mortgage loans to individuals in original currencies (main currencies in 000's)			
- PLN	10 385 844	9 500 619	8 813 526
- CHF	4 373 857	4 548 114	4 705 271
- EUR	837 884	885 086	919 424
- CZK	17 701 980	17 411 313	17 223 502
- USD	75 416	80 562	83 554

Provisions for loans and advances

	30.06.2017	31.12.2016	30.06.2016
Incurred but not identified losses			
Gross balance sheet exposure	81 653 575	80 043 614	79 016 656
Impairment provisions for exposures analysed according to portfolio approach	(232 926)	(226 430)	(253 341)
Net balance sheet exposure	**81 420 649**	**79 817 184**	**78 763 315**
Receivables with impairment			
Gross balance sheet exposure	4 567 786	4 537 158	4 845 508
Provisions for receivables with impairment	(2 611 410)	(2 591 065)	(2 834 014)
Net balance sheet exposure	**1 956 376**	**1 946 093**	**2 011 494**

The table below presents the structure of concentration of mBank 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 30 June 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)	%	Principal exposure (in PLN thousand)	%
		30.06.2017		31.12.2016		30.06.2016	
1.	Household customers	48 757 793	56.55	48 949 829	57.87	48 272 191	57.56
2.	Real estate activities	6 019 309	6.98	6 082 294	7.19	5 394 237	6.43
3.	Construction	3 883 579	4.50	3 814 574	4.51	3 960 167	4.72
4.	Transport and logistics	2 206 134	2.56	2 074 745	2.45	2 005 001	2.39
5.	Food sector	2 192 132	2.54	2 323 053	2.75	2 345 544	2.80
6.	Metals	1 865 210	2.16	1 941 590	2.30	2 039 934	2.43
7.	Motorization	1 839 718	2.13	1 516 123	1.79	1 601 644	1.91
8.	Chemicals and chemical products	1 415 373	1.64	1 276 245	1.51	1 364 476	1.63
9.	Wood, furniture and paper products	1 395 191	1.62	1 212 920	1.43	1 382 460	1.65
10.	Construction materials	1 377 100	1.60	1 178 707	1.39	1 417 781	1.69
11.	Rental and leasing activities	1 215 698	1.41	1 213 395	1.43	1 192 507	1.42
12.	Scientific and technical activities	1 184 952	1.37	688 975	0.81	633 242	0.76
13.	Wholesale trade	1 139 331	1.32	976 637	1.15	988 217	1.18
14.	Fuels	1 000 923	1.16	1 002 124	1.19	1 029 363	1.23
15.	Power, power and heating distribution	993 914	1.15	1 294 717	1.53	1 006 378	1.20
16.	Retail trade	976 384	1.13	894 650	1.06	982 518	1.17
17.	Public administration	797 209	0.92	909 234	1.08	1 016 965	1.21
18.	Information and communication	702 510	0.82	785 461	0.93	713 367	0.85
19.	Hotels and restaurants	673 202	0.78	728 771	0.86	718 658	0.86
20.	Financial activities	606 691	0.70	249 696	0.30	339 397	0.40
21.	Textiles and wearing apparel	520 687	0.60	492 531	0.58	489 579	0.58
22.	Media	491 879	0.57	460 466	0.54	376 744	0.45
23.	Services	476 636	0.55	471 301	0.56	404 266	0.48
24.	Agriculture, forestry and fishing	451 444	0.52	391 489	0.46	383 670	0.46
25.	Municipal services	442 350	0.51	412 509	0.49	417 423	0.50
26.	Human health and social work activities	440 962	0.51	385 791	0.46	367 613	0.44
27.	Other manufacturing activity	437 633	0.51	441 558	0.52	466 826	0.56
28.	IT	425 835	0.49	205 974	0.24	191 290	0.23
29.	Arts, entertainment and recreation	322 393	0.37	326 472	0.39	339 099	0.40
30.	Household equipment	297 170	0.34	183 302	0.22	204 786	0.24
31.	Pharmaceutical products	277 854	0.32	255 425	0.30	213 434	0.26
32.	Electronics	139 499	0.16	229 589	0.27	208 002	0.25
33.	Education and scientific research	122 244	0.14	136 654	0.16	133 017	0.16
34.	Mining	90 039	0.10	69 282	0.08	78 737	0.09

As at 30 June 2017, the total exposure of the Group in the above sectors (excluding household customers) amounted to 42.18% of the credit portfolio (31 December 2016 – 40.93%, 30 June 2016 – 41.03%).

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19. Investment securities

	30.06.2017			31.12.2016			30.06.2016		
	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
Debt securities	**24 069 781**	**6 336 805**	**30 406 586**	**24 652 766**	**6 674 486**	**31 327 252**	**24 893 692**	**6 690 380**	**31 584 072**
Issued by government	22 206 146	6 336 805	28 542 951	21 576 835	6 674 486	28 251 321	22 110 835	6 690 380	28 801 215
- government bonds	21 717 558	6 326 671	28 044 229	21 576 835	6 674 486	28 251 321	20 251 556	6 690 380	26 941 936
- treasury bills	488 588	10 134	498 722	-	-	-	1 859 279	-	1 859 279
Issued by central bank	99 971	-	99 971	1 816 077	-	1 816 077	1 649 957	-	1 649 957
Other debt securities	1 763 664	-	1 763 664	1 259 854	-	1 259 854	1 132 900	-	1 132 900
- bank's bonds	135 729	-	135 729	140 880	-	140 880	184 487	-	184 487
- deposit certificates	220 656	-	220 656	50 466	-	50 466	-	-	-
- corporate bonds	1 369 404	-	1 369 404	1 031 538	-	1 031 538	907 422	-	907 422
- communal bonds	37 875	-	37 875	36 970	-	36 970	40 991	-	40 991
Equity securities:	**63 055**	**-**	**63 055**	**66 100**	**-**	**66 100**	**60 231**	**-**	**60 231**
Unlisted	63 055	-	63 055	66 100	-	66 100	60 231	-	60 231
Total debt and equity securities:	**24 132 836**	**6 336 805**	**30 469 641**	**24 718 866**	**6 674 486**	**31 393 352**	**24 953 923**	**6 690 380**	**31 644 303**
Short-term (up to 1 year)	6 093 015	512 685	6 605 700	4 684 730	58 224	4 742 954	7 366 040	80 270	7 446 310
Long-term (over 1 year)	18 039 821	5 824 120	23 863 941	20 034 136	6 616 262	26 650 398	17 587 883	6 610 110	24 197 993

The above note includes government bonds and treasury 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.

