mBank S.A. Group

IFRS Condensed Consolidated Financial Statements
for the first quarter of 2018

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 quarter of 2018.

SELECTED FINANCIAL DATA FOR THE GROUP		in PLN'000		in EUR'000	
		1st Quarter (current year) period from 01.01.2018 to 31.03.2018	1st Quarter (previous year) period from 01.01.2017 to 31.03.2017	1st Quarter (current year) period from 01.01.2018 to 31.03.2018	1st Quarter (previous year) period from 01.01.2017 to 31.03.2017
I.	Interest income	1 053 643	982 544	252 164	229 079
II.	Fee and commission income	429 498	407 105	102 790	94 916
III.	Net trading income	84 493	76 897	20 221	17 928
IV.	Operating profit	657 797	421 166	157 428	98 194
V.	Profit before income tax	559 623	329 861	133 932	76 907
VI.	Net profit attributable to Owners of mBank S.A.	411 000	218 778	98 363	51 008
VII.	Net profit attributable to non-controlling interests	(9)	146	(2)	34
VIII.	Net cash flows from operating activities	5 479 087	(2 332 090)	1 311 288	(543 725)
IX.	Net cash flows from investing activities	328 457	(104 600)	78 608	(24 387)
X.	Net cash flows from financing activities	(1 416 231)	(754 872)	(338 941)	(175 998)
XI.	Net increase / decrease in cash and cash equivalents	4 391 313	(3 191 562)	1 050 956	(744 110)
XII.	Basic earnings per share (in PLN/EUR)	9.71	5.17	2.32	1.21
XIII.	Diluted earnings per share (in PLN/EUR)	9.71	5.17	2.32	1.21
XIV.	Declared or paid dividend per share (in PLN/EUR)	5.15	-	1.23	-

SELECTED FINANCIAL DATA FOR THE GROUP		in PLN'000			in EUR'000		
		As at			As at		
		31.03.2018	31.12.2017	31.03.2017	31.03.2018	31.12.2017	31.03.2017
I.	Total assets	133 640 216	131 424 019	130 488 381	31 754 833	31 509 751	30 922 883
II.	Amounts due to banks	4 475 332	5 073 351	8 767 287	1 063 403	1 216 368	2 077 655
III.	Amounts due to customers	94 308 572	91 496 027	88 744 037	22 409 070	21 936 759	21 030 389
IV.	Equity attributable to Owners of mBank S.A.	14 484 158	14 289 370	13 310 733	3 441 644	3 425 968	3 154 352
V.	Non-controlling interests	2 177	2 186	27 551	517	524	6 529
VI.	Share capital	169 248	169 248	169 121	40 216	40 578	40 078
VII.	Number of shares	42 312 122	42 312 122	42 280 127	42 312 122	42 312 122	42 280 127
VIII.	Book value per share (in PLN/EUR)	342.32	337.71	314.82	81.34	80.97	74.61
IX.	Total capital ratio	20.93	20.99	21.59	20.93	20.99	21.59

SELECTED FINANCIAL DATA FOR THE BANK		in PLN'000		in EUR'000	
		1st Quarter (current year) period from 01.01.2018 to 31.03.2018	1st Quarter (previous year) period from 01.01.2017 to 31.03.2017	1st Quarter (current year) period from 01.01.2018 to 31.03.2018	1st Quarter (previous year) period from 01.01.2017 to 31.03.2017
I.	Interest income	920 975	862 990	220 413	201 205
II.	Fee and commission income	368 119	337 777	88 100	78 752
III.	Net trading income	85 729	81 580	20 517	19 020
IV.	Operating profit	339 214	345 628	81 183	80 583
V.	Profit before income tax	499 839	312 676	119 624	72 900
VI.	Net profit	414 232	215 742	99 137	50 300
VII.	Net cash flows from operating activities	5 791 663	(2 207 622)	1 386 096	(514 705)
VIII.	Net cash flows from investing activities	(87 344)	(84 747)	(20 904)	(19 759)
IX.	Net cash flows from financing activities	(1 285 122)	(984 184)	(307 563)	(229 462)
X.	Net increase / decrease in cash and cash equivalents	4 419 197	(3 276 553)	1 057 629	(763 926)
XI.	Basic earnings per share (in PLN/EUR)	9.79	5.10	2.34	1.19
XII.	Diluted earnings per share (in PLN/EUR)	9.78	5.10	2.34	1.19
XIII.	Declared or paid dividend per share (in PLN/EUR)	5.15	-	1.23	-

SELECTED FINANCIAL DATA FOR THE BANK		in PLN'000			in EUR'000		
		As at			As at		
		31.03.2018	31.12.2017	31.03.2017	31.03.2018	31.12.2017	31.03.2017
I.	Total assets	127 236 878	124 569 483	124 949 260	30 233 308	29 866 332	29 610 233
II.	Amounts due to banks	4 535 788	5 089 716	8 831 905	1 077 768	1 220 292	2 092 968
III.	Amounts due to customers	102 920 340	99 331 571	96 813 408	24 455 350	23 815 381	22 942 653
IV.	Own Equity	14 484 848	14 287 561	13 307 004	3 441 808	3 425 534	3 153 468
V.	Share capital	169 248	169 248	169 121	40 216	40 578	40 078
VI.	Number of shares	42 312 122	42 312 122	42 280 127	42 312 122	42 312 122	42 280 127
VII.	Book value per share (in PLN/EUR)	342.33	337.67	314.73	81.34	80.96	74.58
VIII.	Total capital ratio	24.27	24.62	25.39	24.27	24.62	25.39

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

- for items of the statement of financial position – exchange rate announced by the National Bank of Poland as at 31 March 2018: EUR 1 = 4.2085, 31 December 2017: EUR 1 = 4.1709, 31 March 2017: EUR 1 = PLN 4.2198.

- for items of the income statement – exchange rate calculated as the arithmetic mean of exchange rates announced by the National Bank of Poland as at the end of each month of the first quarter of 2018 and 2017: EUR 1 = PLN 4.1784 and EUR 1 = PLN 4.2891 respectively.

Introduction

In Q1 2018, mBank Group continued its efforts to generate high level of income (mainly core income), while maintaining cost discipline. Total income increased quarter on quarter thanks to higher core income, positive upward trends in net trading income and recognition of result on selling an organised part of mFinanse. The profit before tax generated by mBank Group in Q1 2018 stood at PLN 559.6 million, which represents an increase by 35.9% quarter on quarter. Net profit attributable to the shareholders of mBank reached PLN 411.0 million.

The main factors determining the Group's financial results in Q1 2018 were as follows:

- **Increase in total income** to PLN 1,380.6 million, i.e. +20.9% quarter on quarter, mainly thanks to higher net fee and commission income, net trading income and a result of PLN 219.7 million on selling an organised part on mFinanse.

- **Increase in operating expenses** (including amortisation) to PLN 601.0 million compared with Q4 2017; in Q1 2018, mBank posted the annual contribution to the restructuring fund of the Bank Guarantee Fund (PLN 97.1 million).

- **Reduction in costs of risk** (sum of impairment on financial assets not measured at fair value through profit or loss and gains or losses from non-trading financial assets mandatorily measured at fair value through profit or loss) to PLN 121.8 million , i.e. 57 basis points compared with 66 basis points in Q4 2017.

- **Slight increase of tax on the Group's balance sheet items** quarter on quarter to PLN 98.5 million.

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

    - **increase in the individual client base** to 5,421.2 thousand (+78.9 thousand clients quarter on quarter);

    - **increase in the number of corporate clients** to 22,316 clients (+268 clients quarter on quarter).

As at the end of March 2017, net loans and advances stood at PLN 85,663.4 million and were up by PLN 1,187.5 million, i.e. 1.4% compared with the end of December 2017. Net of reverse repo/buy-sell-back transactions and net of the FX effect, the volume of loans and advances increased by 1.1%.

In Q1 2018 the value of amounts due to customers rose by 3.1% compared with the previous quarter and totalled PLN 94,308.6 million with amounts due to corporate clients decreasing slightly (-1.6%) compared with the end of December 2017 and amounts due to individuals rising by 3.6%.

As a result of these changes, the loan to deposit ratio of mBank Group[a] stood at 90.8%.

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

- Gross ROE of 16.2% (12.4% in Q4 2017);
- Net ROE of 11.9% (compared with 8.3% in Q4 2017).

The level of mBank Group's capital ratios decreased slightly in Q1 2018 due to the TREA increase for the whole credit portfolio, partially offset by growing own funds (as a result of including 30% of profit from the first three quarters of 2017 after setting the dividend level and a subordinated loan from Commerzbank in Tier 2 capital). As at the end of March 2018, the Total Capital Ratio stood at 20.9% and the Common Equity Tier 1 ratio at 17.9%.

[a] Loan to deposit ratio - loans and advances to clients/customer deposits.

Awards and distinctions

In the ***Golden Banker*** competition organized by *Bankier.pl* portal and *Puls Biznesu* we received three distinctions. We were awarded in the following categories: *Socially Responsible Bank* (for the book about mathematics for children published by mFoundation: "Mathematics is everywhere, family adventures with mathematics") and *Social Media* (the best social media appearance). In January, we carried out for the first time a campaign supporting the 26th Finale of the Great Orchestra of Christmas Charity and the first live streaming in the country with the "donation" option.

We have also gained recognition, winning once again the award for the best security practices. This distinction is awarded not only on the basis of the examination of security tools and procedures at the bank, but also additional activities related to education in the safe use of electronic banking. For three years, we have been consistently implementing the "Be cautious online" campaign, which makes Internet users more aware of the dangers lurking online and indicates positive behaviours that help maintain security.

We took the third spot in the main ranking of the 19th edition of the ***Listed Company of the Year*** competition organised by *Puls Biznesu.* mBank's Investor Relations team won the second place in the ranking. This is not only the oldest but also the most prestigious ranking in the industry providing information to listed companies how they are perceived by the most important market players (including analysts, brokers and investment advisors).

We also received a distinction for the ***Transparent Company of the Year 2017***. The editors of *Parkiet* in cooperation with the Institute of Accounting and Taxation conducted a study (covering such areas as: financial reporting, investor relations and corporate governance), aimed at selecting the most transparent companies from the three main stock exchange indexes. The main results of the second edition of the ranking were announced on April 25, 2018, and mBank was among the winners from the WIG20 index.

In addition, mBank won an award for its user-friendly business account opening process in a ranking compiled by *mojebankowanie.pl*. mBank's CEO, Mr Cezary Stypułkowski, took the third spot in the ***Banker of the Year*** ranking by *Forbes*.

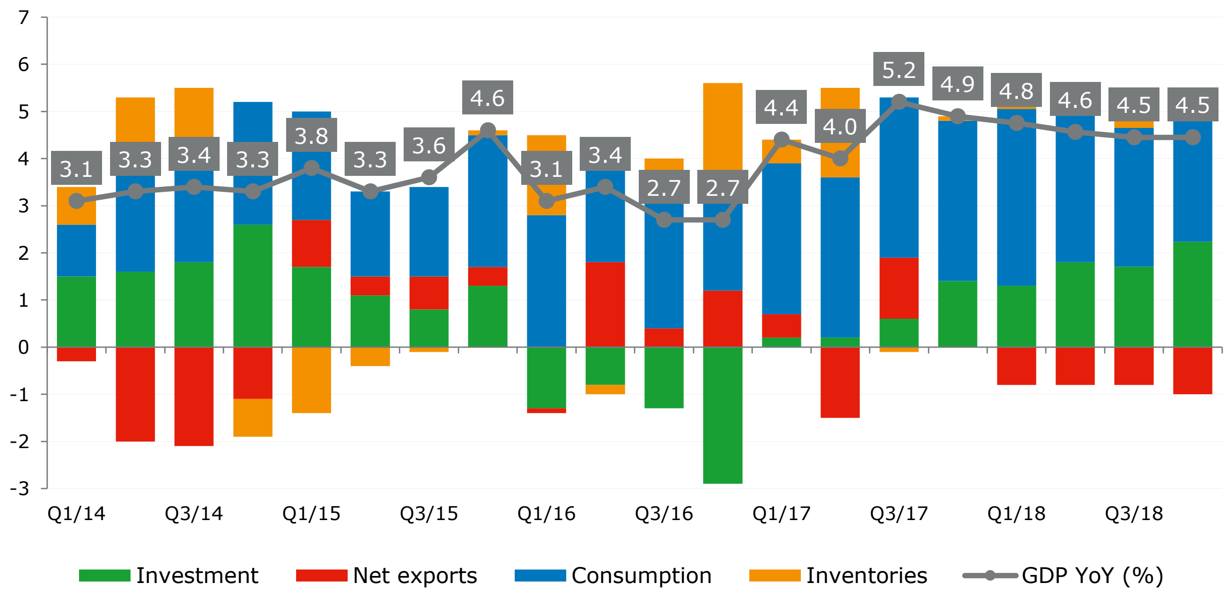
More information on awards and distinctions can be found on the Bank's website in the "Press Centre" section: http://media.mbank.pl/.

Macroeconomic environment in Q1 2018

Economy

In Q1 GDP was growing at a healthy pace. According to the bank's last estimates based on monthly and quarterly data, GDP grew by ca. 4.7-4.9% in the first three months of 2018, which is just shy of the rate reported in the last quarter of 2017.

Contribution to GDP growth

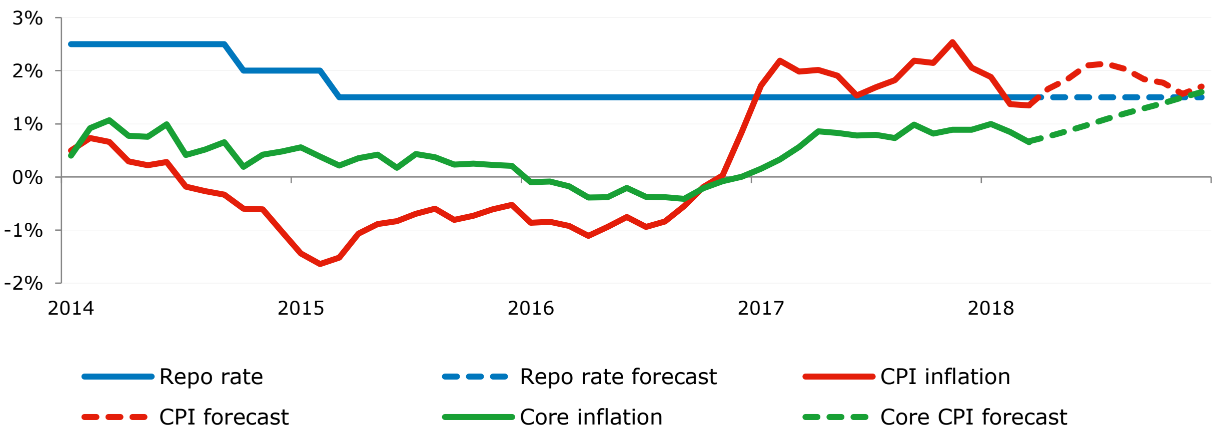


An annual increase slightly above 5% in private consumption was the main driver of growth in Q1 2018. Robust consumer spending was evidenced by real retail sales, which were at their highest since 2011, very positive consumer sentiment in Poland and the continuing good situation on the labour market (the lowest unemployment rate since the 1990s and solid growth in salaries). The bank expects consumer demand to continue rising at a relatively high pace exceeding 4% year on year in the coming quarters. Investment was another large contributor to GDP growth in Q1. Propelled by public spending and EU funds, gross investment in fixed assets is likely to have increased by as much as 10% year on year in Q1. This impressive result was propped up mainly by the construction industry, which surged by approximately 25% year on year in the first months of 2018. Whether this investment recovery continues into the coming quarters will depend on the companies sector, which reported low investment in the last few quarters, in both private and state-owned companies. Nonetheless, record-high utilization of manufacturing capacity, low interest rates and strong financial standing of companies are expected to spark a revival of investment demand among private companies. Interestingly, household investment (home buying) has been the highest since early 1990s. The combined investment recovery and economic slowdown in the Eurozone are forecast to reduce the contribution of net export, which will be negative in Q1 and throughout 2018.

Inflation and monetary policy

As far as inflation figures are concerned, Q1 was a time of negative surprises. In February and March, to the astonishment of forecasters, inflation dropped below the target band (1.3% year on year was the last inflation reading according to the national methodology). The drop in Q1 was driven by food prices, which have been falling after months of increases, and by weak core inflation. The latter fell to 0.7% year on year in March and so far has been insensitive to a closure of the demand gap and a rise in salaries. Under these circumstances Poland's monetary policy remained unchanged, while the Monetary Policy Council's declaration to hold interest rates at their current level was upheld until the end of 2019. The bank expects inflation to react to the hike in salaries in the second half of 2018. The consequences of this trend to the prices of services will suffice to push core inflation to 1.7-1.8% year on year at the end of this year. Nevertheless, interest rates will remain stable until the end of 2018 and in the first few months of 2019.

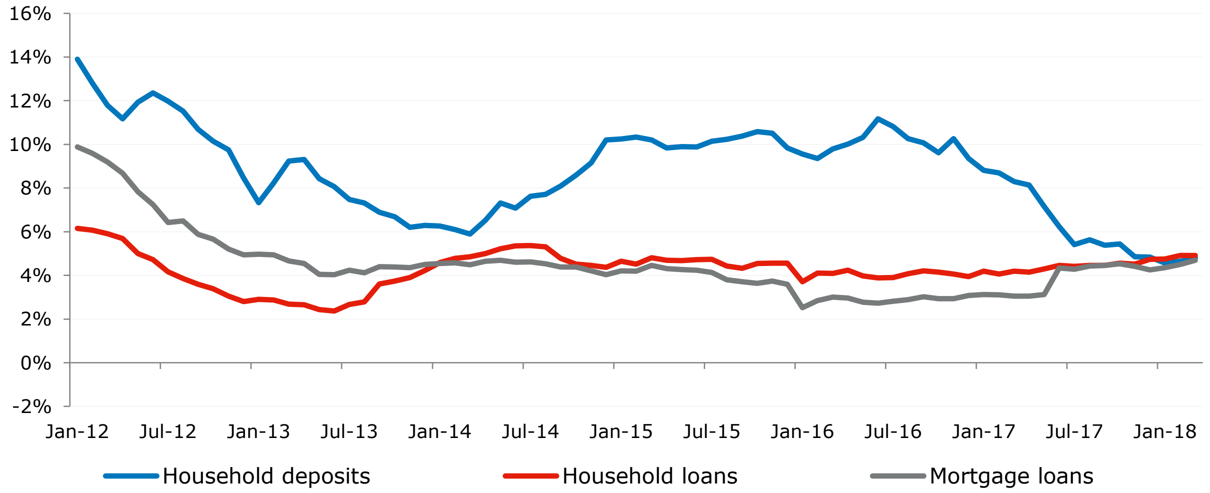
CPI Inflation and reference rate



Banking sector

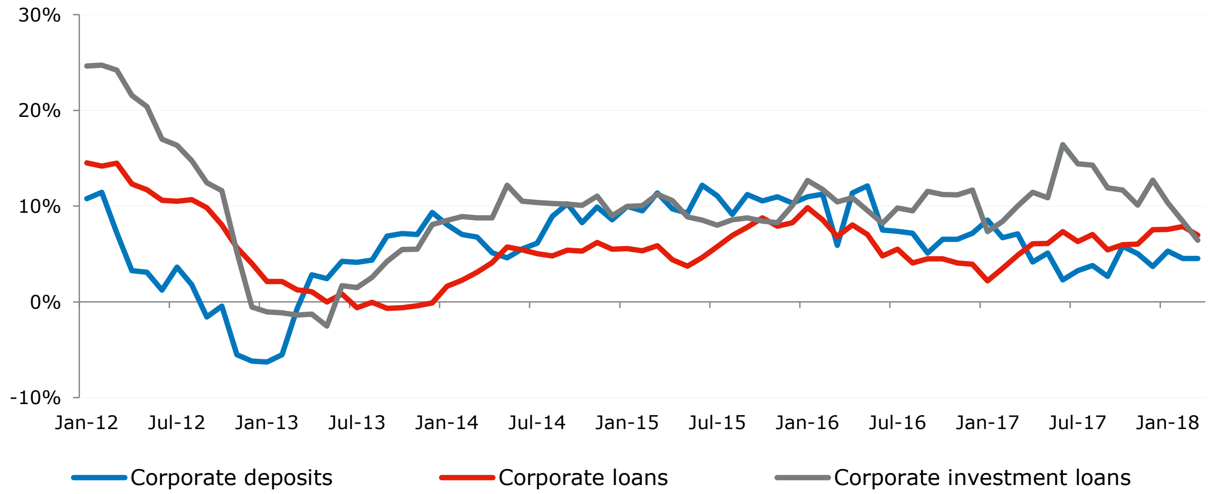
Q1 was marked by stabilization of growth in household deposits (4.8% year on year), comprising a continued transfer of funds from term deposits to current deposits. At the same time, growth in household loans, driven by a slow acceleration in housing loans and no slowdown in the remaining retail loan categories, has been consistently on the rise. In total, household loans went up by 4.9% year on year in March (excluding seasonal and calendar factors), which represents the biggest rise since mid-2014. The bank expects these trends to continue in 2018. The good situation on the labour market and low interest rates creating favourable conditions for home buyers will keep the demand for housing loans relatively strong. On the other hand, household deposits are forecast to accelerate slowly, as low interest rates coupled with high consumption do not encourage households to deposit their funds in bank accounts.

Household loans and deposits



In the corporate segment, Q1 2018 saw deposit growth following a horizontal trend and loans going up at a brisk pace. No doubt, stable growth in corporate deposits, despite fast-growing GDP, is the result of deteriorating liquidity standing of some companies which failed to fully compensate for rising labour costs with higher prices charged for their products and services, and of the PLN strengthening at the turn of 2017 and 2018. Corporate loans continued to grow despite a clear slowdown in lending observed in the investment loans segment. At least some part of the demand for loans resulted from the aforesaid deterioration in the liquidity standing of companies.

Corporate loans and deposits



Financial position of mBank Group in Q1 2018

Profit and Loss Account of mBank Group

The profit before tax generated by mBank Group in Q1 2018 was PLN 559.6 million, which represents an increase by 35.9% quarter on quarter. It was driven mainly by higher income. Compared with Q4 2017, income increased thanks to positive trends in both core income and net trading income and the profit from selling an organised part of enterprise of mFinanse. Net profit attributable to the owners of mBank increased by 31.9% quarter on quarter and stood at PLN 411.0 million.

PLN M	Q4 2017	Q1 2018	Change in PLN M	Change in %
Interest income	1,056.5	1,053.6	-2.9	-0.3%
Interest expense	-231.4	-237.2	-5.8	2.5%
Net interest income	**825.1**	**816.4**	**-8.7**	**-1.1%**
Fee and commission income	414.3	429.5	15.2	3.7%
Fee and commission expense	-180.8	-160.6	20.2	-11.2%
Net fee and commission income	**233.5**	**268.9**	**35.4**	**15.2%**
Core income	**1,058.6**	**1,085.3**	**26.7**	**2.5%**
Dividend income	0.2	0.2	0.0	3.1%
Net trading income	73.0	84.5	11.5	15.8%
Other income	18.5	4.3	-14.2	-76.7%
Other operating income	45.4	268.9	223.5	492.1%
Other operating expenses	-54.1	-62.6	-8.5	15.7%
Total income	**1,141.5**	**1,380.6**	**239.0**	**20.9%**
Net impairment losses and fair value change on loans and advances	-140.0	-121.8	18.2	-13.0%
Overhead costs and amortization	-494.5	-601.0	-106.5	21.5%
Taxes on bank balance sheet items	-95.4	-98.5	-3.1	3.2%
Result on entities under the equity method	0.3	0.3	0.0	n/a
Profit before income tax	**411.9**	**559.6**	**147.7**	**35.9%**
Income tax expense	-100.3	-148.6	-48.3	48.2%
Net profit attributable to:	**311.6**	**411.0**	**99.4**	**31.9%**
- Owners of mBank S.A.	**311.6**	**411.0**	**99.4**	**31.9%**
- Non-controlling interests	0.0	0.0	0.0	-
ROA net	0.9%	1.3%		
ROE gross	12.4%	16.2%		
ROE net	9.4%	11.9%		
Cost / Income ratio	43.3%	43.5%		
Net interest margin	2.6%	2.6%		
Common Equity Tier 1 ratio	18.3%	17.9%		
Total capital ratio	21.0%	20.9%		

Income from core operations - calculated as the sum of net interest income and net fee and commission income.
Total income - calculated as the sum of net interest income, net fee and commission income, dividend income, net trading income, other income, other operating income and other operating expenses.
Other income – calculated as the sum of gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates and gains less losses from investment securities, investments in subsidiaries and associates.
Total overhead costs (including amortisation) - calculated as the sum of total overhead costs and amortisation.
Net impairment losses and fair value change on loans and advances - sum of impairment or reversal of impairment on financial assets not measured at fair value through profit or loss and gains or losses on non-trading financial assets mandatorily at fair value through profit or loss.
Net ROA - net profit attributable to owners of the Bank/average assets value; the average assets value is calculated based on balances at the end of each month.
Gross ROE - pre-tax profit/average equity value (excluding current year's profit); the average equity value is calculated based on balances at the end of each month.
Net ROE - net profit attributable to owners of the Bank/average equity value (excluding current year's profit); the average equity value is calculated based on balances at the end of each month.
Cost/Income ratio - total overhead costs and amortization/total income (excluding tax on balance sheet items of the Group).
Interest margin - net interest income/average interest-earning assets; interest-earning assets are calculated as the sum of the following items: cash, balances with the central bank, loans and advances to banks, trading securities, financial derivatives, loans and advances to clients, investment securities. Average interest-earning assets are calculated based on balances at the end of each month.

Income of mBank Group

The total income generated by mBank Group amounted to PLN 1,380.6 million (+20.9% quarter on quarter). Core income, i.e. net interest income and net fee and commission income, grew quarter on quarter (by 2.5%) to PLN 1,085.3 million, which is the best result in the Group's history. The record-high income was also helped by posting a profit from selling an organised part of enterprise of mFinanse (PLN 219.7 million). Net of this one-off transaction, income rose by 1.7% quarter on quarter.

mBank Group's net interest income, which went down slightly quarter on quarter (by PLN 8.7 million, i.e. 1.1%), was the main contributor to the total income generated by mBank Group in Q1. Interest income dropped by PLN 2.9 million, i.e. by 0.3% quarter on quarter, to PLN 1,053.6 million, mainly due to a decrease in income from loans and advances (PLN 785.1 million, i.e. down by PLN 10.6 million quarter on quarter) and investment securities (PLN 169.9 million, i.e. down by PLN 7.4 compared with Q4 2017) due to a shorter quarter (by 2 days). At the same time, interest income from derivatives classified to the banking book increased by PLN 11.1 million quarter on quarter, thanks to a higher volume of derivative transactions.

At the same time, interest expenses rose slightly quarter on quarter (+PLN 5.8 million, i.e. +2.5%) to PLN 237.2 million. In Q1 2018, interest cost paid to clients grew by PLN 5.7 million, i.e. 4.7%, driven by higher average volume of customer deposits. Interest expenses paid to banks declined by PLN 3.9 million, i.e. 29.7%, which was related to the repayment of loans from Commerzbank in the amount of CHF 350 million in Q1 2018 and CHF 750 million in Q4 2017.

Net interest margin of mBank Group increased quarter on quarter and reached 2.61% in Q1 2018, compared with 2.57% in Q4 2017.

Net fee and commission income, the second largest contributor, grew significantly compared with Q4 2017 (+PLN 35.4 million, i.e. +15.2%) to PLN 268.9 million.

Fee and commission income rose by PLN 15.2 million, i.e. 3.7% quarter on quarter, mainly due to an increase in payment card-related commissions by PLN 9.2 million, i.e. 10.2%, which can be attributed to i.a. the higher number of non-cash transactions in foreign currencies during winter holidays as well as previous actions to make the payment card business more efficient (renegotiation of agreements with card operators). Fees and commissions on loans increased by PLN 7.9 million, i.e. 9.6% quarter on quarter, driven by higher credit sales to retail and corporate clients reported in Q1.

Fee and commission expense amounted to PLN 160.6 million and was down by PLN 20.2 million, i.e. 11.2%, compared with Q4 2017, mainly due to a drop in costs related to the maintenance and insurance of payment cards (-PLN 8.1 million, i.e. -12.4%) and other discharged fees (-PLN 8.6 million, i.e. -14.5%).

Net trading income went up by PLN 11.5 million compared with Q4 2017 to PLN 84.5 million. Gains or losses on financial assets and liabilities held for trading increased by PLN 8.2 million or 105.4% in Q1 thanks to a higher valuation of interest rate instruments caused by falling interest rates. The FX result improved as well, up by PLN 4.2 million or 6.3% quarter on quarter.

Other income (including gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates and gains less losses from investment securities, investments in subsidiaries and associates) fell to PLN 4.3 million from PLN 18.5 million in Q4 2017 when bonds held in the portfolio of assets available for sale were sold.

Other operating income stood at PLN 268.9 million and was propped up by the sale of an organised part of enterprise of mFinanse providing group insurance agency services, which produced a result of PLN

219.7 million. Other operating expenses were primarily affected by provisions for future commitments and donations (a PLN 7.0 million donation for Wielka Orkiestra Świątecznej Pomocy) in Q1.

Costs of mBank Group

In Q1 2018, total overhead costs of mBank Group (including amortisation) stood at PLN 601.0 million, up by PLN 106.5 million or 21.5% quarter on quarter. The significant increase in costs was driven by the annual contribution to the resolution fund of the Bank Guarantee Fund booked in Q1 2018. Costs rose by 1.0% quarter on quarter net of BFG contributions.

PLN M	Q4 2017	Q1 2018	Change in PLN M	Change in %
Staff-related expenses	**-228.6**	**-227.7**	**0.9**	**-0.4%**
Material costs, including	**-174.9**	**-182.6**	**-7.7**	**4.4%**
- administration and real estate services costs	*-93.8*	*-91.1*	*2.7*	*-2.9%*
- IT costs	*-30.8*	*-42.7*	*-11.9*	*38.5%*
- marketing costs	*-30.3*	*-29.7*	*0.6*	*-2.0%*
- consulting costs	*-17.7*	*-15.3*	*2.4*	*-13.6%*
- other material costs	*-2.2*	*-3.8*	*-1.6*	*74.8%*
Taxes and fees	**-6.1**	**-5.3**	**0.8**	**-13.3%**
Contributions and transfer to the Bank Guarantee Fund	**-15.5**	**-117.3**	**-101.8**	**x7.6**
Contributions to the Social Benefits Fund	**-1.6**	**-2.3**	**-0.6**	**40.5%**
Amortization	**-67.8**	**-65.8**	**2.0**	**-2.9%**
Total overhead costs and amortization	**-494.5**	**-601.0**	**-106.5**	**21.5%**
Cost / Income ratio	43.3%	43.5%	-	-
Employment (FTE)	6,455	6,346	-109	-1.7%

Staff-related expenses remained flat versus the previous quarter (-PLN 0.9 million or -0.4%). mBank Group's headcount declined by 109 FTEs mainly as a result of organisational changes within the Group.

Material costs went up by PLN 7.7 million or 4.4% quarter on quarter. IT costs grew by PLN 11.9 million, whereas other material costs did not change much.

The Group posted an annual contribution to the resolution fund maintained by the Bank Guarantee Fund of PLN 97.1 million in Q1 2018. The quarterly contribution to the deposit guarantee fund stood at PLN 20.2 million.

Amortisation dropped by 2.9% quarter on quarter to PLN 65.8 million.

Cost efficiency expressed by the cost to income ratio stood at 43.5% and remained almost flat compared with Q4 2017 (43.3% in Q4 2017, 53.4% a year before). Net of one-offs, i.e. excluding 75% of the annual contribution to the resolution fund and the profit from the sale of an organised part of enterprise of mFinanse, the cost to income ratio stood at 45.5%.

Net impairment losses and fair value change on loans and advances

In Q1 2018, net impairment losses and fair value change on loans and advances of mBank Group (being the sum of: impairment or reversal of impairment on financial assets not measured at fair value through profit or loss and gains or losses on non-trading financial assets mandatorily at fair value through profit or loss) stood at PLN 121.8 million including impairment or reversal of impairment on financial assets not measured at fair value through profit or loss of -PLN 84.5 million and gains or losses on non-trading financial assets mandatorily at fair value through profit or loss amounted to -PLN 37.3 million. The amount decreased by PLN 18.2 million or 13.0% quarter on quarter. Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss is related to the part of the portfolio of loans and advances that is measured at amortised cost. The item "gains or losses on non-trading financial assets mandatorily at fair value through profit or loss" is mainly related to the credit risk of the portfolio of loans and advances measured with the use of that method.

PLN M	Q4 2017	Q1 2018	Change in PLN M	Change in %
Retail Banking	-94.3	-107.9	-13.6	14.4%
Corporates and Financial Markets	-45.4	-14.2	31.2	-68.6%
Other	-0.3	0.3	0.7	-211.8%
Total net impairment losses and fair value change on loans and advances	**-140.0**	**-121.8**	**18.2**	**-13.0%**

Impairment losses on loans and advances in the Retail Banking amounted to PLN 107.9 million, up by PLN 13.6 million quarter on quarter. This was attributable to several factors, including model recalibration (resulting in an increase in provisions) and release of provisions following the sale of an NPL portfolio. In addition, the portfolio of loans and advances is characterised by a growing share of non-mortgage (unsecured) loans.