As at 30 June 2017, the fair value of corporate bonds include provision for impairment of the bond issued by the SYGNITY S.A. in the amount of PLN 7 511 thousand. (Note 9).

Presented above equity securities valued at fair value include provisions for impairment of PLN 23 886 thousand (31 December 2016: PLN 19 135 thousand, 30 June 2016: PLN 19 135 thousand).

As at 30 June 2017, equity securities include fair value of preferred shares of Visa Inc. in the amount of PLN 40 911 thousand (as at 31 December 2016: PLN 38 392 thousand, 30 June 2016: PLN 34 759 thousand).

20. Assets and liabilities held to sale

On 2 June 2017, mBank S.A. concluded a preliminary conditional agreement on the sale of mLocum S.A. shares to Archicom S.A. According to the agreement, mBank S.A. sells all shares held, representing 79.99% of the share capital of mLocum S.A. in two tranches.

Upon conditions fulfilment (approval of the President of the Office of Competition and Consumer Protection (UOKiK), conclusion of guarantee agreement and registered pledge agreement between mBank S.A. and DKR Investment Sp. z o.o.- majority shareholder of Archicom S.A.), 14 120 880 shares, representing 51% of the share capital of mLocum S.A., will be sold. Sale of the remaining 8 026 120 shares representing 28.99% of the share capital of mLocum S.A. will take place no later than June 30, 2020.

The sale transaction results from mBank Group's concentration on its core financial operations. Selling mLocum S.A. shares to a sector-leading company will allow to make better use of its potential and to achieve business objectives on the Polish market.

In accordance with the principles described in Note 2.20 of these condensed consolidated financial statements, the Group classified mLocum S.A. as non-current assets (disposals groups) held for sale as at 30 June 2017.

Financial data concerning non-current assets (disposal group) held for sale as at 30 June 2017 is presented below.

Non-current assets held for sale	30.06.2017
Cash and balances with the Central Bank	3
Investment securities	4 500
Tangible fixed assets	4 440
Deferred income tax assets	375
Other assets	161 454
Total non-current assets held for sale	**170 772**

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Liabilities held for sale	**30.06.2017**
Other liabilities	60 104
Current income tax liabilities	1 457
Total Liabilities held for sale	**61 561**

The activity of the company mLocum S.A. it was included in the "Others" segment. The gross financial result achieved by the company for the first half of 2017 and for the first half of 2016 amounted to PLN 22 126 thousand. PLN and PLN 15 076 thousand, respectively.

Financial data concerning cash-flow positions connected with non-current assets held for sale for the period from 1st January to 30 June 2017 is presented below.

	30.06.2017
Cash flows from operating activities	38 257
Cash flows from investing activities	(20)

21. Intangible assets

	30.06.2017	**31.12.2016**	**30.06.2016**
Goodwill	3 532	3 532	3 532
Patents, licences and similar assets, including:	364 809	347 524	328 085
- computer software	254 033	268 308	239 283
Other intangible assets	3 701	4 082	4 615
Intangible assets under development	255 858	227 525	167 329
Total intangible assets	**627 900**	**582 663**	**503 561**

22. Tangible assets

	30.06.2017	**31.12.2016**	**30.06.2016**
Tangible assets, including:	669 175	682 812	682 113
- land	1 038	1 335	1 335
- buildings and structures	180 259	186 928	188 946
- equipment	178 042	174 152	167 113
- vehicles	232 651	239 399	246 374
- other fixed assets	77 185	80 998	78 345
Fixed assets under construction	42 750	74 559	40 679
Total tangible assets	**711 925**	**757 371**	**722 792**

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23. Amounts due to customers

	30.06.2017	31.12.2016	30.06.2016
Individual customers:	**53 835 222**	**53 494 909**	**49 452 537**
Current accounts	41 084 197	38 051 354	35 049 356
Term deposits	12 672 121	15 380 844	14 348 704
Other liabilities:	78 904	62 711	54 477
- liabilities in respect of cash collaterals	34 757	31 098	25 588
- other	44 147	31 613	28 889
Corporate customers:	**32 737 100**	**37 383 484**	**35 119 136**
Current accounts	20 849 425	22 065 224	17 670 036
Term deposits	6 157 014	8 911 873	11 353 431
Loans and advances received	4 006 225	4 201 768	4 208 554
Repo transactions	1 034 601	1 600 487	1 287 591
Other liabilities:	689 835	604 132	599 524
- liabilities in respect of cash collaterals	461 989	392 425	429 021
- other	227 846	211 707	170 503
Public sector customers:	**1 583 589**	**539 569**	**730 627**
Current accounts	490 419	466 078	386 243
Term deposits	1 092 350	65 507	343 670
Other liabilities:	820	7 984	714
- liabilities in respect of cash collaterals	-	3	-
- other	820	7 981	714
Total amounts due to customers	**88 155 911**	**91 417 962**	**85 302 300**
Short-term (up to 1 year)	82 714 834	85 191 150	79 207 303
Long-term (over 1 year)	5 441 077	6 226 812	6 094 997

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

In the presented reporting periods the value of liabilities in respect of current accounts and term deposits accepted from micro enterprises amounted to respectively: 30 June 2017: PLN 4 981 209 thousand, 31 December 2016: PLN 4 920 454 thousand, 30 June 2016: PLN 4 074 139 thousand.

24. Provisions

	30.06.2017	31.12.2016	30.06.2016
For off-balance sheet granted contingent liabilities *	36 846	43 435	43 417
For legal proceedings	126 604	113 192	102 268
Other	22 053	26 127	31 148
Total provisions	**185 503**	**182 754**	**176 833**

* includes valuation of financial guarantees

Movements in the provisions

	30.06.2017	31.12.2016	30.06.2016
As at the beginning of the period (by type)	**182 754**	**225 416**	**225 416**
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
Change in the period (due to)	**2 749**	**(42 662)**	**(48 583)**
- increase of provisions	61 996	137 911	58 273
- release of provisions	(53 208)	(119 387)	(53 009)
- write-offs	(2 983)	(61 488)	(54 067)
- utilization	(47)	-	-
- reclassification	(2 587)	-	8
- foreign exchange differences	(422)	302	212
As at the end of the period (by type)	**185 503**	**182 754**	**176 833**
For off-balance sheet granted contingent liabilities	36 846	43 435	43 417
For legal proceedings	126 604	113 192	102 268
Other	22 053	26 127	31 148