Impairment losses on loans and advances in the Corporate and Investment Banking and Financial Markets amounted to PLN 14.2 million. They fell by PLN 31.2 million compared with the previous quarter owing to lower provisions in the K2 segment.

Consolidated statement of financial position

The balance sheet total of mBank Group stood at PLN 133,640.2 million at the end of Q1 2018 and increased by 1.7% compared with the end of 2017.

Assets of mBank Group

PLN M	31.03.2017	31.12.2017	31.03.2018	QoQ change	YoY change
Cash and balances with Central Bank	7,139.9	7,384.9	5,354.3	-27.5%	-25.0%
Loans and advances to banks	1,976.9	1,707.7	3,811.3	123.2%	92.8%
Trading securities	3,538.1	1,525.4	3,162.9	107.4%	-10.6%
Derivative financial instruments	1,680.8	1,236.3	1,137.9	-8.0%	-32.3%
Net loans and advances to customers	81,697.9	84,475.8	85,663.4	1.4%	4.9%
Investment securities	31,689.9	32,144.7	31,655.0	-1.5%	-0.1%
Non-current assets held for sale	0.0	42.1	42.0	-0.3%	-
Intangible assets	578.0	711.6	692.3	-2.7%	19.8%
Tangible assets	737.3	758.7	730.5	-3.7%	-0.9%
Other assets	1,449.6	1,436.8	1,390.6	-3.2%	-4.1%
Total assets	**130,488.4**	**131,424.0**	**133,640.2**	**1.7%**	**2.4%**

Investment securities – calculated as the sum of debt securities at fair value through other comprehensive income, debt securities measured at amortised cost and non-trading equity instruments mandatorily at fair value through profit or loss

Net loans and advances to banks – calculated as the sum of loans and advances measured at amortised cost and loans and advances mandatorily at fair value through profit or loss

Loans and advances to clients were the largest asset category of mBank Group at the end of Q1 2018. Their share in total assets decreased slightly to 64.1% from 64.3% at the end of 2017. At the end of Q1 2018, net loans and advances to clients, calculated as a sum of loans and advances in amortised cost and at fair value, stood at PLN 85,663.4 million, which represents an increase quarter on quarter (by PLN 1,187.5 million, i.e. 1.4%). Excluding reverse repo/buy-sell-back transactions and the FX effect, the volume of loans and advances went up by 1.1%.

Gross loans and advances to corporate clients went up quarter on quarter by PLN 818.2 million, i.e. 2.2%, to PLN 38,759.9 million (excluding reverse repo/buy-sell-back transactions and the FX effect, the volume of loans and advances to corporate clients grew by 2.0%). The sales of corporate loans (including new sales, rising and renewal) decreased and amounted to PLN 6,494 million, down by 7.0% quarter on quarter.

The volume of loans to individual clients increased by PLN 682.5 million, i.e. 1.4% compared with the end of 2017 and stood at PLN 48,825.3 million. Mortgage and housing loans increased slightly by 0.4% quarter on quarter, despite the sales of non-performing loans portfolio and a decrease in the FX mortgage portfolio. In Q1 2018 mBank Group sold PLN 994.7 million worth mortgage loans and PLN 2,000.0 million worth non-mortgage loans. Excluding the FX effect, loans to individuals rose by 1.1%.

In Q1 2018, gross loans and advances to the public sector decreased by PLN 52.7 million, i.e. 5.3%. The value of those loans stood at PLN 942.9 million at the end of Q1.

At the end of Q1 2018, investment securities were the Bank's second largest asset category and stood at PLN 31,655.0 million, i.e. 23.7% of total assets, down by PLN 489.7 million, i.e. 1.5% quarter on quarter.

mBank Group's total liabilities and equity

PLN M	31.03.2017	31.12.2017	31.03.2018	QoQ change	YoY change
Amounts due to other banks	8,767.3	5,073.4	4,475.3	-11.8%	-49.0%
Derivative financial instruments	1,557.1	1,095.4	900.8	-17.8%	-42.1%
Amounts due to customers	88,744.0	91,496.0	94,308.6	3.1%	6.3%
Debt securities in issue	13,260.8	14,322.9	14,414.2	0.6%	8.7%
Subordinated liabilities	2,250.5	2,158.1	2,157.3	0.0%	-4.1%
Other liabilities	2,570.4	2,986.7	2,897.7	-3.0%	12.7%
Total Liabilities	**117,150.1**	**117,132.5**	**119,153.9**	**1.7%**	**1.7%**
Total Equity	**13,338.3**	**14,291.6**	**14,486.3**	**1.4%**	**8.6%**
Total Liabilities and Equity	**130,488.4**	**131,424.0**	**133,640.2**	**1.7%**	**2.4%**

In Q1 2018, amounts due to customers, which are the Group's principal source of funding, rose by PLN 2,812.5 million, i.e. 3.1% quarter on quarter. The share of amounts due to clients in total liabilities and equity reached 70.6%, compared with 69.6% at the end of 2017.

Amounts due to corporate clients decreased by PLN 564.9 million, i.e. 1.6% compared with the end of 2017, and stood at PLN 34,024.7 million at the end of Q1 2018. An outflow of funds in current accounts (-PLN 3,317.6 million, i.e. -15.5% quarter on quarter),was partially offset by the inflow of funds observed in term deposits (+PLN 2,263.6 million, i.e. +28.2%).

Amounts due to individuals grew by PLN 2,026.4 million, i.e. 3.6% in the period under review, both on current accounts and term deposits (by 3.7% and 3.6% respectively) and amounted to PLN 57,720.0 million.

Amounts due to the public sector stood at PLN 2,563.9 million, representing more than two-fold increase quarter on quarter (i.e. +PLN 1,351.1 million, or +111.4%).

Debt securities in issue were mBank Group's second largest liabilities and equity category (10.8%). They remained stable quarter on quarter (-PLN 91.3 million, or -0.6%) and stood at PLN 14,414.2 million.

Amounts due to other banks stood at PLN 8,132.0 million at the end of Q1 2018, accounting for 6.1% of total liabilities and equity of mBank Group. Compared with Q4 2017, amounts due to other banks dropped by PLN 563.1 million, i.e. 6.5%, driven mainly by the repayment of loan from Commerzbank.

The share of equity in total liabilities and equity of mBank Group decreased slightly to 10.8%, compared with 10.9% at the end of 2017.

Quality of the loan portfolio of mBank Group

As of March 31, 2018, the volume of non-performing loans (NPL) increased slightly compared to the end of 2017. The NPL ratio was lower than at the end of Q4 2017 and amounted to 5.1%. The value of the NPL ratio is calculated as the ratio of the impaired loan portfolio and the portfolio in POCI basket to the entire portfolio.

The coverage ratio increased on a quarterly basis from 64.6% to 66.0%.

PLN M	31.12.2017	31.03.2018	QoQ change
Provisions for receivables with impairment	2,668.1	2,619.6	-1.8%
Impairment provisions for exposures from basket 1 and 2	243.8	378.7	55.3%
Provisions for receivables	**2,911.9**	**2,998.3**	**3.0%**
Receivables with impairment	**4,504.3**	**4,539.7**	**0.8%**
Receivables without impairment	**82,639.6**	**85,663.4**	**3.7%**
NPL ratio	5.2%	5.1%	
Coverage ratio	64.6%	66.0%	

Performance of segments and the business lines

In Q1 2018, the Retail Banking segment was the largest contributor to mBank Group's profit before tax with a share of 75.6%, which represents a major increase quarter on quarter compared with 55.7% in Q4 2017. The contribution of the Corporate and Investment Banking segment stood at 19.9% (35.8% in Q4 2017) and contribution of the Financial Markets segment was 4.8% (8.3% in Q4 2017).

The result of the Retail Banking segment was driven mainly by a rise in income by 36.1% (core income rose by 4.4% quarter on quarter). To a large extent the Q1 2018 result was propped up by the completion of the sale of an organised part of enterprise of mFinanse. However, the increase in income was partly offset by higher overhead costs relating to the Bank Guarantee Fund (BFG) contribution and higher impairment losses and fair value change on loans and advances.

The Corporate and Investment Banking segment's lower contribution to the Group's result was spurred primarily by higher earnings reported by the Retail Banking due to a one-off event (sale of an organised part of enterprise of mFinanse). The segment's income fell by PLN 4.3 million quarter on quarter, i.e. by 1.1%, mainly due to lower net interest income. At the same time, impairment losses and fair value change on loans and advances was lower by PLN 30.7 million compared with loan loss provisions in Q4 2017, and overhead costs went up by 38.2% as a result of reallocating BFG costs across mBank Group's business segments.

Total income of the Financial Markets segment reached PLN 66.3 million in Q1 2018, up by 7.3% quarter on quarter, which was attributable mainly to higher net trading income.

PLN M	Q4 2017	Q1 2018	QoQ change	% share in profit before tax
Retail Banking	229.4	423.0	84.4%	75.6%
Corporate and Investment Banking	147.4	111.4	-24.4%	19.9%
Financial Markets	34.2	27.1	-20.7%	4.8%
Other	0.9	-2.0	-/+	-0.3%
Profit before tax of mBank Group	**411.9**	**559.6**	**35.9%**	**100.0%**

Retail Banking

mBank's Retail Banking segment serves 5,421 thousand individual clients and microenterprises in Poland, the Czech Republic and Slovakia online, directly through the call centre, via mobile banking and other state-of-the-art technological solutions, as well as in a network of 336 branches. The Bank offers a broad range of products and services including current and savings accounts, accounts for microenterprises, credit products, deposit products, payment cards, investment products, insurance products, brokerage services, and leasing for microenterprises.

Key highlights

- Increase of core income to PLN 692.9 million in Q1 2018 i.e. up by 4.4% quarter on quarter and up by 11.3% year on year.
- Increase in the share of mBank in non-mortgage loans market from 5.1% to 5.4% year on year.
- 6.0% share of mBank in retail deposits market.
- Record high sales of non-mortgage loans at PLN 2,000.0 million (i.e. +13.0% quarter on quarter and +11.0% year on year), while mortgage loans sales stood at PLN 994.7 million (i.e. +25.1% and +24.6% respectively).
- Already 56.0% of loggings into client accounts are performed via mobile banking application at the end of March 2018 (55.0% at the end of 2017).
- Increase in the share of Brokerage Bureau in the WSE futures trading from 12.4% in Q4 2017 to 16.7% in Q1 2018 and in bonds market from 12.7% to 12.9% respectively.
- Implementation of an integrated and fully electronic process of opening a company, company account and accountancy in 10 minutes with mBank in March 2018.
- mBank won an award for its user-friendly business account opening process in a ranking compiled by mojebankowanie.pl.

Key financial data:

PLN M	Q4 2017	Q1 2018	Change in PLN M	Change in %
Net interest income	526.2	535.6	9.4	1.8%
Net fee and commission income	137.4	157.3	20.0	14.5%
Dividend income	0.0	0.0	0.0	-
Net trading income	31.0	28.6	-2.4	-7.7%
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates	0.0	0.0	-	-
Net other operating income	-18.1	198.9	217.0	+/-
Total income	**676.5**	**920.5**	**244.0**	**36.1%**
Net impairment losses and fair value change on loans and advances[1]	-94.3	-107.9	-13.6	14.4%
Overhead costs and amortization	-304.5	-340.2	-35.7	11.7%
Taxes on bank balance sheet items	-48.3	-49.4	-1.1	2.3%
Profit before tax of Retail Banking	**229.4**	**423.0**	**193.6**	**84.4%**

[1] *From Q1 2018 the sum of two items from Profit and Loss Account: "Impairment on financial assets not measured at fair value through profit or loss" and "Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss".*

Key business data (mBank and mBank Hipoteczny only):

thou.	31.03.2017	31.12.2017	31.03.2018	QoQ change	YoY change
Number of retail clients[1], including:	**5,146.4**	**5,342.3**	**5,421.2**	**1.5%**	**5.3%**
Poland	4,260.3	4,437.0	4,510.7	1.7%	5.9%
Foreign branches	886.1	905.3	910.5	0.6%	2.8%
The Czech Republic	623.0	633.6	635.6	0.3%	2.0%
Slovakia	263.1	271.8	274.9	1.1%	4.5%
PLN M					
Loans to retail clients, including:	**48,307.1**	**48,122.1**	**48,444.5**	**0.7%**	**0.3%**
Poland	44,227.3	43,703.1	43,952.9	0.6%	-0.6%
mortgage loans	*33,128.8*	*31,294.8*	*31,365.6*	*0.2%*	*-5.3%*
non-mortgage loans	*11,098.5*	*12,408.3*	*12,587.3*	*1.4%*	*13.4%*
Foreign branches	4,079.7	4,419.0	4,491.6	1.6%	10.1%
The Czech Republic	*3,172.8*	*3,585.3*	*3,643.5*	*1.6%*	*14.8%*
Slovakia	*906.9*	*833.7*	*848.1*	*1.7%*	*-6.5%*
Deposits of retail clients, including:	**54,028.8**	**55,749.8**	**57,768.7**	**3.6%**	**6.9%**
Poland	46,083.9	46,876.5	48,525.8	3.5%	5.3%
Foreign branches	7,945.0	8,873.3	9,242.9	4.2%	16.3%
The Czech Republic	*5,598.6*	*6,346.0*	*6,622.8*	*4.4%*	*18.3%*
Slovakia	*2,346.4*	*2,527.3*	*2,620.2*	*3.7%*	*11.7%*
Investment funds od mBank's individual clients[2]	**15,213.0**	**17,855.0**	**17,919.0**	**0.4%**	**17.8%**
thou.					
Credit cards, including:	**345.9**	**362.8**	**367.6**	**1.3%**	**6.3%**
Poland	314.0	325.9	329.4	1.1%	4.9%
Foreign branches	31.9	36.8	38.2	3.7%	19.6%
Debit cards, including:	**3,491.4**	**3,713.0**	**3,745.4**	**0.9%**	**7.3%**
Poland	2,932.6	3,138.1	3,170.2	1.0%	8.1%
Foreign branches	558.7	575.0	575.2	0.0%	3.0%

[1] Number of retail clients impacted by obligatory closing of inactive accounts and adjusted backward to exclude authorised users of microfirm C/A, not having any banking products for individual customers.

[2] Starting from 2018, there has been a change of approach in presenting investment funds of mBank's clients resulting from the inclusion of mDom Maklerski and mWealth Management in the mBank's structure in 2016.

Corporates and Financial Markets

The Corporates and Financial Markets segment serves 22,316 corporate clients including large enterprises (K1 - annual sales exceeding PLN 1 billion and non-banking financial institutions), mid-sized enterprises (K2 - annual sales of PLN 50 million – 1 billion) and small enterprises (K3 - annual sales below PLN 50 million), through a network of dedicated 46 branches. mBank Group's offer of products and services for corporate clients focuses on traditional banking products and services (including corporate accounts, domestic and international money transfers, payment cards, cash services, and liquidity management products), corporate finance products, hedging instruments, equity capital market (ECM) services, debt capital market (DCM) instruments, mergers and acquisitions (M&A), leasing and factoring. The segment comprises two areas: Corporate and Investment Banking, and Financial Markets.

Key highlights

- Stable income quarter on quarter and an 5.5% increase year on year.
- Stable volume of corporate loans quarter on quarter (excluding reverse repo/buy sell back transactions).
- Increase of corporate loans sales (including new sale, rising and renewal) by 43.8% year on year.
- Increase in corporate deposits (excluding repo transactions) by 3.4% year on year and increase in the share of mBank in deposits for enterprises market to 9.6% quarter on quarter.
- The first and biggest issue of covered bonds for the total amount of EUR 300 million on the European market by mBank Hipoteczny.
- Introduction of a non-standard product – light depositories at the customer's premises - aimed at further digitalization of the cash service process.
- Introduction of an electronic escrow account, enabling the opening, maintenance and settlement of escrow transactions without the need to sign a paper account agreement. This is the first transactional system of mBank, serving both corporate and retail clients.

Key financial data:

Corporate and Investment Banking:

PLN M	Q4 2017	Q1 2018	Change in PLN M	Change in %
Net interest income	227.1	216.6	-10.5	-4.6%
Net fee and commission income	97.9	111.7	13.8	14.1%
Dividend income	0.0	0.0	0.0	0.0%
Net trading income	64.0	56.0	-8.0	-12.6%
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates	0.9	0.3	-0.6	-64.7%
Net other operating income	2.3	3.4	1.1	49.0%
Total income	**392.3**	**388.1**	**-4.3**	**-1.1%**
Net impairment losses and fair value change on loans and advances[1]	-45.3	-14.6	30.7	-67.7%
Overhead costs and amortization	-163.0	-225.3	-62.3	38.2%
Taxes on bank balance sheet items	-36.6	-36.7	-0.1	0.2%
Profit before tax of Corporate and Investment Banking	**147.4**	**111.4**	**-35.9**	**-24.4%**

Financial Markets:

PLN M	Q4 2017	Q1 2018	Change in PLN M	Change in %
Net interest income	70.2	62.9	-7.3	-10.4%
Net fee and commission income	-2.5	-2.1	0.5	-18.1%
Dividend income	0.0	0.0	0.0	-
Net trading income	-21.5	1.0	22.5	+/-
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates	17.6	4.3	-13.2	-75.3%
Net other operating income	-2.0	0.2	2.1	+/-
Total income	**61.8**	**66.3**	**4.5**	**7.3%**
Net impairment losses and fair value change on loans and advances[1]	-0.1	0.4	0.5	+/-
Overhead costs and amortization	-22.1	-29.0	-6.9	31.2%
Taxes on bank balance sheet items	-9.4	-10.5	-1.1	11.4%
Profit before tax of Financial Markets	**34.2**	**27.1**	**-7.1**	**-20.7%**

[1] From Q1 2018 the sum of two items from Profit and Loss Account: "Impairment on financial assets not measured at fair value through profit or loss" and "Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss".

Key business data (Bank only):

	31.03.2017	31.12.2017	31.03.2018	QoQ change	YoY change
Number of corporate clients[1], including:	**21,235**	**22,048**	**22,316**	**1.2%**	**5.1%**
K1	2,103	2,093	2,156		
K2	6,770	7,088	7,465		
K3	12,362	12,867	12,695		
PLN M					
Loans to corporate clients[1], including:	**21,587.5**	**23,010.6**	**23,019.8**		
K1	5,258.5	5,316.9	5,934.4		
K2	13,303.0	14,529.7	14,766.2		
K3	2,802.0	2,973.0	2,092.7		
Reverse repo/buy sell back transactions	81.3	57.1	63.3		
Other	142.7	133.8	163.2		
Deposits of corporate clients[1], including:	**30,126.8**	**31,068.5**	**33,081.4**		
K1	11,282.1	11,999.2	14,660.6		
K2	12,654.6	13,483.3	11,900.4		
K3	4,662.8	5,079.0	5,023.8		
Repo transactions	1,076.2	82.6	959.2		
Other	451.1	424.4	537.5		

[1] Starting from Q1 2018, corporate clients were re-segmented due to which the data on customers, loans and corporate deposits are not comparable on a quarterly and annual basis.

Summary of results of mBank Group's subsidiaries

The overall Q1 2018 profit before tax of mBank Group subsidiaries of PLN 316.9 million was impacted by the completion of the sale of an organised part of enterprise of mFinanse. Excluding this one-off effect, the consolidated result generated by mBank Group subsidiaries amounted to PLN 97.8 million compared with PLN 71.4 million a quarter earlier.

Two companies: mBank Hipoteczny and mFinanse improved their results on a quarterly basis.

The table below presents the profit before tax of mBank Group subsidiaries in Q1 2018 compared with Q4 2017.

PLN M	Q4 2017	Q1 2018	Change in %
mFinanse (f. Aspiro)[1]	36.1	57.0	57.9%
mBank Hipoteczny	8.1	23.8	195.0%
mLeasing	18.1	10.3	-43.2%
mFaktoring	5.6	5.5	-3.0%
Other[2]	3.5	1.4	-59.7%
Total	**71.4**	**97.9**	**37.1%**

[1] *Profit before tax in Q1 2018 net of the sale of an organised part of mFinanse.*
[2] *Other subsidiaries include mFinance France, mCentrum Operacji, BDH Development, Garbary, Tele-Tech Investment and Future Tech.*

mFinanse

An open platform for financial services sale on the intermediaries market

The offer comprises loans, deposits, insurance products, investment and savings products for both individuals and companies

In Q1 2018, mFinanse reported an increase in mortgage loans sales by 27.0% quarter on quarter (PLN 508.6 million in Q1 2018 against PLN 400.6 million in Q4 2017). In the analysed period also the sales of cash loans were on the rise (PLN 139.1 million or +10.8% quarter on quarter compared with PLN 125.6 million in Q4 2017).

In Q1 2018, the sale of car loans dedicated to car dealers was higher compared with the previous quarter (PLN 86.4 million in Q1 2018 compared with PLN 65.2 million in Q4 2017). The subsidiary's sales results in the area of car leasing improved (PLN 15.7 million in Q1 2018 compared with PLN 12.3 million in Q4 2017).

In the analysed period the profit before tax stood at PLN 275.9 million, up by PLN 239.8 million quarter on quarter, driven by the completion of the sale of an organised part of enterprise of mFinanse and higher sales of mortgage and cash loans to individuals. After excluding the one-off transaction, the company's profit before tax was by PLN 20.9 million higher quarter on quarter.

mBank Hipoteczny

The mortgage bank with the longest track record of issuing covered bonds in the Polish capital market

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

Since 2000, mBank Hipoteczny (mBH) has been regularly issuing Polish covered bonds in line with the Polish issuance programme. In Q1 2018, mBank Hipoteczny did not issue covered bonds on the Polish capital market.

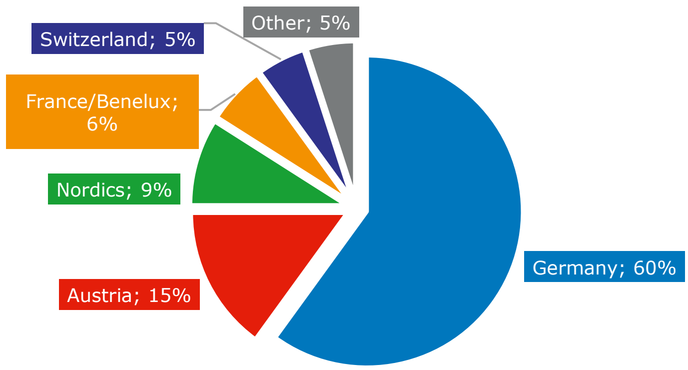
IFRS Condensed Consolidated Financial Statements for the first quarter 2018 PLN (000's)

Thanks to the establishment of an international covered bonds issuance programme in 2017, alignment of the issue format with European standards and distribution to a broad range of investors, the subsidiary placed a sub-benchmark EUR issue on very favourable conditions. For mBH it was the largest issue of covered bonds in its history (worth the equivalent of PLN 1,250 million). Placement details are given in the table below:

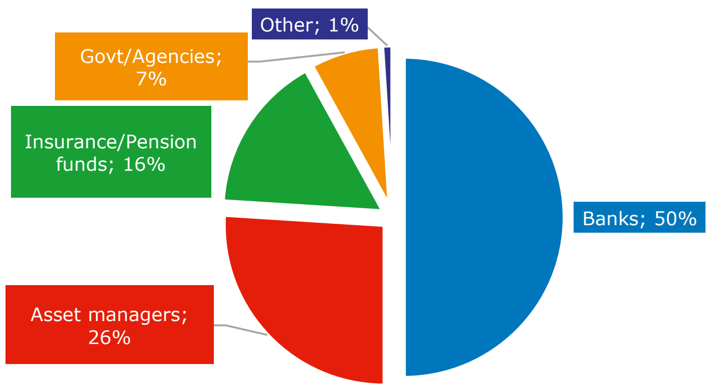
Volume	Currency	Date of issue	Maturity	Tenor (in years)	Coupon
300 million	EUR	26.04.2018	05.03.2025	7	1.073% (MS+42 bps)

More than 60 investors declared to purchase mBH's covered bonds worth jointly over EUR 800 million (2.7x value of the placed issue). After allocation, the transaction structure by geographic distribution and by investor type is presented below:

Distribution by investor location



Distribution by investor type



As of March 31, 2018, the total value of outstanding mortgage bonds issued by mBank Hipoteczny amounted to PLN 6,031.9 million.

Additionally, mBank Hipoteczny continues to issue unsecured bonds. At the end of Q1 2018, 15 series of unsecured bonds worth a total of PLN 477 million were issued. mBH offers zero-coupon and coupon bonds denominated in PLN with maturities ranging from two months to one year.

In Q1 2018, mBank Hipoteczny's gross loan portfolio totalled PLN 11.0 billion compared with PLN 10.9 billion at the end of Q4 2017. The portfolio remained at an almost unchanged level as a result of transferring the retail loan sales process to mBank in H2 2017. Moreover, Q1 is usually marked by a smaller number of signed credit agreements in the corporate portfolio.

The sales of commercial loans stood at PLN 343.3 million in Q1 2018. In March, the first pooling transaction worth a total of PLN 84.0 million was effected.

In Q1 2018, the subsidiary's profit before tax nearly tripled (to PLN 23.8 million) compared with the last quarter of 2017. To a large extent the result was helped by a release of loan loss provisions.

mLeasing

Financing offer in the form of leasing or rent, and car fleet management
4th position on the overall leasing market in Poland

The total value of contracts signed in Q1 2018 amounted to PLN 1,302 million compared with PLN 1,440 million in Q4 2017 (down by 9.6% quarter on quarter).

The value of new movable assets purchased by mLeasing in Q1 2018 reached PLN 1,242.4 million, resulting in a market share of 6.8%. In Q1 2018, the subsidiary financed real estate worth PLN 59.5 million, gaining a market share of 28.0%.

In Q1 2018, mLeasing generated a profit before tax of PLN 10.3 million, down by 43.1% quarter on quarter, due to higher risk costs (by PLN 8.7 million).

IFRS Condensed Consolidated Financial Statements for the first quarter 2018 PLN (000's)

Consolidated income statement

	Note	1st Quarter (current year) period from 01.01.2018 to 31.03.2018	1st Quarter (previous year) period from 01.01.2017 to 31.03.2017
Interest income	5	1 053 643	982 544
Interest expenses	5	(237 219)	(233 537)
Net interest income		**816 424**	**749 007**
Fee and commission income	6	429 498	407 105
Fee and commission expenses	6	(160 622)	(157 551)
Net fee and commission income		**268 876**	**249 554**
Dividend income	7	167	154
Net trading income, including:	8	84 493	76 897
Foreign exchange result		*71 427*	*76 407*
Gains or losses on financial assets and liabilities held for trading		*15 903*	*1 746*
Gains or losses from hedge accounting		*(2 837)*	*(1 256)*
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	9	(37 303)	*n/a*
Gains less losses from investment securities, investments in subsidiaries and associates	10	*n/a*	1 636
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates, including:	10	4 304	*n/a*
Gains less losses from debt securities measured at fair value through other comprehensive income		4 326	*n/a*
Gains less losses from investments in subsidiaries and associates		(22)	*n/a*
Other operating income	11	268 945	46 309
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	12	(84 471)	(82 921)
Overhead costs	13	(535 161)	(526 609)
Depreciation		(65 832)	(51 082)
Other operating expenses	14	(62 645)	(41 779)
Operating profit		**657 797**	**421 166**
Podatki od pozycji bilansowych Grupy		(98 463)	(91 305)
Share in profits (losses) of entities under the equity method		289	-
Profit before income tax		**559 623**	**329 861**
Income tax expense		(148 632)	(110 937)
Net profit		**410 991**	**218 924**
Net profit attributable to:			
- Owners of mBank S.A.		411 000	218 778
- Non-controlling interests		(9)	146

Net profit attributable to Owners of mBank S.A.		**411 000**	**218 778**
Weighted average number of ordinary shares	**15**	**42 312 122**	**42 280 127**
Earnings per share (in PLN)	**15**	**9.71**	**5.17**
Weighted average number of ordinary shares for diluted earnings	**15**	**42 338 162**	**42 309 758**
Diluted earnings per share (in PLN)	**15**	**9.71**	**5.17**

IFRS Condensed Consolidated Financial Statements for the first quarter 2018 PLN (000's)

Consolidated statement of comprehensive income

	1st Quarter (current year) period from 01.01.2018 to 31.03.2018	1st Quarter (previous year) period from 01.01.2017 to 31.03.2017
Net profit	**410 991**	**218 924**
Other comprehensive income net of tax, including:	**73 677**	**65 701**
Items that may be reclassified subsequently to the income statement		
Exchange differences on translation of foreign operations (net)	62	(180)
Cash flows hedges (net)	27 454	2 974
Change in valuation of available for sale financial assets (net)	*n/a*	62 901
Debt instruments at fair value through other comprehensive income (net)	44 218	*n/a*
Items that will not be reclassified to the income statement		
Actuarial gains and losses relating to post-employment benefits (net)	-	6
Fair value changes of equity instruments measured at fair value through other comprehensive income (net)	1 943	n/a
Total comprehensive income (net)	**484 668**	**284 625**
Total comprehensive income (net), attributable to:		
- Owners of mBank S.A.	484 677	284 479
- Non-controlling interests	(9)	146

IFRS Condensed Consolidated Financial Statements for the first quarter 2018 PLN (000's)

Consolidated statement of financial position

ASSETS	Note	31.03.2018	31.12.2017	31.03.2017
Cash and balances with the Central Bank		5 354 319	7 384 869	7 139 929
Financial assets held for trading and derivatives held for hedges	16	4 300 858	2 761 685	5 218 891
Loans and advances to banks	19	n/a	1 707 722	1 976 859
Non-trading financial assets mandatorily at fair value through profit or loss, including:	17	2 980 118	*n/a*	*n/a*
Equity instruments		40 854	*n/a*	*n/a*
Loans and advances to custumers		2 939 264	*n/a*	*n/a*
Investment securities	18	*n/a*	32 144 699	31 689 903
Financial assets at fair value through other comprehensive income	18	22 924 757	n/a	n/a
Loans and advances to customers	19	*n/a*	84 475 844	81 697 942
Financial assets at amortised cost, including:	19	95 224 858	n/a	n/a
Debt securities	19	*8 689 402*	*n/a*	*n/a*
Loans and advances to banks	19	*3 811 337*	*n/a*	*n/a*
Loans and advances to custumers	19	*82 724 119*	*n/a*	*n/a*
Investments in associates	20	28 969	28 680	-
Non-current assets and disposal groups classified as held for sale	21	42 014	42 134	-
Intangible assets	22	692 258	710 642	577 955
Tangible assets	23	730 463	758 738	737 261
Current income tax assets		11 432	9 688	5 656
Deferred income tax assets	27	737 819	629 250	526 898
Other assets		612 351	770 068	917 087
T o t a l a s s e t s		**133 640 216**	**131 424 019**	**130 488 381**
LIABILITIES AND EQUITY				
L i a b i l i t i e s				
Financial liabilities held for trading and derivatives held for hedges	24	900 830	1 095 365	1 557 117
Financial liabilities measured at amortised cost, including:		115 355 334	113 050 373	113 022 578
Amounts due to banks		4 475 332	5 073 351	8 767 287
Amounts due to customers	25	94 308 572	91 496 027	88 744 037
Debt securities issued		14 414 161	14 322 852	13 260 781
Subordinated liabilities		2 157 269	2 158 143	2 250 473
Fair value changes of the hedged items in portfolio hedge of interest rate risk		33 474	44 854	82 501
Provisions	26	264 791	190 975	178 659
Current income tax liabilities		145 895	179 685	66 465
Deferred income tax liabilities	27	81	81	1 179
Other liabilities		2 453 476	2 571 130	2 241 598
T o t a l l i a b i l i t i e s		**119 153 881**	**117 132 463**	**117 150 097**
E q u i t y				
Equity attributable to Owners of mBank S.A.		**14 484 158**	**14 289 370**	**13 310 733**
Share capital:		**3 564 176**	**3 564 176**	**3 551 096**
Registered share capital		169 248	169 248	169 121
Share premium		3 394 928	3 394 928	3 381 975
Retained earnings:		**10 728 812**	**10 574 294**	**9 708 255**
Profit from the previous years		10 317 812	9 482 764	9 489 477
Profit for the current year		411 000	1 091 530	218 778
Other components of equity		**191 170**	**150 900**	**51 382**
Non-controlling interests		**2 177**	**2 186**	**27 551**
T o t a l e q u i t y		**14 486 335**	**14 291 556**	**13 338 284**
T o t a l l i a b i l i t i e s a n d e q u i t y		**133 640 216**	**131 424 019**	**130 488 381**
Total capital ratio		**20.93**	**20.99**	**21.59**
Common Equity Tier 1 capital ratio		**17.87**	**18.31**	**18.76**
Book value		**14 484 158**	**14 289 370**	**13 310 733**
Number of shares		**42 312 122**	**42 312 122**	**42 280 127**
Book value per share (in PLN)		**342.32**	**337.71**	**314.82**

IFRS Condensed Consolidated Financial Statements for the first quarter 2018 PLN (000's)