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25. Assets and provisions for deferred income tax

Deferred income tax assets	30.06.2017	31.12.2016	30.06.2016
As at the beginning of the period	**859 609**	**778 252**	**778 252**
Changes recognized in the income statement	34 201	65 208	94 037
Changes recognized in other comprehensive income	(16 023)	16 120	589
Other changes	(131)	29	(1 248)
As at the end of the period	**877 656**	**859 609**	**871 630**

Provisions for deferred income tax	30.06.2017	31.12.2016	30.06.2016
As at the beginning of the period	**(320 061)**	**(413 145)**	**(413 145)**
Changes recognized in the income statement	(22 771)	4 687	(49 024)
Changes recognized in other comprehensive income	(17 745)	88 393	40 035
Other changes	-	4	1 283
As at the end of the period	**(360 577)**	**(320 061)**	**(420 851)**

Income tax	30.06.2017	31.12.2016	30.06.2016
Current income tax	(231 609)	(485 408)	(254 161)
Deferred income tax recognised in the income statement	11 430	69 895	45 013
Income tax recognised in the income statement	**(220 179)**	**(415 513)**	**(209 148)**
Recognised in other comprehensive income	(46 446)	102 708	32 825
Total income tax	**(266 625)**	**(312 805)**	**(176 323)**

26. 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 consolidated statement of financial position of the Group at their fair values.

IFRS Condensed Consolidated Financial Statements for the first half of 2017 PLN (000's)

	30.06.2017		31.12.2016		30.06.2016	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Financial assets						
Loans and advances to banks	**2 259 136**	**2 257 203**	**3 082 855**	**3 079 257**	**1 680 830**	**1 681 667**
Loans and advances to customers	**83 377 025**	**84 706 556**	**81 763 277**	**82 917 783**	**80 774 809**	**81 039 995**
Loans and advances to individuals	**47 228 664**	**48 511 015**	**47 434 490**	**48 649 710**	**46 664 221**	**47 217 391**
current accounts	6 439 776	6 485 849	5 843 990	5 885 276	5 584 612	5 613 759
term loans including:	40 788 888	42 025 166	41 590 500	42 764 434	41 079 609	41 603 632
- housing and mortgage loans	33 492 770	34 504 549	34 853 185	35 827 969	34 693 955	35 058 716
Loans and advances to corporate entities	**34 828 437**	**34 872 836**	**32 872 882**	**32 812 343**	**32 458 442**	**32 175 110**
current accounts	4 911 868	4 885 231	3 934 915	3 905 205	4 530 692	4 492 622
term loans	28 008 230	28 079 266	27 210 974	27 179 853	26 190 034	25 944 772
- corporate & institutional enterprises	4 836 488	4 821 887	5 008 394	4 975 669	5 115 645	5 048 724
- medium & small enterprises	23 171 742	23 257 379	22 202 580	22 204 184	21 074 389	20 896 048
reverse repo / buy sell back transactions	93 825	93 825	56 676	56 676	131 734	131 734
other	1 814 514	1 814 514	1 670 317	1 670 609	1 605 982	1 605 982
Loans and advances to public sector	**1 080 439**	**1 083 220**	**1 227 481**	**1 227 306**	**1 356 108**	**1 351 456**
Other receivables	**239 485**	**239 485**	**228 424**	**228 424**	**296 038**	**296 038**
Financial liabilities						
Amounts due to other banks	**8 641 320**	**8 703 619**	**8 486 753**	**8 509 677**	**12 058 197**	**11 933 086**
Amounts due to customers	**88 155 911**	**88 216 229**	**91 417 962**	**91 535 698**	**85 302 300**	**85 390 832**
Debt securities in issue	**13 011 687**	**13 370 410**	**12 660 389**	**12 909 157**	**10 115 495**	**10 179 688**
Subordinated liabilities	**2 232 839**	**2 154 362**	**3 943 349**	**3 853 900**	**3 910 457**	**3 831 184**

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. The valuation does not include the risk of potential regulatory solutions for the CHF mortgage loan portfolio.

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:

- 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.

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30.06.2017	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS				
TRADING SECURITIES	**3 296 641**	**3 076 310**	**155**	**220 176**
Debt securities	**3 291 857**	**3 071 681**	**-**	**220 176**
- government bonds	3 063 677	3 063 677	-	-
- treasury bills	4 987	4 987	-	-
- deposit certificates	12 093	-	-	12 093
- banks bonds	63 918	-	-	63 918
- corporate bonds	147 182	3 017	-	144 165
Equity securities	**4 784**	**4 629**	**155**	**-**
- listed	4 629	4 629	-	-
- unlisted	155	-	155	-
DERIVATIVE FINANCIAL INSTRUMENTS	**1 325 089**	**-**	**1 325 089**	**-**
Derivative financial instruments held for trading	**1 169 876**	**-**	**1 169 876**	**-**
- interest rate derivatives	782 934	-	782 934	-
- foreign exchange derivatives	370 580	-	370 580	-
- market risks derivatives	16 362	-	16 362	-
Derivative financial instruments held for hedging	**155 213**	**-**	**155 213**	**-**
- derivatives designated as fair value hedges	146 684	-	146 684	-
- derivatives designated as cash flow hedges	8 529	-	8 529	-
INVESTMENT SECURITIES	**30 469 641**	**29 279 235**	**99 971**	**1 090 435**
Debt securities	**30 406 586**	**29 278 210**	**99 971**	**1 028 405**
- government bonds	28 044 229	28 044 229	-	-
- treasury bills	498 722	498 722	-	-
- money bills	99 971	-	99 971	-
- deposit certificates	220 656	-	-	220 656
- banks bonds	135 729	-	-	135 729
- corporate bonds	1 369 404	735 259	-	634 145
- communal bonds	37 875	-	-	37 875
Equity securities	**63 055**	**1 025**	**-**	**62 030**
- unlisted	63 055	1 025	-	62 030
TOTAL FINANCIAL ASSETS	**35 091 371**	**32 355 545**	**1 425 215**	**1 310 611**

30.06.2017	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
FINANCIAL LIABILITIES				
Derivative financial instruments	**1 114 492**	**-**	**1 114 492**	**-**
Derivative financial instruments held for trading	**1 113 152**	**-**	**1 113 152**	**-**
- interest rate derivatives	763 553	-	763 553	-
- foreign exchange derivatives	330 517	-	330 517	-
- market risks derivatives	19 082	-	19 082	-
Derivative financial instruments held for hedging	**1 340**	**-**	**1 340**	**-**
- derivatives designated as fair value hedges	18 101	-	18 101	-
- derivatives designated as cash flow hedges	(16 761)	-	(16 761)	-
Total financial liabilities	**1 114 492**	**-**	**1 114 492**	**-**

TOTAL RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS	**35 091 371**	**32 355 545**	**1 425 215**	**1 310 611**
FINANCIAL LIABILITIES	**1 114 492**	**-**	**1 114 492**	**-**

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Assets Measured at Fair Value Based on Level 3 - changes in the period from 1 January to 30 June of 2017	Debt trading securities	Debt investment securities	Equity investment securities
As at the beginning of the period	**290 544**	**901 885**	**65 261**
Gains and losses for the period:	**590**	**(2 066)**	**(2 251)**
Recognised in profit or loss:	590	(7 511)	(4 751)
Net trading income	*590*	-	-
Gains less losses from investment securities, investments in subsidiaries and associates	-	*(7 511)*	*(4 751)*
Recognised in other comprehensive income:	-	*5 445*	*2 500*
Available for sale financial assets	-	*5 445*	*2 500*
Purchases	439 553	387 755	3 522
Redemptions	(45 209)	(25 342)	-
Sales	(2 346 113)	(463 339)	-
Issues	1 880 811	229 512	-
Settlements	-	-	(4 502)
As at the end of the period	**220 176**	**1 028 405**	**62 030**

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

With regard to financial instruments valuated in repetitive way to the fair value classified as level 1 and 2 in hierarchy of fair value, any cases in which transfer between these levels may occur, are monitored by 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
RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS				
TRADING SECURITIES	**3 800 634**	**3 509 935**	**155**	**290 544**
Debt securities	**3 796 457**	**3 505 913**	**-**	**290 544**
- 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
Equity securities	**4 177**	**4 022**	**155**	**-**
- listed	4 022	4 022	-	-
- unlisted	155	-	155	-
DERIVATIVE FINANCIAL INSTRUMENTS	**1 808 847**	**-**	**1 808 847**	**-**
Derivative financial instruments held for trading	**1 584 027**	**-**	**1 584 027**	**-**
- interest rate derivatives	1 173 304	-	1 173 304	-
- foreign exchange derivatives	369 381	-	369 381	-
- market risks derivatives	41 342	-	41 342	-
Derivative financial instruments held for hedging	**224 820**	**-**	**224 820**	**-**
- derivatives designated as fair value hedges	196 634	-	196 634	-
- derivatives designated as cash flow hedges	28 186	-	28 186	-
INVESTMENT SECURITIES	**31 393 352**	**28 610 129**	**1 816 077**	**967 146**
Debt securities	**31 327 252**	**28 609 290**	**1 816 077**	**901 885**
- 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
Equity securities	**66 100**	**839**	**-**	**65 261**
- unlisted	66 100	839	-	65 261
TOTAL FINANCIAL ASSETS	**37 002 833**	**32 120 064**	**3 625 079**	**1 257 690**

IFRS Condensed Consolidated Financial Statements for the first half of 2017 PLN (000's)

31.12.2016	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
FINANCIAL LIABILITIES				
Derivative financial instruments	**1 599 266**	**-**	**1 599 266**	**-**
Derivative financial instruments held for trading	**1 580 737**	**-**	**1 580 737**	**-**
- interest rate derivatives	1 195 992	-	1 195 992	-
- foreign exchange derivatives	353 784	-	353 784	-
- market risks derivatives	30 961	-	30 961	-
Derivative financial instruments held for hedging	**18 529**	**-**	**18 529**	**-**
- derivatives designated as fair value hedges	19 485	-	19 485	-
- derivatives designated as cash flow hedges	(956)	-	(956)	-
Total financial liabilities	**1 599 266**	**-**	**1 599 266**	**-**
TOTAL RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS	**37 002 833**	**32 120 064**	**3 625 079**	**1 257 690**
FINANCIAL LIABILITIES	**1 599 266**	**-**	**1 599 266**	**-**

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
As at the beginning of the period	**371 229**	**420**	**816 614**	**198 624**
Gains and losses for the period:	**556**	**(420)**	**(12 531)**	**83 301**
Recognised in profit or loss:	556	(420)	-	250 147
Net trading income	*556*	*(420)*	*-*	*7 959*
Gains less losses from investment securities, investments in subsidiaries and associates	*-*	*-*	*-*	*242 188*
Recognised in other comprehensive income:	*-*	*-*	*(12 531)*	*(166 846)*
Available for sale financial assets	*-*	*-*	*(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	-
As at the end of the period	**290 544**	**-**	**901 885**	**65 261**

Transfers between levels in 2016	Transfers into Level 1	Transfers out of Level 1	Transfers into Level 2	Transfers out of Level 2
TRADING SECURITIES	**-**	**(974)**	**-**	**-**
Debt securities	-	*(974)*	-	-
INVESTMENT SECURITIES	**-**	**(39 091)**	-	-
Debt securities	-	*(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.

IFRS Condensed Consolidated Financial Statements for the first half of 2017 PLN (000's)

30.06.2016	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS				
TRADING SECURITIES	**3 233 150**	**2 965 287**	**2 537**	**265 326**
Debt securities	**3 224 064**	**2 958 738**	**-**	**265 326**
- government bonds	2 954 760	2 954 760	-	-
- deposit certificates	1 009	-	-	1 009
- banks bonds	165 371	1 056	-	164 315
- corporate bonds	102 924	2 922	-	100 002
Equity securities	**9 086**	**6 549**	**2 537**	**-**
- listed	6 549	6 549	-	-
- unlisted	2 537	-	2 537	-
DERIVATIVE FINANCIAL INSTRUMENTS	**2 411 457**	**-**	**2 411 457**	**-**
Derivative financial instruments held for trading	**2 111 043**	**-**	**2 111 043**	**-**
- interest rate derivatives	1 694 717	-	1 694 717	-
- foreign exchange derivatives	395 263	-	395 263	-
- market risks derivatives	21 063	-	21 063	-
Derivative financial instruments held for hedging	**300 414**	**-**	**300 414**	**-**
- derivatives designated as fair value hedges	265 168	-	265 168	-
- derivatives designated as cash flow hedges	35 246	-	35 246	-
INVESTMENT SECURITIES	**31 644 303**	**28 842 899**	**1 650 264**	**1 151 140**
Debt securities	**31 584 072**	**28 842 206**	**1 649 957**	**1 091 909**
- government bonds	28 801 215	28 801 215	-	-
- money bills	1 649 957	-	1 649 957	-
- banks bonds	184 487	-	-	184 487
- corporate bonds	907 422	-	-	907 422
- communal bonds	40 991	40 991	-	-
Equity securities	**60 231**	**693**	**307**	**59 231**
- unlisted	60 231	693	307	59 231
TOTAL FINANCIAL ASSETS	**37 288 910**	**31 808 186**	**4 064 258**	**1 416 466**