Consolidated statement of changes in equity

Changes in equity from 1 January to 31 March 2018

	Share capital		Retained earnings					Other components of equity						
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year attributable to Owners of mBank S.A.	Exchange differences on translation of foreign operations	Valuation of financial assets at fair value through other comprehensive income	Cash flows hedges	Actuarial gains and losses relating to post-employment benefits	Equity attributable to Owners of mBank S.A., total	Non-controlling interests	Total equity
Equity as at 1 January 2018	169 248	3 394 928	7 727 317	93 634	1 153 753	1 599 590	-	(5 527)	168 393	(5 198)	(6 768)	14 289 370	2 186	14 291 556
Effects of changes in accounting policies	-	-	-	-	-	(260 179)	-	-	(33 407)	-	-	(293 586)	-	(293 586)
Restated equity as at 1 January 2018	**169 248**	**3 394 928**	**7 727 317**	**93 634**	**1 153 753**	**1 339 411**	**-**	**(5 527)**	**134 986**	**(5 198)**	**(6 768)**	**13 995 784**	**2 186**	**13 997 970**
Total comprehensive income							**411 000**	**62**	**46 161**	**27 454**	**-**	**484 677**	**(9)**	**484 668**
Transfer to supplementary capital	-	-	27 829	-	-	(27 829)	-	-	-	-	-	-	-	-
Other increase or decrease in equity	-	-	-	-	-	16	-	-	-	-	-	16	-	16
Stock option program for employees	**-**	**-**	**-**	**3 681**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3 681**		**3 681**
- value of services provided by the employees	-	-	-	*3 681*	-	-	-	-	-	-	-	*3 681*	-	*3 681*
Equity as at 31 March 2018	**169 248**	**3 394 928**	**7 755 146**	**97 315**	**1 153 753**	**1 311 598**	**411 000**	**(5 465)**	**181 147**	**22 256**	**(6 768)**	**14 484 158**	**2 177**	**14 486 335**

Changes in equity from 1 January to 31 December 2017

	Share capital		Retained earnings					Other components of equity						
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year attributable to Owners of mBank S.A.	Exchange differences on translation of foreign operations	Valuation of financial assets at fair value through other comprehensive income	Cash flows hedges	Actuarial gains and losses relating to post-employment benefits	Equity attributable to Owners of mBank S.A., total	Non-controlling interests	Total equity
Equity as at 1 January 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	**-**	**-**	**-**	**-**	**-**	**-**	**1 091 530**	**477**	**171 461**	**(3 653)**	**(3 066)**	**1 256 749**	**3 540**	**1 260 289**
Issuance of ordinary shares	127	-	-	-	-	-	-	-	-	-	-	127	-	127
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	(5 486)	(5 486)
Equity increase or decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	(23 273)	(23 273)
Transfer to supplementary capital	-	-	2 782 628	-	-	(2 782 628)	-	-	-	-	-	-	-	-
Transfer to General Risk Fund	-	-	-	-	22 300	(22 300)	-	-	-	-	-	-	-	-
Other increase or decrease in equity	-	-	-	-	-	38	-	-	-	-	-	38	-	38
Stock option program for employees	**-**	**12 953**	**-**	**(4 253)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**8 700**		**8 700**
- value of services provided by the employees	-	-	-	*8 700*	-	-	-	-	-	-	-	*8 700*	-	*8 700*
- settlement of exercised options	-	*12 953*	-	*(12 953)*	-	-	-	-	-	-	-	-	-	-
Equity as at 31 December 2017	**169 248**	**3 394 928**	**7 727 317**	**93 634**	**1 153 753**	**508 060**	**1 091 530**	**(5 527)**	**168 393**	**(5 198)**	**(6 768)**	**14 289 370**	**2 186**	**14 291 556**

Changes in equity from 1 January to 31 March 2017

	Share capital		Retained earnings					Other components of equity						
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year attributable to Owners of mBank S.A.	Exchange differences on translation of foreign operations	Valuation of financial assets at fair value through other comprehensive income	Cash flows hedges	Actuarial gains and losses relating to post-employment benefits	Equity attributable to Owners of mBank S.A., total	Non-controlling interests	Total equity
Equity as at 1 January 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	**-**	**-**	**-**	**-**	**-**	**-**	**218 778**	**(180)**	**62 901**	**2 974**	**6**	**284 479**	**146**	**284 625**
Transfer to supplementary capital	-	-	2 782 628	-	-	(2 782 628)	-	-	-	-	-	-	-	-
Transfer to General Risk Fund	-	-	-	-	22 300	(22 300)	-	-	-	-	-	-	-	-
Stock option program for employees	**-**	**-**	**-**	**2 498**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2 498**		**2 498**
- value of services provided by the employees	-	-	-	*2 498*	-	-	-	-	-	-	-	*2 498*	-	*2 498*
Equity as at 31 March 2017	**169 121**	**3 381 975**	**7 727 317**	**100 385**	**1 153 753**	**508 022**	**218 778**	**(6 184)**	**59 833**	**1 429**	**(3 696)**	**13 310 733**	**27 551**	**13 338 284**

IFRS Condensed Consolidated Financial Statements for the first quarter 2018 PLN (000's)

Consolidated statement of cash flows

	Period from 01.01.2018 to 31.03.2018	Period from 01.01.2017 to 31.03.2017
A. Cash flows from operating activities	**5 479 087**	**(2 332 090)**
Profit before income tax	**559 623**	**329 861**
Adjustments:	***4 919 464***	***(2 661 951)***
Income taxes paid	(255 521)	(168 689)
Amortisation, including amortisation of fixed assets provided under operating lease	77 091	63 219
Foreign exchange (gains) losses related to financing activities	43 026	(480 158)
(Gains) losses on investing activities	(5 727)	(1 832)
Dividends received	(167)	(154)
Interest income (income statement)	(1 053 643)	(982 544)
Interest expense (income statement)	237 219	233 537
Interest received	1 049 131	960 255
Interest paid	(235 990)	(180 986)
Changes in loans and advances to banks	2 651 335	96 418
Changes in financial assets and liabilities held for trading and derivatives held for hedges	(58 227)	145 146
Changes in loans and advances to customers	(1 528 688)	(1 141)
Changes in investment securities	n/a	(127 191)
Changes in financial assets at fair value through other comprehensive income	554 315	n/a
Changes in securities at amortised cost	(285 970)	n/a
Changes of investments in subsidiaries and associates	(289)	n/a
Changes of non-trading equity securities mandatorily at fair value through profit or loss	(57)	n/a
Changes in other assets	160 090	(41 900)
Changes in amounts due to other banks	(597 957)	568 816
Changes in amounts due to customers	4 071 194	(2 457 876)
Changes in debt securities in issue	190 328	(376 345)
Changes in provisions	29 492	(4 095)
Changes in other liabilities	(121 521)	93 569
Net cash generated from/(used in) operating activities	**5 479 087**	**(2 332 090)**
B.Cash flows from investing activities	**328 457**	**(104 600)**
Investing activity inflows	**427 225**	**12 940**
Disposal of intangible assets and tangible fixed assets	10 518	12 786
Dividends received	167	154
Other investing inflows	416 540	-
Investing activity outflows	**98 768**	**117 540**
Purchase of intangible assets and tangible fixed assets	98 768	117 540
Net cash generated from/(used in) investing activities	**328 457**	**(104 600)**
C. Cash flows from financing activities	**(1 416 231)**	**(754 872)**
Financing activity inflows	**272 000**	**899 340**
Issue of debt securities	272 000	899 340
Financing activity outflows	**1 688 231**	**1 654 212**
Repayments of loans and advances from other banks	1 253 210	-
Repayments of other loans and advances	-	6 754
Redemption of debt securities	406 000	-
Decrease of subordinated liabilities	-	1 611 840
Payments of financial lease liabilities	123	151
Interest paid from loans and advances received from other banks and from subordinated liabilities	28 898	35 467
Net cash generated from/(used in) financing activities	**(1 416 231)**	**(754 872)**
Net increase / decrease in cash and cash equivalents (A+B+C)	**4 391 313**	**(3 191 562)**
Effects of exchange rate changes on cash and cash equivalents	7 480	(86 587)
Cash and cash equivalents at the beginning of the reporting period	9 824 260	15 000 049
Cash and cash equivalents at the end of the reporting period	**14 223 053**	**11 721 900**

IFRS Condensed Consolidated Financial Statements for the first quarter 2018 PLN (000's)

mBank S.A. stand-alone financial information

Income statement

	Note	1st Quarter (current year) period from 01.01.2018 to 31.03.2018	1st Quarter (previous year) period from 01.01.2017 to 31.03.2017
Interest income		920 975	862 990
Interest expenses		(201 062)	(205 267)
Net interest income		**719 913**	**657 723**
Fee and commission income		368 119	337 777
Fee and commission expenses		(141 898)	(135 600)
Net fee and commission income		**226 221**	**202 177**
Dividend income		167	154
Net trading income, including:		85 729	81 580
Foreign exchange result		*71 251*	*79 140*
Gains or losses on financial assets and liabilities held for trading		*15 305*	*3 323*
Gains or losses from hedge accounting		*(827)*	*(883)*
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss		(37 928)	*n/a*
Gains less losses from investment securities, investments in subsidiaries and associates		*n/a*	1 636
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates		1 752	*n/a*
Gains less losses from debt securities measured at fair value through other comprehensive income		4 189	*n/a*
Gains less losses from investments in subsidiaries and associates		(22)	*n/a*
Gains less losses from derecognition		(2 415)	*n/a*
Other operating income		10 108	9 702
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss		(76 967)	(80 264)
Overhead costs		(477 985)	(466 346)
Depreciation		(59 604)	(45 379)
Other operating expenses		(52 192)	(15 355)
Operating profit		**339 214**	**345 628**
Podatki od pozycji bilansowych Grupy		(91 928)	(85 754)
Share in profits (losses) of entities under the equity method		252 553	52 802
Profit before income tax		**499 839**	**312 676**
Income tax expense		(85 607)	(96 934)
Net profit		**414 232**	**215 742**

Net profit attributable to Owners of mBank S.A.		**414 232**	**215 742**
Weighted average number of ordinary shares	**15**	**42 312 122**	**42 280 127**
Earnings per share (in PLN)	**15**	**9.79**	**5.10**
Weighted average number of ordinary shares for diluted earnings	**15**	**42 338 162**	**42 309 758**
Diluted earnings per share (in PLN)	**15**	**9.78**	**5.10**

IFRS Condensed Consolidated Financial Statements for the first quarter 2018 PLN (000's)

mBank S.A. stand-alone financial information

Statement of comprehensive income

	1st Quarter (current year) period from 01.01.2018 to 31.03.2018	1st Quarter (previous year) period from 01.01.2017 to 31.03.2017
Net profit	**414 232**	**215 742**
Other comprehensive income net of tax, including:	**72 389**	**64 961**
Items that may be reclassified subsequently to the income statement		
Exchange differences on translation of foreign operations (net)	54	(44)
Cash flows hedges (net)	27 454	2 974
Share of other comprehensive income of entities under the equity method (net)	1 074	543
Change in valuation of available for sale financial assets (net)	n/a	61 488
Debt instruments at fair value through other comprehensive income (net)	41 864	n/a
Items that will not be reclassified to the income statement		
Fair value changes of equity instruments measured at fair value through other comprehensive income (net)	1 943	n/a
Total comprehensive income (net)	**486 621**	**280 703**

IFRS Condensed Consolidated Financial Statements for the first quarter 2018 PLN (000's)

mBank S.A. stand-alone financial information

Statement of financial position

ASSETS	31.03.2018	31.12.2017	31.03.2017
Cash and balances with the Central Bank	5 351 345	7 383 518	7 048 466
Financial assets held for trading and derivatives held for hedges	4 509 851	2 781 351	5 258 587
Loans and advances to banks	*n/a*	6 063 702	6 421 898
Non-trading financial assets mandatorily at fair value through profit or loss, including:	2 730 042	*n/a*	*n/a*
Equity instruments	9 785	*n/a*	*n/a*
Loans and advances to custumers	2 720 257	*n/a*	*n/a*
Investment securities	*n/a*	31 110 560	30 725 152
Financial assets at fair value through other comprehensive income	22 248 386	*n/a*	*n/a*
Loans and advances to customers	*n/a*	73 431 738	72 039 727
Financial assets at amortised cost, including:	88 365 019	*n/a*	*n/a*
Debt securities	8 689 403	*n/a*	*n/a*
Loans and advances to credit institutions	8 139 575	*n/a*	*n/a*
Loans and advances to custumers	71 536 041	*n/a*	*n/a*
Investements in subsidiaries	2 294 043	2 060 847	1 954 946
Investments in associates	28 969	28 680	-
Tangible assets	626 931	648 191	531 731
Intangible assets	494 868	509 773	461 542
Current income tax assets	9 387	6 558	2 793
Deferred income tax assets	165 744	129 037	114 137
Other assets	412 293	415 528	390 281
AKTYWA RAZEM	**127 236 878**	**124 569 483**	**124 949 260**

LIABILITIES AND EQUITY			
Liabilities			
Financial liabilities held for trading and derivatives held for hedges	935 692	1 141 035	1 619 272
Financial liabilities measured at amortised cost, including:	109 613 397	106 579 430	107 895 786
Amounts due to banks	4 535 788	5 089 716	8 831 905
Amounts due to customers	102 920 340	99 331 571	96 813 408
Subordinated liabilities	2 157 269	2 158 143	2 250 473
Fair value changes of the hedged items in portfolio hedge of interest rate risk	18 245	27 046	59 516
Provisions	261 388	190 914	178 585
Current income tax liabilities	49 893	172 003	64 422
Deferred income tax liabilities	81	81	82
Other liabilities	1 873 334	2 171 413	1 824 593
Total liabilities	**112 752 030**	**110 281 922**	**111 642 256**
Equity			
Share capital:	**3 564 176**	**3 564 176**	**3 551 096**
Registered share capital	169 248	169 248	169 121
Share premium	3 394 928	3 394 928	3 381 975
Retained earnings:	**10 730 075**	**10 572 341**	**9 705 130**
- Profit from the previous years	10 315 843	9 482 637	9 489 388
- Profit for the current year	414 232	1 089 704	215 742
Other components of equity	**190 597**	**151 044**	**50 778**
Total equity	**14 484 848**	**14 287 561**	**13 307 004**
Total liabilities and equity	**127 236 878**	**124 569 483**	**124 949 260**

Total capital ratio	**24.27**	**24.62**	**25.39**
Common Equity Tier 1 capital ratio	**20.76**	**21.51**	**22.10**
Book value	**14 484 848**	**14 287 561**	**13 307 004**
Number of shares	**42 312 122**	**42 312 122**	**42 280 127**
Book value per share (in PLN)	**342.33**	**337.67**	**314.73**

IFRS Condensed Consolidated Financial Statements for the first quarter 2018 PLN (000's)

mBank S.A. stand-alone financial information

Statement of changes in equity

Changes in equity from 1 January to 31 March 2018

	Share capital		Retained earnings					Other components of equity					Total equity
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	Exchange differences on translation of foreign operations	Valuation of financial assets at fair value through other comprehensive income	Cash flows hedges	Share in profits (losses) of entities under the equity method	Actuarial gains and losses relating to post-employment benefits	
Equity as at 1 January 2018	169 248	3 394 928	7 145 517	22 638	1 115 143	2 289 043	-	(5 336)	164 413	(5 198)	3 770	(6 605)	14 287 561
Effects of changes in accounting policies	-	-	-	-	-	(260 179)	-	-	(32 836)	-	-	-	(293 015)
Restated equity as at 1 January 2018	**169 248**	**3 394 928**	**7 145 517**	**22 638**	**1 115 143**	**2 028 864**	**-**	**(5 336)**	**131 577**	**(5 198)**	**3 770**	**(6 605)**	**13 994 546**
Total comprehensive income							**414 232**	**54**	**43 807**	**27 454**	**1 074**	**-**	**486 621**
Stock option program for employees	**-**	**-**	**-**	**3 681**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3 681**
- value of services provided by the employees	-	-	-	*3 681*	-	-	-	-	-	-	-	-	*3 681*
Equity as at 31 March 2018	**169 248**	**3 394 928**	**7 145 517**	**26 319**	**1 115 143**	**2 028 864**	**414 232**	**(5 282)**	**175 384**	**22 256**	**4 844**	**(6 605)**	**14 484 848**

Changes in equity from 1 January to 31 December 2017

	Share capital		Retained earnings					Other components of equity					Total equity
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	Exchange differences on translation of foreign operations	Valuation of financial assets at fair value through other comprehensive income	Cash flows hedges	Share in profits (losses) of entities under the equity method	Actuarial gains and losses relating to post-employment benefits	
Equity as at 1 January 2017	169 121	3 381 975	4 384 011	26 891	1 095 143	3 980 845	-	(5 953)	(2 431)	(1 545)	(737)	(3 517)	13 023 803
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**1 089 704**	**617**	**166 844**	**(3 653)**	**4 507**	**(3 088)**	**1 254 931**
Issuance of ordinary shares	127	-	-	-	-	-	-	-	-	-	-	-	127
Transfer to supplementary capital	-	-	2 761 506	-	-	(2 761 506)	-	-	-	-	-	-	-
Transfer to General Risk Fund	-	-	-	-	20 000	(20 000)	-	-	-	-	-	-	-
Stock option program for employees	**-**	**12 953**	**-**	**(4 253)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**8 700**
- value of services provided by the employees	-	-	-	*8 700*	-	-	-	-	-	-	-	-	*8 700*
- settlement of exercised options	-	*12 953*	-	*(12 953)*	-	-	-	-	-	-	-	-	-
Equity as at 31 December 2017	**169 248**	**3 394 928**	**7 145 517**	**22 638**	**1 115 143**	**1 199 339**	**1 089 704**	**(5 336)**	**164 413**	**(5 198)**	**3 770**	**(6 605)**	**14 287 561**