30.06.2016	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
FINANCIAL LIABILITIES				
Derivative financial instruments	**2 157 160**	**-**	**2 157 160**	**-**
Derivative financial instruments held for trading	**2 157 106**	**-**	**2 157 106**	**-**
- interest rate derivatives	1 666 653	-	1 666 653	-
- foreign exchange derivatives	472 437	-	472 437	-
- market risks derivatives	18 016	-	18 016	-
Derivative financial instruments held for hedging	**54**	**-**	**54**	**-**
- derivatives designated as fair value hedges	54	-	54	-
Total financial liabilities	**2 157 160**	**-**	**2 157 160**	**-**

TOTAL RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS	**37 288 910**	**31 808 186**	**4 064 258**	**1 416 466**
FINANCIAL LIABILITIES	**2 157 160**	**-**	**2 157 160**	**-**

IFRS Condensed Consolidated Financial Statements for the first half of 2017 PLN (000's)

Assets Measured at Fair Value Based on Level 3 - changes in the period from 1 January to 30 June of 2016	Debt trading securities	Derivative financial instruments	Debt investment securities	Equity investment securities
As at the beginning of the period	**371 229**	**420**	**816 614**	**198 624**
Gains and losses for the period:	**(3 579)**	**(420)**	**(15 423)**	**79 629**
Recognised in profit or loss:	(3 579)	(420)	1 848	248 316
Net trading income	*(3 579)*	*(420)*	*1 848*	*6 120*
Gains less losses from investment securities, investments in subsidiaries and associates	-	-	-	*242 196*
Recognised in other comprehensive income:	-	-	*(17 271)*	*(168 687)*
Available for sale financial assets	-	-	*(17 271)*	*(168 687)*
Purchases	959 554	-	627 239	2 878
Redemptions	(73 434)	-	-	-
Sales	(2 257 741)	-	(568 721)	(221 902)
Issues	1 269 297	-	232 200	-
Settlements	-	-	-	2
As at the end of the period	**265 326**	**-**	**1 091 909**	**59 231**

In the first half 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: prices quoted on active markets for the similar instruments or other valuation methods for which all significant input data are based on observable market data;
- Level 3: valuation methods for which at least one significant input data is not based on observable market data.

Level 1

As at 30 June 2017, at level 1 of the fair value hierarchy, the Group has presented the fair value of held for trading government bonds and treasury bills in the amount of PLN 3 068 664 thousand (see Note 15) and the fair value of investment government bonds and treasury bills in the amount of PLN 28 542 951 thousand (see Note 19) (31 December 2016 respectively: PLN 3 503 029 thousand and 28 251 321 thousand, 30 June 2016 respectively: PLN 2 954 760 thousand and PLN 28 801 215 thousand). Level 1 includes the fair value of corporate bonds in the amount of PLN 738 276 thousand (31 December 2016: PLN 360 853 thousand, 30 June 2016: PLN 2 922 thousand). As at 30 June 2016, the level 1 also included bonds issued by banks in the amount of PLN 1 056 thousand as well as the fair value of local government bonds in the amount of PLN 40 991 thousand.

In addition, as at 30 June 2017 level 1 includes the value of the registered privileged shares of Giełda Papierów Wartościowych in the amount of PLN 1 025 thousand (31 December 2016: PLN 839 thousand, 30 June 2016: PLN 693 thousand) and the value of the shares of listed companies in the amount of PLN 4 629 thousand (31 December 2016: PLN 4 022 thousand, 30 June 2016: PLN 6 549 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 99 971 thousand (31 December 2016: PLN 1 816 077 thousand, 30 June 2016: PLN 1 649 957 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 includes the valuation of derivative financial instruments borne on models consistent with market standards and practices, using parameters taken directly from the markets (e.g., foreign exchange rates, implied volatilities of fx options, stock prices and indices) or parameters which transform quotations taken directly from active and liquid financial markets (e.g., interest rate curves).

As at 30 June 2017, 31 December 2016, and 30 June 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.

IFRS Condensed Consolidated Financial Statements for the first half of 2017 PLN (000's)

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 1 210 706 thousand (31 December 2016: PLN 1 155 459 thousand, 30 June 2016: PLN 1 357 235 thousand).

Level 3 includes also the fair value of local government bonds in the amount of PLN 37 875 thousand (31 December 2016: PLN 36 970 thousand, 30 June 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 62 030 thousand (31 December 2016: PLN 65 261 thousand, 30 June 2016: PLN 59 231 thousand). As at 30 June 2017, these amount includes the value of preferred stock in Visa Inc. in the amount of PLN 40 911 thousand (31 December 2016: PLN 38 392 thousand, 30 June 2016: PLN 34 759 thousand). The other equity securities presented at level 3 have been valuated using the market multiples method. The market multiples method, consists of valuating the equity capital of a company by using a relation between the market values of the own equity capital or market values of the total capital invested in comparable companies (goodwill) and selected economic and financial figures.

27. Prudential consolidation

According to the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 ("CRR Regulation"), mBank is a significant subsidiary of EU parent institution, responsible for the preparation of the consolidated prudentially financial data to fulfil the requirement of disclosures described in IAS 1.135 *Presentation of Financial Statements*.

Financial information presented below does not represent the International Financial Reporting Standards ("IFRS") measures as defined by the standards.

mBank S.A. Group ("the Group") consists of entities defined in accordance with the rules of prudential consolidation, specified by the CRR Regulation.

Basis of the preparation of the prudentially consolidated financial data

mBank S.A. Group consolidated financial data based on the rules of prudential consolidation specified by the CRR Regulation ("Consolidated prudentially financial data") have been prepared for the 6-month period ended 30 June 2017 and for the 6-month period ended 30 June 2016.

The consolidated profit presented in the consolidated prudentially financial data may be included in consolidated Common Equity Tier 1 for the purpose of the calculation of consolidated Common Equity Tier 1 capital ratio, consolidated Tier 1 capital ratio and consolidated total capital ratio with the prior permission of the KNF or after approval by the General Meeting of shareholders.

The accounting policies applied for the preparation of the Group consolidated prudentially financial data are identical to those, which have been applied to the mBank S.A. Group consolidated financial data for the first half of 2017, prepared in compliance with IFRS, except for the consolidation standards presented below.

The consolidated prudentially financial data includes the Bank and the following entities:

Company	30.06.2017		31.12.2016		30.06.2016	
	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
mBank Hipoteczny S.A.	100%	full	100%	full	100%	full
mCentrum Operacji Sp. z o.o.	100%	full	100%	full	100%	full
mFaktoring S.A.	100%	full	100%	full	100%	full
mLeasing Sp. z o.o.	100%	full	100%	full	100%	full
Tele-Tech Investment Sp. z o.o.	100%	full	100%	full	100%	full
Future Tech Fundusz Inwestycyjny Zamknięty	100%	full	-	-	-	-
mFinance France S.A.	99.998%	full	99.998%	full	99.998%	full

Beginning in June 2017, the Group started the consolidation of the Future Tech Fundusz Inwestycyjny Zamknięty. Information about the Fund is included under Note 1 and in item 9 Selected explanatory information.

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.

Entities included in the scope of prudential consolidation are defined in the Regulation CRR – institutions, financial institutions or ancillary services undertakings, which are subsidiaries or undertakings in which a participation is held, except for entities in which the total amount of assets and off-balance sheet items of the undertaking concerned is less than the smaller of the following two amounts:

- EUR 10 million;
- 1 % of the total amount of assets and off-balance sheet items of the parent undertaking or the undertaking that holds the participation.

The consolidated financial data combine items of assets, liabilities, equity, income and expenses of the parent with those of its subsidiaries eliminating the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary. Thus arises goodwill. If goodwill has negative value, it is recognised directly in the income statement. The profit or loss and each component of other comprehensive income is attributed to the Group's owners and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. If the Group loses control of a subsidiary, it shall account for all amounts previously recognised in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

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

IFRS Condensed Consolidated Financial Statements for the first half of 2017 PLN (000's)

Consolidated prudentially income statement

	Period from 01.04.2017 to 30.06.2017	Period from 01.01.2017 to 30.06.2017	Period from 01.04.2016 to 30.06.2016	Period from 01.01.2016 to 30.06.2016
Interest income	990 216	1 972 923	946 943	1 892 323
Interest expense	(225 495)	(459 028)	(262 604)	(531 665)
Net interest income	**764 721**	**1 513 895**	**684 339**	**1 360 658**
Fee and commission income	415 311	822 416	365 283	717 193
Fee and commission expense	(162 514)	(319 880)	(155 463)	(295 511)
Net fee and commission income	**252 797**	**502 536**	**209 820**	**421 682**
Dividend income	24 896	25 050	2 586	2 586
Net trading income, including:	61 068	137 965	59 513	143 600
Foreign exchange result	*57 912*	*134 319*	*66 065*	*137 882*
Other net trading income and result on hedge accounting	*3 156*	*3 646*	*(6 552)*	*5 718*
Gains less losses from investment securities, investments in subsidiaries and associates, including:	(26 090)	(24 434)	247 459	259 436
Gains less losses from investment securities	*(10 556)*	*(8 920)*	*244 755*	*248 624*
Gains less losses from investments in subsidiaries and associates	*(15 534)*	*(15 514)*	*2 704*	*10 812*
Other operating income	27 221	55 434	22 883	63 321
Net impairment losses on loans and advances	(120 399)	(203 320)	(117 743)	(186 263)
Overhead costs	(430 839)	(954 692)	(424 273)	(848 179)
Amortisation	(51 521)	(102 522)	(63 296)	(116 951)
Other operating expenses	(34 294)	(61 667)	(28 514)	(51 919)
Operating profit	**467 560**	**888 245**	**592 774**	**1 047 971**
Taxes on the Group balance sheet items	(93 018)	(184 323)	(89 011)	(146 313)
Profit before income tax	**374 542**	**703 922**	**503 763**	**901 658**
Income tax expense	(104 842)	(215 444)	(115 260)	(205 373)
Net profit	**269 700**	**488 478**	**388 503**	**696 285**
Net profit attributable to:				
- Owners of mBank S.A.	269 700	488 478	388 503	696 285
- Non-controlling interests	-	-	-	-

IFRS Condensed Consolidated Financial Statements for the first half of 2017 PLN (000's)

Consolidated prudentially statement of financial position

ASSETS	30.06.2017	31.12.2016	30.06.2016
Cash and balances with the Central Bank	5 855 425	9 164 281	6 433 220
Loans and advances to banks	2 258 704	3 082 040	1 680 780
Trading securities	3 296 641	3 800 634	3 233 150
Derivative financial instruments	1 325 089	1 808 847	2 411 457
Loans and advances to customers	83 387 992	81 787 015	80 782 788
Hedge accounting adjustments related to fair value of hedged items	-	-	73
Investment securities	30 601 695	31 617 735	31 897 953
Non-current assets held for sale	81 314	-	-
Intangible assets	627 900	582 663	503 561
Tangible assets	711 921	752 910	718 334
Current income tax assets	5 822	1 314	610
Deferred income tax assets	518 373	540 392	451 359
Other assets	704 804	554 962	608 916
Total assets	**129 375 680**	**133 692 793**	**128 722 201**

LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the Central Bank	-	-	1
Amounts due to other banks	8 641 320	8 486 752	12 058 197
Derivative financial instruments	1 114 492	1 599 265	2 157 160
Amounts due to customers	88 202 813	91 462 396	85 376 175
Debt securities in issue	13 011 688	12 660 388	10 115 496
Hedge accounting adjustments related to fair value of hedged items	55 195	116 871	206 247
Other liabilities	2 207 677	2 111 223	1 899 432
Current income tax liabilities	67 912	104 878	59 328
Provisions for deferred income tax	1 294	1 208	909
Provisions	185 503	182 707	176 833
Subordinated liabilities	2 232 839	3 943 349	3 910 457
Total liabilities	**115 720 733**	**120 669 037**	**115 960 235**

Equity			
Equity attributable to Owners of mBank S.A.	**13 654 947**	**13 023 756**	**12 761 966**
Share capital:	**3 554 016**	**3 551 096**	**3 535 758**
- Registered share capital	169 143	169 121	168 956
- Share premium	3 384 873	3 381 975	3 366 802
Retained earnings:	**9 977 628**	**9 486 979**	**8 975 689**
- Profit from the previous years	9 489 150	8 267 697	8 279 404
- Profit for the current year	488 478	1 219 282	696 285
Other components of equity	**123 303**	**(14 319)**	**250 519**
Non-controlling interests	**-**	**-**	**-**
Total equity	**13 654 947**	**13 023 756**	**12 761 966**
Total liabilities and equity	**129 375 680**	**133 692 793**	**128 722 201**

Selected explanatory information

1. Compliance with international financial reporting standards

The presented condensed consolidated report for the first half 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 2009 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 by the Group consistently over all periods presented in 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 Resolution Fund for the year 2017

In accordance with the Act of 10 June 2016 on the Bank Guarantee Fund (BFG), Deposit Guarantee Scheme and Resolution, 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 170 860 thousand and PLN 183 235 thousand recpectively.