Changes in equity from 1 January to 31 March 2017

	Share capital		Retained earnings					Other components of equity					Total equity
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	Exchange differences on translation of foreign operations	Valuation of financial assets at fair value through other comprehensive income	Cash flows hedges	Share in profits (losses) of entities under the equity method	Actuarial gains and losses relating to post-employment benefits	
Equity as at 1 January 2017	169 121	3 381 975	4 384 011	26 891	1 095 143	3 980 845	-	(5 953)	(2 431)	(1 545)	(737)	(3 517)	13 023 803
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**215 742**	**(44)**	**61 488**	**2 974**	**543**	**-**	**280 703**
Transfer to supplementary capital	-	-	2 761 506	-	-	(2 761 506)	-	-	-	-	-	-	-
Transfer to General Risk Fund	-	-	-	-	20 000	(20 000)	-	-	-	-	-	-	-
Other increase or decrease in equity	-	-	-	-	-	-	-	-	-	-	-	-	-
Stock option program for employees	**-**	**-**	**-**	**2 498**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2 498**
- value of services provided by the employees	-	-	-	*2 498*	-	-	-	-	-	-	-	-	*2 498*
Equity as at 31 March 2017	**169 121**	**3 381 975**	**7 145 517**	**29 389**	**1 115 143**	**1 199 339**	**215 742**	**(5 997)**	**59 057**	**1 429**	**(194)**	**(3 517)**	**13 307 004**

IFRS Condensed Consolidated Financial Statements for the first quarter 2018 PLN (000's)

mBank S.A. stand-alone financial information

Statement of cash flows

	Period from 01.01.2018 to 31.03.2018	Period from 01.01.2017 to 31.03.2017
A. Cash flows from operating activities	**5 791 663**	**(2 207 622)**
Profit before income tax	**499 839**	**312 676**
Adjustments:	***5 291 824***	***(2 520 298)***
Income taxes paid	(199 956)	(108 464)
Amortisation, including depreciation of fixed assets under operating lease	59 604	45 379
Foreign exchange (gains) losses related to financing activities	43 113	(480 158)
(Gains) losses on investing activities	(256 588)	(54 612)
Interest income (income statement)	(167)	(154)
Interest expense (income statement)	(920 975)	(862 990)
Interest received	201 062	205 267
Interest paid	943 789	894 876
Changes in loans and advances to banks	(215 033)	(194 317)
Changes in financial assets and liabilities held for trading and derivatives held for hedges	2 714 355	(140 269)
Changes in loans and advances to customers	(18 075)	161 576
Changes in trading securities	(1 118 628)	168 131
Changes in investment securities	n/a	(88 154)
Changes in financial assets at fair value through other comprehensive income	119 559	n/a
Changes in securities at amortised cost	(169 231)	n/a
Changes of investments in subsidiaries and associates	(22 819)	n/a
Changes of non-trading equity securities mandatorily at fair value through profit or loss	111	n/a
Changes in other assets	9 146	(14 007)
Changes in amounts due to banks	658 366	615 787
Changes in amounts due to customers	3 732 294	(2 750 673)
Changes in provisions	29 568	(4 063)
Changes in other liabilities	(297 671)	86 547
Net cash generated from/(used in) operating activities	**5 791 663**	**(2 207 622)**
B.Cash flows from investing activities	**(87 344)**	**(84 747)**
Investing activity inflows	**330**	**377**
Disposal of shares in subsidiaries	100	-
Disposal of intangible assets and tangible fixed assets	63	223
Dividends received	167	154
Investing activity outflows	**87 674**	**85 124**
Purchase of intangible assets and tangible fixed assets	87 674	85 124
Net cash generated from/(used in) investing activities	**(87 344)**	**(84 747)**
C. Cash flows from financing activities	**(1 285 122)**	**(984 184)**
Financing activity inflows	**-**	**791 720**
Security deposit due to issue of Eurobonds	-	791 720
Financing activity outflows	**1 285 122**	**1 775 904**
Repayments of loans and advances from banks	1 253 210	-
Repayments of other loans and advances	-	6 754
Acquisition of shares in subsidiaries - increase of involvement	1 300	120 000
Decrease of subordinated liabilities	-	1 611 840
Payments of financial lease liabilities	1 714	1 843
Interest paid from loans and advances received from banks and subordinated liabilities	28 898	35 467
Net cash generated from/(used in) financing activities	**(1 285 122)**	**(984 184)**
Net increase / decrease in cash and cash equivalents (A+B+C)	**4 419 197**	**(3 276 553)**
Effects of exchange rate changes on cash and cash equivalents	7 480	(86 587)
Cash and cash equivalents at the beginning of the reporting period	9 750 574	14 987 684
Cash and cash equivalents at the end of the reporting period	**14 177 251**	**11 624 544**

Explanatory notes to the consolidated financial statements

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

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

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

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

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

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

As at 31 March 2018, mBank S.A. Group covered by the condensed consolidated financial statements comprised the following companies:

mBank S.A., the parent entity

mBank S.A. was established under the name of Bank Rozwoju Eksportu SA by Resolution of the Council of Ministers N° 99 of 20 June 1986. The Bank was registered pursuant to the legally valid decision of the District Court for the Capital City of Warsaw, 16th Economic Registration Division, on 23 December 1986 in the Business Register under the number RHB 14036. The 9th Extraordinary Meeting of Shareholders held on 4 March 1999 adopted the resolution changing the Bank's name to BRE Bank SA. The new name of the Bank was entered in the Business Register on 23 March 1999. On 11 July 2001, the District Court in Warsaw issued the decision on the entry of the Bank in the National Court Register (KRS) under number KRS 0000025237.

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

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

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

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

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

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

As at 31 March 2018 the headcount of mBank S.A. amounted to 5 673 FTEs (Full Time Equivalents) and of the Group to 6 346 FTEs (31 March 2017: Bank 5 352 FTEs, Group 6 507 FTEs).

As at 31 March 2018 the employment in mBank S.A. was 6 415 persons and in the Group 8 556 persons (31 March 2017: Bank 6 292 persons, Group 8 379 persons).

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

Corporates and Financial Markets Segment, including:

Corporate and Investment Banking

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

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
- BDH Development Sp. z o.o., subsidiary
- Future Tech Fundusz Inwestycyjny Zamknięty, subsidiary

Other information concerning companies of the Group

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

2. Description of relevant accounting policies

The most important accounting policies applied to the drafting of these consolidated financial statements are presented below. The accounting principles adopted by the Group were applied on an ongoing basis for all periods presented in the financial statements, except for the accounting principles applied in connection with the implementation of IFRS 9 as of 1 January 2018, as described in detail under Note 2.31. Comparative data.

2.1. Accounting basis

The Consolidated Financial Statements of mBank S.A. Group have been prepared for the 3-month period ended 31 March 2018.

The Consolidated Financial Statements of mBank S.A. Group have been prepared in compliance with the International Financial Reporting Standards (IFRS) as adopted for use in the European Union, according to the historical cost method, as modified by the revaluation of available for sale financial assets, financial assets and financial liabilities measured at fair value through profit or loss, all derivative contracts, liabilities related to cash-settled share-based payment transactions measured at fair value as well as financial assets and liabilities under hedge accounting. Non-current assets held for sale or group of these assets classified as held for sale are stated at the lower of the carrying value and fair value less costs to sell.

The preparation of the financial statements in compliance with IFRS requires the application of specific accounting estimates. It also requires the Management Board to use its own judgment when applying the accounting policies adopted by the Group. The issues in relation to which a significant professional judgement is required, more complex issues, or such issues where estimates or judgments are material to the consolidated financial statements are disclosed in Note 4.

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

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

2.2. Consolidation

Subsidiaries

Subsidiaries comprise entities, regardless of the nature of the involvement with an entity (including special purpose vehicles) over which the Group controls the investee. The control is achieved when the Group has power over the investee, is exposed or has rights, to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. When the Group has less than a majority of the voting rights of an investee, it considers all relevant facts and circumstances in assessing whether it has power over the investee, including a contractual arrangements between the Group and other vote holders, rights arising from other contractual arrangements, the Group's voting rights and potential voting rights. If facts and circumstances indicate that there are changes in at least one of the three elements of control listed above, the Group reassess whether it controls an investee. The consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. The consolidated financial statements combine items of assets, liabilities, equity, income and expenses of the parent with those of its subsidiaries eliminating the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary. Thus arises goodwill. If goodwill has negative value, it is recognised directly in the income statement (see Note 2.20). The profit or loss and each component of other comprehensive income is attributed to the Group's owners and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. If the Group loses control of a subsidiary, it shall account for all amounts previously recognised in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Group had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group shall reclassify the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses control of the subsidiary. If a revaluation surplus previously recognised in other comprehensive income would be transferred directly to retained earnings on the disposal of the assets, the Group shall transfer the revaluation surplus directly to retained earnings when it loses control of the subsidiary.

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

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

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

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

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

IFRS Condensed Consolidated Financial Statements for the first quarter 2018 PLN (000's)

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

	31.03.2018		31.12.2017		31.03.2017	
Company	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method
mFinanse S.A.	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	98.04%	full	98.04%	full	-	-
mFinance France S.A.	99.998%	full	99.998%	full	99.998%	full
mLocum S.A.	28.99%	-	28.99%	-	79.99%	full

The mLocum S.A. company was consolidated until 31 July 2017, i.e. until the date of sale of 51% of its shares. From that date, the company is presented under the item "Investments in associates".

Beginning from June 2017, the Group started to consolidate the Fund Future Tech Fundusz Inwestycyjny Zamknięty.

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 accounted for 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 recognized in the income statement as well as interest income from financial assets measured at fair value through profit or loss and measured at fair value through other comprehensive income.

The effective interest rate method is a method of calculation of the amortised initial value of financial assets or financial liabilities and allocation of interest income or interest expense to the proper periods. The effective interest rate is the interest rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial assets or financial liability to the gross carrying amount of a financial asset or to the amortized cost of a financial liability. When calculating the effective interest rate, the Bank estimates the expected cash flows taking into account all the contractual terms of the financial instrument, but without taking into account the expected credit losses. This calculation takes into account all the fees and points 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.

In case of reclassification to the stage 3 of a financial asset or a group of similar financial assets, the interest income is calculated on the net value of financial assets and recognized using the interest rate at which the future cash flows were discounted for the purpose of valuation of impairment.

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

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

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

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

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

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

2.5. 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 Group does not receive remuneration from the sale of insurance products which would have been treated as bundled 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 profit or loss, financial assets valued at fair value through other comprehensive income and financial assets valued at amortized cost. Classification of the financial asset to the one of the above categories takes place at its initial recognition based on business model for managing financial assets and contractual cash flow characteristics.

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

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

Financial instruments valued at fair value through profit or loss

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

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

If a contract contains one or more embedded derivatives and the host is not an asset within the scope of IFRS 9, the Group may designate the entire hybrid (combined) contract as a financial asset or financial liability at fair value through profit or loss 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 may, at the initial recognition, irrevocably designate a the financial assets/financial liabilities at fair value through profit or loss when doing so results in more relevant information, because either:

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

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 recognized in net interest income. The valuation and result on disposal of financial assets/financial liabilities designated at fair value is recognized 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 profit or loss.

Financial assets measured at at amortized cost

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

Financial assets measured at fair value through other comprehensive income

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

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

Financial assets measured at fair value through other comprehensive income and financial assets measured at fair value through profit or loss are valued at the end of the reporting period according to their fair value. Financial assets measured at amortized cost, 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 profit or loss" are recognized in the income statement in the period in which they arise.

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

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

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.

Equity instruments

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

In case of the financial instruments for which the option of measurement at fair value through other comprehensive income was used, the requirements regarding impairment are not applied. All gains and losses related to change in fair value, including foreign exchange differences, are recognized in other comprehensive income. There is no possibility to reclassify them to profit and loss even if the instrument is derecognized. Only dividends received related to these instruments are recognized in profitand loss. Taking above into account equity instruments for which fair value through other comprehensive income option was used are out of scope impairment requirements.

Modification of contractual terms for financial assets

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

- Substantial increase of the credit amount of more than 10%
- Substantial prolongation of the contractual maturity of more than 12 months
- Change of currency no provided in the terms of the contract. Change of the currency provided in the terms of the agreement is such a change that defines both the rate at which it would have place and the interest rate of the loan after the change of the currency.
- Change of the borrower – only if the current borrower is exempted from the debt
- Change of the cash flow criterion from 'SPPI compliance' of a financial assets to 'SPPI non-compliance' and vice versa
- Change of the financed asset in case of object finance or project finance.

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

Purchased or originated credit impaired financial assets (POCI assets)

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

Reclassification of financial assets

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

Finnacial liabilities are not subject to reclassification by the Group.

The accounting principles applied by the Group until 31 December 2017 in the scope of classification and measurement of financial instruments are described in Note 2 of the IFRS Consolidated Financial Statements of the mBank S.A. Group for 2017, published on 28 February 2018.

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

Financial instruments subject to estimation of allowance and provision are: financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income, loan commitments if not measured at fair value through profit or loss, financial guarantee contracts if not measured at fair value through profit or loss, leases under IAS 17, contract assets under IFRS 15, as well as trading receivables.

How exposures are classified to stages

The transfer logic is an algorithm used to classify exposures to one of the four Stages: 1, 2, 3, POCI. Stage 1 includes exposures for which provisions/write-downs are calculated on a 12-month basis. Stage 2 contains exposures for which, as at the reporting date, a significant deterioration in credit quality was identified compared to the date of their initial recognition – provisions/write-downs are calculated on a lifetime period. Stage 3 contains exposures identified as credit-impaired, while Stage POCI contains assets identified as credit-impaired at initial recognition. Once the quantitative or qualitative criteria that were used to classify the exposure in Stage 2 at the reporting date are no longer met, (the client and the exposure assigned to him or her no longer meet any of the Transfer Logic qualitative criteria or quantitative criteria), the exposure will be moved from Stage 2 to Stage 1. The exposure may also be transferred from Stage 3 to Stage 2 and from Stage 3 to Stage 1 (when no longer credit-impaired).

In case of non-financial guarantees, the Bank applied a simplified approach that the write-offs and provisions are always included in the amount Lt ECL (Stage 2).

Impairment corporate portfolio

Corporate exposures are deemed to be credit-impaired where the results of an impairment test demonstrate the need to establish valuation allowances/provisions. A client is reclassified as in default when one or more of the following criteria are met:

- any of the exposures representing the client's loan commitment to the Bank, its parent company or subsidiary is more than 90 days past due (for exposures payable to banks – more than 14 days). In the case of committed lines, the exposure is deemed to be past due on the date a specified limit is exceeded, a new limit – lower than the loan amount used – is introduced or when a loan amount is used without the consent of the Bank.
- The Bank considers the client as unlikely to fully meet its loan commitments to the Bank, its parent company or subsidiary, demonstrating the need for corrective or restructuring measures or the exercise of collateral rights on the part of the Bank.

Impairment retail portfolio

In case of retail exposures, the identification of impaired exposure reflects the separation of exposure in the Bank's loan portfolio, for which at least one impairment trigger is active and the write-down value is different than zero. The impairment trigger for the retail exposure is:

- a discrete event or an ongoing situation based on which, taking into account all information possessed, the Bank acknowledges that without realizing the collaterals the debtor will not fully repay the Bank's receivables due to this exposure or
- the situation where, in accordance with loan agreement relating to this exposure, the collateral has been realized fully or partially, (cash flows have occurred), however the Bank's receivable related to this exposure has not been fully repaid.

The events/situations determined by the Bank take place after the initial recognition of balance sheet loan exposure in Bank's books and affect the expected future cash flows due to the above exposure and it is possible to reliably estimate the impact.

Retail exposures are considered to be in default, if the following criterion is met:

- where at least one loan commitment of the debtor is past due for more than 90 days and
- where a total amount of past due credit exposures of the debtor (more than 31 days past due) exceeds the threshold amount.

In the case of retail exposures of mBank's foreign branches, the following must be taken into account:

- the main criterion for recognition as credit-impaired,
- additional criteria for recognition as credit-impaired.

The main criterion for recognizing a retail exposure as credit-impaired is deemed to be met when the exposure is more than 90 days past due, with the overdue amount exceeding the materiality threshold specified for each country on a separate basis (in national currency).