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

In the first half 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 half of 2017, mBank Hipoteczny S.A. issued mortgage bonds in the amount of EUR 24 900 thousand and bonds in the amount of PLN 1 879 000 thousand. In the same time the company redeemed mortgage bonds in the amount of PLN 400 000 thousand and bonds in the amount 1 775 000 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 (equivalent to 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 75 thousand (equivalent to PLN 791 720 thousand at the average exchange rate of the National Bank of Poland asoft 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 Eurobonds Issue 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 half 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 half of 2017, including business combinations, acquisitions or disposal of subsidiaries, long-term investments, restructuring, and discontinuation of business activities

- On 2 June 2017, mBank S.A. signed a preliminary conditional agreement on the sale of mLocum S.A. shares to Archicom S.A. According to the agreement mBank S.A. is going to sell all shares held by the Bank representing 79.99% of the share capital of mLocum in two tranches. Detailed information about this transaction is provided under Note 20.
- On 22 June 2017, the Future Tech Closed-End Investment Fund (the "Fund") was registered, in which mBank acquired 400 000 investment certificates accounting for 100% of the issue, worth in total PLN 221 200 thousand. As at 30 June 2017 the Group held of 100% of the certificates issued by the Fund, so the Group began to consolidate the Fund from June 2017. Quercus Towarzystwo Funduszy Inwestycyjnych S.A. is the entity managing the Fund.

10. Changes in contingent liabilities and commitments

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

15. Acquisitions and disposals of tangible fixed asset items

In the first half 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.

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

In the first half 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 half 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

According to the information included under Note 20 "Assets and liabilities held for sale", as at 30 June 2017, in relation to the sale agreement of mLocum S.A. shares the Group classified mLocum as non-current assets (disposal groups) held for sale.

19. Corrections of errors from previous reporting periods

In the first half of 2017, there were no corrections of errors from previous reporting periods.

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

In the first half 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 30 June 2017 was 42 285 676 shares (31 December 2016: 42 280 127 shares, 30 June 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 30 June 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
ordinary bearer	-	-	5 549	22 196	fully paid in cash	2017
Total number of shares			**42 285 676**			
Total registered share capital				**169 142 704**		
Nominal value per share (PLN)		**4**				

* As at the end of the reporting period

In connection with registration on 22 June 2017 by the National Depository of Securities (KDPW) of 5 549 shares of mBank S.A., the share capital of mBank S.A. increased by PLN 22 196 with the effect from 22 June 2017. The shares were issued as part of the conditional increase in the share capital of the Bank by issuance of shares with no subscription rights for the existing shareholders in order to enable beneficiaries of the incentive programmes to take up shares in mBank S.A.

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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 half 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 30 June 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 rights to shares held as at the date of publishing the report for Q1 2017	Number of rights to shares acquired from the date of publishing the report for Q1 2017 to the date of publishing the report for H1 2017	Number of rights to shares realised from the date of publishing the report for Q1 2017 to the date of publishing the report for H1 2017	Number of rights to shares held as at the date of publishing the report for H1 2017
Management Board				
1. Cezary Stypułkowski	-	1 239	1 239	-
2. Lidia Jabłonowska-Luba	-	498	498	-
3. Frank Bock	-	-	-	-
4. Andreas Böger	-	-	-	-
5. Krzysztof Dąbrowski	-	-	-	-
6. Przemysław Gdański	-	689	689	-
7. Cezary Kocik	-	727	727	-

	Number of shares held as at the date of publishing the report for Q1 2017	Number of shares acquired from the date of publishing the report for Q1 2017 to the date of publishing the report for H1 2017	Number of shares sold from the date of publishing the report for Q1 2017 to the date of publishing the report for H1 2017	Number of shares held as at the date of publishing the report for H1 2017
Management Board				
1. Cezary Stypułkowski	12 359	1 239	-	13 598
2. Lidia Jabłonowska-Luba	-	498	498	-
3. Frank Bock	-	-	-	-
4. Andreas Böger	-	-	-	-
5. Krzysztof Dąbrowski	670	-	-	670
6. Przemysław Gdański	2 000	689	689	2 000
7. Cezary Kocik	-	727	-	727

As at the date of publishing the report for the first quarter of 2017 the Member of the Management Board Mr Hans-Dieter Kemler, performing his functions until 30 April 2017 and the Member of the Management Board Mr Christoph Heins, performing his functions until 30 June 2017, they had no neither Bank shares nor rights to Bank shares.

As at the date of publishing the report for the first quarter of 2017 and as at the date of publishing the report for the first half 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 first quarter of 2017 and as at the date of publishing the report for the first half of 2017, the Member of the Supervisory Board of mBank S.A. Mr Jörg Hessenmüller had 4 214 and 4 903 Bank's shares respectively.

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

Information concerning the changes in the composition of the Management Board of mBank S.A. are presented on point 29 of the Selected explanatory information.