Significant deterrioration

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

Qualitative criteria

Qualitative criteria are:

- Where an amount is more than 30 days past due (days past due, with an activation threshold) – the number of days for which the longest overdue amount of the exposure concerned is greater than or equal to 31 days).
- Occurrence of the Forborne flag (the client status shows that he or she is experiencing difficulties in repaying the loan commitment, as defined by the Bank).
- Occurrence of the Watch flag (the Bank's internal process designed to identify corporate clients who are subject to increased monitoring in terms of changes in credit quality, in accordance with the Watch List classification rules adopted by the Bank).

Quantitative criteria

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

Low credit risk

For exposures whose characteristics are indicative of low credit risks (LCR), expected credit losses are always determined on a 12-month basis. Exposures designated as LCR may not be transferred from Stage 1 to Stage 2, although they can be moved from Stage 1 to Stage 3 upon being recognized as credit-impaired. At the moment of implementing the IFRS 9, the Bank applies the LCR criterion to clients from the K1 segment with a PD rating grade greater than or equal to class 2.8. The LCR criterion is also applied to clients from segments such as: Governments and Banks, JST and NBFI (Non-Banking Financial Institution).

Rebuttable presumption

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

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

Estimating expected credit losses (ECL)

Valuation allowances and provisions are measured at the level of a single contract or exposure (agreement) by measuring expected credit losses (ECL). In the portfolio approach, expected credit losses are the multiplication of individual for each exposure estimated value of PD, LGD and EAD and the final value of expected credit losses is the sum of expected credit losses in particular periods discounted with the effective interest rate. If on the reporting date the exposure credit risk did not increase significantly since the initial recognition, the Bank calculates impairment provisions in the amount equal to 12-month expected credit losses (12m ECL). If the exposure credit risk increased significantly since the initial recognition (exposure is in the stage 2), the Bank calculates impairment provisions in the amount equal to life-time expected credit losses (Lt ECL). An expected loss is measured for non-zero exposures that are active at the reporting date (balance sheet and off-balance sheet). An expected credit loss is estimated separately for the balance- and off-balance-sheet part of the exposure. The parameters used to calculate an expected credit loss in Stage 1 are identical to those used to calculate a long-term credit loss in Stage 2 for t=1, where 't' stands for the first year of the forecast.

In the individual approach (all balance sheet and off-balance sheet credit exposures with an impairment in the corporate loan portfolio are treated as individually significant), the expected credit losses are calculated as a difference between the gross carrying amount of the asset and the present value of the estimated future cash flows discounted with the effective interest rate. The method of calculating the expected recoveries takes place in scenarios and depends on the Bank's chosen strategy for the client. In case of restructuring strategy, the scenarios considered assume a significant share of recoveries from the customer's own payments. In case of vindication strategy, the scenarios are based on collateral recoveries.

Use of macroeconomics scenarios in ECL estimation

The Bank is required to set an expected credit loss in a way which meets the expectations for various forward-looking macroeconomic scenarios in case of portfolio estimation of ECL. Therefore, the non-linearity factor (NLF) is set in order to adjust the value of an expected credit loss (calculated every month). The NLF factor is determined separately for retail and corporate segments at least once a year. NLFs are used as scaling factors for individual ECLs (both 12-month and lifetime) that are determined at the level of individual exposures in each segment. NLFs are calculated based on results from 3 simulation calculations at the same reporting date, which result from relevant macroeconomic scenarios.

In particular, NLF for a given segment is calculated as:

1. the probability-weighted average of the expected loss from 3 macroeconomic scenarios ('average estimation') comprising:
   a) baseline scenario
   b) optimistic scenario
   c) pessimistic scenario

2. divided by the expected loss determined under baseline scenario (reference estimate).

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

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

Loan receivable write-off

Loan receivable write-off can be partial or total.

The accounting principles applied by the Group until 31 December 2017 regarding the impairment of financial assets are described under Note 2 of the IFRS Consolidated Financial Statements of the mBank S.A. Group for 2017, published on 28 February 2018.

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, cumulated amount of income recognized in accordance with IFRS 15 "*Revenue from contracts with customers*".

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.

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 sells or buys securities with a repurchase or resale clause specifying a contractual date and price. Such transactions are presented in the statement of financial position as financial assets measured at fair value through profit or loss or 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 in the financial statements with a gain or a loss included in trading income. The obligation to return them is recorded at fair value as amounts due to customers. Securities borrowed under "buy-sell-back" transactions and then lent under "sell-buy-back" transactions are not recognised as financial assets.

As a result of "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.

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

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

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

In accordance with IFRS 9: (i), there is no need to separate the prepayment option from the host debt instrument for the needs of financial statements, if the option's exercise price is approximately equal on each exercise date to the amortised cost of the host debt instrument. If the value of prepayment option was not to be closely related to the underlying debt instrument, the option should be separated and fair valued in the financial statements of the Bank; (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 and deposits taken 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 than the period of the lease contract,
Office equipment, furniture	5-10 years.

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

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

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

The carrying amount of tangible fixed assets is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from from the derecognition of tangible fixed assets are included in profit or loss when the item is derecognised. Gains 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 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, amortisation of fixed assets and intangible assets, finance leases treated as operating leases for tax purposes, revaluation of certain financial assets and liabilities, including contracts concerning derivative instruments and forward transactions, provisions for retirement benefits and other benefits following the period of employment, and also deductible tax losses.

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

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

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

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

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

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

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

2.22. 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".

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 recognized 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

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

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

2.26. 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. 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 due to dividends payable under "Other liabilities".

Other components of equity

Other components of equity result from:

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

2.28. 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 profit or loss are recognised under gains or losses arising in connection with changes of fair value.

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 valued through other comprehensive income cover foreign exchange differences arising from valuation at amortised cost, which are recognised in the income statement.

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

Companies belonging to the Group

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

- assets and liabilities in each presented statement of financial position are converted at the average rate of exchange of the National Bank of Poland (NBP) in force at the end of this reporting period,
- revenues and expenses in each income statement are converted at the rate equal to the arithmetical mean of the average rates quoted by NBP on the last day of each of 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 profit or loss 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 Bank provides custody, trustee, corporate administration, investment management and advisory services to third parties. In connection with these, the Bank makes decisions concerning the allocation, purchase and sale of a wide variety of financial instruments. Assets held in a fiduciary capacity are not included in these financial statements. The assets concerned are not shown in these financial statements as they do not belong to the Group.

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

2.30. 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 2018.

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

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

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

Standards and interpretations approved by the European Union:

- IFRS 16, *Leases*, published by the International Accounting Standards Board on 13 January 2016, approved by European Union on 31 October 2017, 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 operating lease assets and corresponding liability in the financial statements of the Group as lessor. 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 9, *Prepayment Features with Negative Compensation*, published by the International Accounting Standards Board on 12 October 2017, approved by European Union on 22 March 2018, binding for annual periods starting on or after 1 January 2019.

  Amendments to IFRS 9 introduce the statements with reference to contractual prepayment feature, when the lender could be forced to accept the prepayment amount that is substantially less than unpaid amounts of principal and interest. Such a prepayment amount would be a payment to the borrower from the lender, instead of compensation from the borrower to the lender. Such a financial asset would be eligible to be measured at amortized cost or fair value through other comprehensive income (subject to an assessment of the business model in which they are held), however, the negative compensation must be reasonable compensation for early termination of the contract.

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

Standards and interpretations not yet approved by the European Union:

- 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.

  IFRIC Interpretation 23 addresses, in particular, when there is uncertainty over income tax treatments, whether an entity considers uncertain tax treatments separately, what assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, tax rates and how an entity considers changes in facts and circumstances.

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

- Amendments to IAS 28, *Long-term Interests in Associates and Joint Ventures*, published by the International Accounting Standards Board on 12 October 2017, binding for annual periods starting on or after 1 January 2019.

Amendments to IAS 28 clarify that an entity applies IFRS 9 'Financial Instruments' to other financial instruments in an associate or joint venture to which the equity method is not applied. These instruments include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. In amendments to IAS 28 it has been clarified that the requirements of IFRS 9 apply to long-term interests before an entity applies share of losses requirements from IAS28 and in applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28.

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

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

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

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

- Annual Improvements to IFRS Standards 2015-2017 Cycle, published by the International Accounting Standards Board on 12 December 2017, binding for annual periods starting on or after 1 January 2019.

  The improvements to the following standards were implemented during the cycle: IFRS 3 in terms of clarifying that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business, IFRS 11 in terms of clarifying that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business, IAS 12 in terms of clarifying that all income tax consequences of dividends (i.e. distribution of profits) should be recognized in profit or loss, regardless of how the tax arises, IAS 23 in terms of clarifying that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

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

- Amendments to IAS 19, *Plan Amendment, Curtailment or Settlement*, published by the International Accounting Standards Board on 7 February 2018, binding for annual periods starting on or after 1 January 2019.

  Amendments to IAS 19 specifies how an entity determines pension expenses when changes to a defined benefit pension plan occur. IAS 19 'Employee Benefits' specifies how an entity accounts for a defined benefit plan. When a change to a plan – an amendment, curtailment or settlement- takes place, IAS 19 requires an entity to remeasure its net defined benefit liability or asset. The amendments require an entity to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements.

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

2.31. Comparative data

On 24 July 2014 the International Accounting Standards Board (IASB) issued a new International Financial Reporting Standard – IFRS 9, Financial instruments effective for annual periods beginning on or after 1 January 2018, which replaces the existing International Accounting Standard 39 „Financial instruments:

IFRS Condensed Consolidated Financial Statements for the first quarter 2018 PLN (000's)

recognition and measurement". The European Commission adopted IFRS 9 as published by the IASB on 24 July 2014 in the Resolution No. 2016/2067 issued on 22 November 2016.

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.

The Group decided to use the provisions of IFRS 9 allowing exemption from the obligation to transform comparative data for prior periods in relation to changes resulting from classification and measurement and impairment. At the same time the Group introduced changes to the financial statements to adjust the presentation of financial data to the new categories introduced by IFRS 9.

As at 1 January 2018, differences in the carrying amount of financial assets and liabilities resulting from the application of IFRS 9 were recognized as a part of undistributed financial result from previous years and other components of equity in the Group's equity.

Impact of IFRS 9 on the Group's financial situation and own funds

Quantitative impact of IFRS 9 on the Group's financial situation and own funds

As at 1 January 2018, changes in the requirements regarding classification and measurement and impairment of financial assets, had moderately negative impact on the Group's financial position and own funds.

In the tables below has been presented the impact resulting from changes in the classification and measurement of financial assets in connection with the implementation of IFRS9 as at 1 January 2018.

Restatement of consolidated statement of financial position of mBank S.A. Group as at 31 December 2017 in connection with the implementation of IFRS 9.

ASSETS	31.12.2017 IAS 39 carrying amount	ASSETS	Reclassification	IFRS 9 implementation	01.01.2018 IFRS 9 carrying amount
Cash and balances with the Central Bank	7 384 869	Cash and balances with the Central Bank	7 384 869	-	7 384 869
Loans and advances to banks	1 707 722	Financial assets at amortised cost - loans and advances to banks	1 707 722	(499)	1 707 223
Trading securities	1 525 382	Financial assets held for trading and derivatives held for hedges	1 525 382	-	1 525 382
Derivative financial instruments	1 236 303	Financial assets held for trading and derivatives held for hedges	1 236 303	-	1 236 303
Loans and advances to customers	84 475 844	Financial assets at amortised cost - loans and advances to customers	81 256 696	(238 725)	81 017 971
		Non-trading financial assets mandatorily at fair value through profit or loss	3 219 148	(31 921)	3 187 227
Investment securities	32 144 699	Non-trading financial assets mandatorily at fair value through profit or loss - equity instruments	41 087	-	41 087
		Financial assets at amortised cost - debt securities	8 566 042	(45 870)	8 520 172
		Financial assets at fair value through other comprehensive income	23 552 449	-	23 552 449
Investments in associates	28 680	Investments in associates	28 680	-	28 680
Non-current assets and disposal groups classified as held for sale	42 134	Non-current assets and disposal groups classified as held for sale	42 134	-	42 134
Intangible assets	710 642	Intangible assets	710 642	-	710 642
Tangible assets	758 738	Tangible assets	758 738	-	758 738
Current income tax assets	9 688	Current income tax assets	9 688	-	9 688
Deferred income tax assets	629 250	Deferred income tax assets	629 250	69 389	698 639
Other assets	770 068	Other assets	770 068	945	771 013
Total assets	**131 424 019**	**Total assets**	**131 424 019**	**(246 681)**	**131 177 338**

LIABILITIES AND EQUITY					
Liabilities					
Amounts due to the other banks	5 073 351	Financial liabilities measured at amortised cost - Amounts due to banks	5 073 351	-	5 073 351
Derivative financial instruments	1 095 365	Financial liabilities held for trading and derivatives held for hedges	1 095 365	-	1 095 365
Amounts due to customers	91 496 027	Financial liabilities measured at amortised cost - amounts due to customers	91 496 027	-	91 496 027
Debt securities in issue	14 322 852	Financial liabilities measured at amortised cost - debt securities in issue	14 322 852	-	14 322 852
Fair value changes of the hedged items in portfolio hedge of interest rate risk	44 854	Fair value changes of the hedged items in portfolio hedge of interest rate risk	44 854	-	44 854
Other liabilities	2 571 130	Other liabilities	2 571 130	2 581	2 573 711
Current income tax liabilities	179 685	Current income tax liabilities	179 685	-	179 685
Deferred income tax liabilities	81	Deferred income tax liabilities	81	-	81
Provisions	190 975	Provisions	190 975	44 324	235 299
Subordinated liabilities	2 158 143	Financial liabilities measured at amortised cost - subordinated liabilities	2 158 143	-	2 158 143
Total liabilities	**117 132 463**	**Total liabilities**	**117 132 463**	**46 905**	**117 179 368**

IFRS Condensed Consolidated Financial Statements for the first quarter 2018 PLN (000's)

Equity					
Equity attributable to Owners of mBank S.A.	**14 289 370**	**Equity attributable to Owners of mBank S.A.**	**14 289 370**	**(293 586)**	**13 995 784**
Share capital	**3 564 176**	**Share capital**	**3 564 176**	**-**	**3 564 176**
Registered share capital	169 248	Registered share capital	169 248	-	169 248
Share premium	3 394 928	Share premium	3 394 928	-	3 394 928
Retained earnings:	**10 574 294**	**Retained earnings:**	**10 574 294**	**(260 179)**	**10 314 115**
- Profit from the previous years	9 482 764	- Profit from the previous years	9 482 764	(260 179)	9 222 585
- Profit for the current year	1 091 530	- Profit for the current year	1 091 530	-	1 091 530
Other components of equity	**150 900**	**Other components of equity**	**150 900**	**(33 407)**	**117 493**
Non-controlling interests	**2 186**	**Non-controlling interests**	**2 186**	**-**	**2 186**
Total equity	**14 291 556**	**Total equity**	**14 291 556**	**(293 586)**	**13 997 970**
TOTAL LIABILITIES AND EQUITY	**131 424 019**	**TOTAL LIABILITIES AND EQUITY**	**131 424 019**	**(246 681)**	**131 177 338**

Restatement of consolidated statement of financial position of mBank S.A. Group as at 31 December 2017 in connection with the implementation of IFRS 9.