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

As at 30 June 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 30 June 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 9th Economic Division 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. Dróżdż i Spółka Spółka jawna (hereinafter referred to as Interbrok) called the Bank for amicable settlement in the total amount of PLN 385 520 thousand and via the District Court in Warsaw. In addition, 9 legal compensation suits have been delivered to the Bank. Eight of the nine suits where placed by former clients of Interbrok for the total amount of PLN 800 thousand with the reservation that the claims may be extended up to the total amount of PLN 5 950 thousand. The Plaintiffs alleged that the Bank aided and abetted Interbrok's illegal activities, which caused damage to the Plaintiffs. Seven of the suits against mBank were dismissed on substantive grounds and thus ended with a valid court order. As regards the 8th case, the Plaintiff withdrew the action and the waiver of claims and the Regional Court discontinued the proceedings. In the 9th case the value of the subject of litigation amounts to PLN 275 423 thousand together with statutory interest and legal costs. The amount set forth in the petition is to cover the receivables, acquired by the Plaintiff by way of assignment, due to parties aggrieved by Interbrok on account of the reduction (as a result of Interbrok's bankruptcy) of the receivables by a return of the deposits paid by the aggrieved for making investments on the forex market. The Plaintiff claims the Bank's liability on the grounds of the Bank's aiding to commit the illicit act of Interbrok involving the pursuit of brokerage activity without a permit. At present, the case is being heard by the court of first instance.

   The Bank moves for dismissal of the claims in entirety and objects to charges raised in the legal suits. The legal analysis of the abovementioned claims indicates that there are no significant grounds to state that the Bank bears liability in the said case.

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

   On 4 February 2011, the Bank received a class action brought to the District Court in Łódź on 20 December 2010 by the Municipal Consumer 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.

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

During the trial on 24 February 2017, the Court admitted an oral supplementary opinion of the expert as evidence. As the opinion did not allay the Court's doubts, by the resolution of 6 April 2017, the Court of Appeal admitted a written supplementary opinion of the expert as evidence.

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

   On 4 April 2016, the Municipal Ombudsman representing a group of 390 individuals, retail clients of mBank, who concluded agreements on CHF-indexed mortgage loans with mBank, filed a class action with the Regional Court in Łódź against mBank. With subsequent pleadings, the claimant reported other individuals who joined the class action and thus, the number of class action members now stands at 1 442 (960 agreements).

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

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

   By its decision of 9 May 2017, the Regional Court in Łódź ordered the announcement of the initiation of group proceedings and set a deadline of 3 months from the date of publication of the announcement to join the group of persons whose claims can be covered by the claim.

As at 30 June 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 30 June 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.

From 29 January 2016 to 30 May 2017, officers of the Treasury Control Office in Warsaw (Urząd Kontroli Skarbowej) carried out an inspection in mLeasing relating to the reliability of the declared tax bases and the correctness of the calculation and payment of tax on goods and services for Q2 2014. Additionally, the inspection aimed at determining whether mLeasing is a relevant person within the meaning of the Act of 16 November 2000 on Counteracting Money Laundering and Terrorism Financing and, in the case of confirming the status, at verifying its compliance with the obligations arising from the aforesaid act. The inspection revealed no major irregularities.

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

26. Off-balance sheet liabilities

Off-balance sheet liabilities as at 30 June 2017, 31 December 2016 and 30 June 2016 were as follows:

	30.06.2017	31.12.2016	30.06.2016
1. Contingent liabilities granted and received	**32 570 295**	**31 292 889**	**29 443 205**
Commitments granted	**29 672 153**	**28 681 726**	**27 549 856**
- financing	23 240 124	22 799 950	22 424 673
- guarantees and other financial facilities	6 431 699	5 881 446	5 124 853
- other commitments	330	330	330
Commitments received	**2 898 142**	**2 611 163**	**1 893 349**
- financial commitments	200 277	24 579	51 627
- guarantees	2 697 865	2 586 584	1 841 722
2. Derivative financial instruments (nominal value of contracts)	**411 075 045**	**429 230 340**	**432 902 195**
Interest rate derivatives	315 271 515	334 491 101	334 119 854
Currency derivatives	85 875 149	88 280 960	92 301 141
Market risk derivatives	9 928 381	6 458 279	6 481 200
Total off-balance sheet items	**443 645 340**	**460 523 229**	**462 345 400**

27. Transactions with related entities

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

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

The amounts of transactions with related entities, i.e., balances of receivables and liabilities and related costs and income as at 30 June 2017, 31 December 2016 and 30 June 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		
As at the end of the period	**30.06.2017**	**31.12.2016**	**30.06.2016**	**30.06.2017**	**31.12.2016**	**30.06.2016**
Statement of Financial Position						
Assets	722 985	701 675	549 018	10 096	1 783	13 815
Liabilities	8 164 063	10 282 116	13 259 829	882 870	919 574	884 776
Income Statement						
Interest income	58 367	125 233	66 671	207	789	373
Interest expense	(66 415)	(145 705)	(73 274)	(2 547)	(5 797)	(2 811)
Fee and commission income	550	-	-	33	27	10
Fee and commission expense	(3)	-	-	-	-	-
Other operating income	10	18	11	33	67	33
Overhead costs, amortisation and other operating expenses	(6 067)	(9 503)	(4 518)	(4)	(28)	(1)
Contingent liabilities granted and received						
Contingent liabilities granted	1 597 257	1 295 444	1 304 339	8 043	14 448	12 084
Contingent liabilities received	1 522 806	1 442 052	852 493	9 017	12 422	12 425

The total costs of remuneration of Members of the Supervisory Board, the Management Board and other key management personnel of the Bank that perform their duties from 1 January to 30 June 2017 recognised in the Group's income statement for that period amounted to PLN 16 615 800 (in the period from 1 January to 30 June 2016: PLN 15 770 829).

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 30 June 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 taken 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 Thueringen (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 was taken 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. 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.
- 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.

Changes in the Supervisory Board of mBank S.A.

On 30 March 2017, the 30th 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 – 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. Ralph Michael Mandel – Member of the Supervisory Board,
11. Teresa Mokrysz – Member of the Supervisory Board,
12. Agnieszka Słomka-Gołębiowska – Member of the Supervisory Board.

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 third 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, amounted 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 amounted 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 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 covering the risk related to FX housing loans portfolio 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 of mBank S.A., and the remaining part of profit in the amount of PLN 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
27.07.2017	Cezary Stypułkowski	President of the Management Board	
27.07.2017	Lidia Jabłonowska-Luba	Vice-President of the Management Board, Chief Risk Officer	
27.07.2017	Frank Bock	Vice-President of the Management Board, Head of Financial Markets	
27.07.2017	Andreas Böger	Vice-President of the Management Board, Chief Financial Officer	
27.07.2017	Krzysztof Dąbrowski	Vice-President of the Management Board, Head of Operations and IT	
27.07.2017	Przemysław Gdański	Vice President of the Management Board, Head of Corporate & Investment Banking	
27.07.2017	Cezary Kocik	Vice-President of the Management Board, Head of Retail Banking	