ASSETS	**01.01.2018**	**31.12.2017**	**Change**
Cash and balances with the Central Bank	7 384 869	7 384 869	-
Financial assets held for trading and derivatives held for hedges	2 761 685	2 761 685	-
Loans and advances to banks	*nd*	1 707 722	(1 707 722)
Non-trading financial assets mandatorily at fair value through profit or loss, including:	3 228 314	*n/a*	3 228 314
Equity instruments	*41 087*	*n/a*	*41 087*
Loans and advances to customers	*3 187 227*	*n/a*	*3 187 227*
Investment securities	*n/a*	32 144 699	(32 144 699)
Financial assets at fair value through other comprehensive income	23 537 570	*n/a*	23 537 570
Financial assets at amortised cost, including:	91 245 366	*n/a*	91 245 366
Debt securities	*8 520 172*	*n/a*	*8 520 172*
Loans and advances to banks	*1 707 223*	*n/a*	*1 707 223*
Loans and advances to customers	*81 017 971*	*n/a*	*81 017 971*
Loans and advances to customers	*n/a*	84 475 844	(84 475 844)
Investments in associates	28 680	28 680	-
Non-current assets and disposal groups classified as held for sale	42 134	42 134	-
Intangible assets	710 642	710 642	-
Tangible assets	758 738	758 738	-
Current income tax assets	9 688	9 688	-
Deferred income tax assets	698 639	629 250	69 389
Other assets	771 013	770 068	945
Total assets	**131 177 338**	**131 424 019**	**(246 681)**

LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the Central Bank	*n/a*	-	-
Financial liabilities held for trading and derivatives held for hedges	1 095 365	1 095 365	-
Financial liabilities measured at amortised cost, including:	113 050 373	*n/a*	113 050 373
Amounts due to banks	*5 073 351*	*n/a*	*5 073 351*
Amounts due to customers	*91 496 027*	*n/a*	*91 496 027*
Debt securities issued	*14 322 852*	*n/a*	*14 322 852*
Subordinated liabilities	*2 158 143*	*n/a*	*2 158 143*
Amounts due to the other banks	*n/a*	5 073 351	(5 073 351)
Amounts due to customers	*n/a*	91 496 027	(91 496 027)
Debt securities in issue	*n/a*	14 322 852	(14 322 852)
Subordinated liabilities	*n/a*	2 158 143	(2 158 143)
Fair value changes of the hedged items in portfolio hedge of interest rate risk	*44 854*	44 854	-
Provisions	235 299	190 975	44 324
Current income tax liabilities	179 685	179 685	-
Deferred income tax liabilities	81	81	-
Other liabilities	2 573 711	2 571 130	2 581
Total liabilities	**117 179 368**	**117 132 463**	**46 905**

IFRS Condensed Consolidated Financial Statements for the first quarter 2018 PLN (000's)

E q u i t y			
Equity attributable to Owners of mBank S.A.	**13 995 784**	**14 289 370**	**(293 586)**
Share capital	**3 564 176**	**3 564 176**	**-**
Registered share capital	169 248	169 248	-
Share premium	3 394 928	3 394 928	-
Retained earnings:	**10 314 115**	**10 574 294**	**(260 179)**
- Profit from the previous years	9 222 585	9 482 764	(260 179)
- Profit for the current year	1 091 530	1 091 530	-
Other components of equity	**117 493**	**150 900**	**(33 407)**
Non-controlling interests	**2 186**	**2 186**	**-**
T o t a l e q u i t y	**13 997 970**	**14 291 556**	**(293 586)**
TOTAL LIABILITIES AND EQUITY	**131 177 338**	**131 424 019**	**(246 681)**

Financial assets

As at 1 January 2018, the Group changed the classification of the certain part of retail portfolio (cash loans, renewable loans and credit cards) and small number of corporate loans (single investment loans) measured at amortised cost under IAS 39, which according to IFRS9 have to be measured at fair value through profit or loss due to the failure of the SPPI test.

The Group changed also the classification of part of corporate loans (part of syndicated loans portfolio) measured at amortised cost under IAS 39, which as a result of implementation of IFRS 9 are measured at fair value through profit and loss due to a business model which objective is not achieved by collecting contractual cash flows.

The impact of the valuation method change of the above loans from amortized cost to the fair value was negative and amounted to PLN 31 921 thousand excluding deferred tax effect

Moreover, due to the methodology and approach to fair value through profit or loss of a part of the retail loan portfolio and a small number of corporate loans, in connection with the implementation of IFRS 9, which were measured at amortized cost in accordance with IAS 39, the value of Group's other assets increased as at 1 January 2018. The impact of this change amounted to PLN 945 thousand excluding the deferred tax effect.

In addition, for the certain part of the debt securities portfolio classified as "Available-for-Sale" under IAS 39 the Bank decided to apply the "Held-to-Collect" business model, which objective is to hold financial assets to collect contractual cash flows, which resulted in the reclassification of these securities from the fair value through other comprehensive income into amortised cost measurement category. The impact of the change in the method of valuation of the these debt securities was negative and amounted to PLN 45 870 thousand excluding deferred tax effect.

As at 31 December 2017 the Group held equity instruments (stocks and shares) which, in accordance with IAS 39, are categorized as financial assets "available for sale". In accordance with IFRS 9, in the case of stocks and shares other than stocks and shares in subsidiaries, associates and joint ventures, the Group at the initial application made an irrevocable choice to measure one of the equity instrument at fair value through other comprehensive income. The rest of the equity instruments Group measures at fair value through profit and loss in accordance with IFRS 9. If the Group chose to measure the equity instruments at fair value through other comprehensive income, the fair value gains and losses would be reported in other comprehensive income, no impairment losses would be recognised in profit or loss and no gains or losses would be reclassified to profit or loss on disposal.

As at 1 January 2018 Group did not identify financial assets which were designated as measured at fair value through profit or loss in order to eliminate "accounting mismatch".

Financial liabilities

As a result of implementing IFRS 9, the Group did not change the classification of financial liabilities in comparison to the requirements in IAS 39, which could have a significant impact on the financial position and profit or loss of the Group.

The Group did not elect an option to measure financial liabilities at fair value.

As of 1 January 2018 the value of the Group's financial liabilities changed due to the methodology and approach to fair value measurement through profit and loss for the part of retail loan portfolio and a small number of corporate loans as a result of the implementation of IFRS 9, which under IAS 39 were measured at amortised cost. The impact of this change amounted to PLN 2 581 thousand deferred tax effect.

IFRS Condensed Consolidated Financial Statements for the first quarter 2018 PLN (000's)

Impairment

The implementation of the new impairment model based on the concept of ECL resulted in the moderate increase of the Group's loss allowance, particularly with regard to exposures allocated to Stage 2 and 3. Contrary to IAS 39, IFRS 9 does not require the entities to identify the impairment trigger in order to estimate lifetime credit losses in Stage 2. Instead, the Group is obliged to constantly estimate the level of credit losses since the initial recognition of a given asset until its derecognition. In the event of significant increase in credit risk since the initial recognition of the asset, the Group will be obliged to calculate lifetime expected credit losses – Stage 2. Such an approach resulted in the earlier recognition of credit losses which causes an increase in loss allowance. Increase in loss allowance in stage 3 is mainly driven by a change in "cure" definition, so it is in line with "default" definition and takes into account life-time losses for re-defaulting assets evaluated on portfolio basis, as well as implementation of scenario approach for individually assessed borrowers. With regard to retail exposures classified to Stage 1 the Group identified only minor change in the level of impairment allowances. In the corporate segment the Group identified the increase of impairment allowances due to the cease of application of LIP parameter.

The total effect of the above changes on the category "Financial assets at amortized cost" was negative and amounted to PLN 239 224 thousand, of which PLN 238 725 thousand relates to loans and advances to clients, while PLN 499 thousand to receivables from banks. In addition, these changes also influenced the increase in provisions for off-balance sheet liabilities presented in the category "Provisions" in the amount of PLN 44 324 thousand.

As a result, the total negative impact of the implementation of IFRS 9 in the amount of PLN 362 975 thousand PLN and the tax effect resulting from the implementation of IFRS 9 in the form of an increase in net deferred tax asset in the amount of PLN 69 389 thousand caused a decrease in the retained earnings and other items of the Group's equity by PLN 293 586 thousand.

Restatement of statement of financial position of mBank S.A. as at 31 December 2017 in connection with the implementation of IFRS 9.

ASSETS	31.12.2017 IAS 39 carrying amount	ASSETS	Reclassification	IFRS 9 implementation	01.01.2018 IFRS 9 carrying amount
Cash and balances with the Central Bank	7 383 518	Cash and balances with the Central Bank	7 383 518	-	7 383 518
Loans and advances to banks	6 063 702	Financial assets at amortised cost - loans and advances to banks	5 663 263	(499)	5 662 764
		Financial assets at fair value through other comprehensive income	400 439	705	401 144
Trading securities	1 547 802	Financial assets held for trading and derivatives held for hedges	1 547 802	-	1 547 802
Derivative financial instruments	1 233 549	Financial assets held for trading and derivatives held for hedges	1 233 549	-	1 233 549
Loans and advances to customers	73 431 738	Financial assets at amortised cost - loans and advances to customers	70 434 975	(216 496)	70 218 479
		Non-trading financial assets mandatorily at fair value through profit or loss	2 996 763	(29 664)	2 967 099
Investment securities	31 110 560	Non-trading financial assets mandatorily at fair value through profit or loss - equity instruments	9 934	-	9 934
		Financial assets at amortised cost - debt securities	8 566 042	(45 870)	8 520 172
		Financial assets at fair value through other comprehensive income	22 534 584	-	22 534 584
Investments in subsidiaries	2 060 847	Investments in subsidiaries	2 060 847	(22 553)	2 038 294
Investments in associates	28 680	Investments in associates	28 680	-	28 680
Intangible assets	648 191	Intangible assets	648 191	-	648 191
Tangible assets	509 773	Tangible assets	509 773	-	509 773
Current income tax assets	6 558	Current income tax assets	6 558	-	6 558
Deferred income tax assets	129 037	Deferred income tax assets	129 037	63 903	192 940
Other assets	415 528	Other assets	415 528	946	416 474
Total assets	**124 569 483**	**Total assets**	**124 569 483**	**(249 528)**	**124 319 955**

IFRS Condensed Consolidated Financial Statements for the first quarter 2018 PLN (000's)

LIABILITIES AND EQUITY					
Liabilities					
Amounts due to the other banks	5 089 716	Financial liabilities measured at amortised cost - Amounts due to banks	5 089 716	-	5 089 716
Derivative financial instruments	1 141 035	Financial liabilities held for trading and derivatives held for hedges	1 141 035	-	1 141 035
Amounts due to customers	99 331 571	Financial liabilities measured at amortised cost - amounts due to customers	99 331 571	-	99 331 571
Fair value changes of the hedged items in portfolio hedge of interest rate risk	27 046	Fair value changes of the hedged items in portfolio hedge of interest rate risk	27 046	-	27 046
Other liabilities	2 171 413	Other liabilities	2 171 413	2 581	2 173 994
Current income tax liabilities	172 003	Current income tax liabilities	172 003	-	172 003
Deferred income tax liabilities	81	Deferred income tax liabilities	81	-	81
Provisions	190 914	Provisions	190 914	40 906	231 820
Subordinated liabilities	2 158 143	Financial liabilities measured at amortised cost	2 158 143	-	2 158 143
Total liabilities	**110 281 922**	**Total liabilities**	**110 281 922**	**43 487**	**110 325 409**
Share capital	**3 564 176**	**Share capital**	**3 564 176**	**-**	**3 564 176**
Registered share capital	169 248	Registered share capital	169 248	-	169 248
Share premium	3 394 928	Share premium	3 394 928	-	3 394 928
Retained earnings:	**10 572 341**	**Retained earnings:**	**10 572 341**	**(260 179)**	**10 312 162**
- Profit from the previous years	9 482 637	- Profit from the previous years	9 482 637	(260 179)	9 222 458
- Profit for the current year	1 089 704	- Profit for the current year	1 089 704	-	1 089 704
Other components of equity	**151 044**	**Other components of equity**	**151 044**	**(32 836)**	**118 208**
Total equity	**14 287 561**	**Total equity**	**14 287 561**	**(293 015)**	**13 994 546**
TOTAL LIABILITIES AND EQUITY	**124 569 483**	**TOTAL LIABILITIES AND EQUITY**	**124 569 483**	**(249 528)**	**124 319 955**

Restatement of statement of financial position of mBank S.A. as at 31 December 2017 in connection with the implementation of IFRS 9.

ASSETS	01.01.2018	31.12.2017	Change
Cash and balances with the Central Bank	7 383 518	7 383 518	-
Financial assets held for trading and derivatives held for hedges	2 781 351	2 781 351	-
Loans and advances to banks	*n/a*	6 063 702	(6 063 702)
Non-trading financial assets mandatorily at fair value through profit or loss, including:	2 977 033	*n/a*	2 977 033
Equity instruments	*9 934*	*n/a*	*9 934*
Loans and advances to customers	*2 967 099*	*n/a*	*2 967 099*
Investment securities	*n/a*	31 110 560	(31 110 560)
Financial assets at fair value through other comprehensive income	22 935 728	*n/a*	22 935 728
Financial assets at amortised cost, including:	84 401 415	*n/a*	84 401 415
Debt securities	*8 520 172*	*n/a*	*8 520 172*
Loans and advances to banks	*5 662 764*	*n/a*	*5 662 764*
Loans and advances to customers	*70 218 479*	*n/a*	*70 218 479*
Loans and advances to customers	*nd*	73 431 738	(73 431 738)
Investments in subsidiaries	*2 038 294*	2 060 847	(22 553)
Investments in associates	28 680	28 680	-
Intangible assets	648 191	648 191	-
Tangible assets	509 773	509 773	-
Current income tax assets	6 558	6 558	-
Deferred income tax assets	192 940	129 037	63 903
Other assets	416 474	415 528	946
Total assets	**124 319 955**	**124 569 483**	**(249 528)**

IFRS Condensed Consolidated Financial Statements for the first quarter 2018 PLN (000's)

LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the Central Bank	*n/a*	-	-
Financial liabilities held for trading and derivatives held for hedges	1 141 035	1 141 035	-
Financial liabilities measured at amortised cost, including:	106 579 430	*n/a*	106 579 430
Amounts due to banks	*5 089 716*	*n/a*	*5 089 716*
Amounts due to customers	*99 331 571*	*n/a*	*99 331 571*
Subordinated liabilities	*2 158 143*	*n/a*	*2 158 143*
Amounts due to the other banks	*n/a*	5 089 716	(5 089 716)
Amounts due to customers	*n/a*	99 331 571	(99 331 571)
Subordinated liabilities	*n/a*	2 158 143	(2 158 143)
Fair value changes of the hedged items in portfolio hedge of interest rate risk	27 046	27 046	-
Provisions	231 820	190 914	40 906
Current income tax liabilities	172 003	172 003	-
Deferred income tax liabilities	81	81	-
Other liabilities	2 173 994	2 171 413	2 581
Total liabilities	**110 325 409**	**110 281 922**	**43 487**

Equity			
Share capital	**3 564 176**	**3 564 176**	**-**
Registered share capital	169 248	169 248	-
Share premium	3 394 928	3 394 928	-
Retained earnings:	**10 312 162**	**10 572 341**	**(260 179)**
- Profit from the previous years	9 222 458	9 482 637	(260 179)
- Profit for the current year	1 089 704	1 089 704	-
Other components of equity	**118 208**	**151 044**	**(32 836)**
Total equity	**13 994 546**	**14 287 561**	**(293 015)**
TOTAL LIABILITIES AND EQUITY	**124 319 955**	**124 569 483**	**(249 528)**

Financial assets

As at 1 January 2018, the Bank changed the classification of the certain part of retail portfolio (cash loans, renewable loans and credit cards) and small number of corporate loans (single investment loans) measured at amortised cost under IAS 39, which will have to be measured at fair value through profit or loss due to the failure of the SPPI test under requirements of IFRS 9.

The Bank changed also the classification of part of corporate loans (part of syndicated loans portfolio) measured at amortised cost under IAS 39, which as a result of implementation of IFRS 9 are measured at fair value through profit or loss due to a business model which objective is not to hold financial assets to collect contractual cash flows.

The impact of the valuation method change from amortized cost to the fair value for the above loans was negative and amounted to PLN 29 664 thousand excluding deferred tax effect.

Moreover, due to the methodology and approach to fair value through profit or loss of a part of the retail loan portfolio and a small number of corporate loans, in connection with the implementation of IFRS 9, which were measured at amortized cost in accordance with IAS 39, as at 1 January 2018, the value of Bank's other assets increased. The impact of this change amounted to PLN 946 thousand excluding the deferred tax effect.

The Bank has also changed the classification of mortgage bonds of mBank Hipoteczny measured at amortised cost under IAS 39, which as a result of implementation of IFRS 9 are measured at fair value through other comprehensive income due to a business model whose objective is achieved by both collecting contractual cash flows and selling. The impact of the change in the method of valuation of the mentioned mortgage bonds from amortized cost to fair value was positive and amounted to PLN 705 thousand excluding the deferred tax effect.

In addition, for the certain part of the debt securities portfolio classified as "Available-for-Sale" under IAS 39 the Bank decided to apply the "Held-to-Collect" business model, which objective is to hold financial assets to collect contractual cash flows, which resulted in the reclassification of these securities from the fair value through other comprehensive income into amortised cost measurement category. The impact of the change in the method of valuation of the these debt securities was negative and amounted to PLN 45 870 thousand excluding deferred tax effect.

As at 31 December 2017 the Bank held equity instruments (stocks and shares) which, in accordance with IAS 39, are categorized as financial assets "available for sale". In accordance with IFRS 9, in the case of stocks and shares other than investments in subsidiaries, associates and joint ventures, the Bank at the initial application made an irrevocable choice to measure one of the equity instrument at fair value through other comprehensive income. The rest of the equity instruments the Bank measures at fair value through profit and loss in accordance with IFRS 9. If the Bank chose to measure the equity instruments at fair value through other comprehensive income, the fair value gains and losses would be reported in other comprehensive income, no impairment losses would be recognised in profit or loss and no gains or losses would be reclassified to profit or loss on disposal.

As at 1 January 2018, the net asset value of mBank's subsidiaries, i.e. mBank Hipoteczny and mLeasing changed as a result of implementation of IFRS 9. Related to the above the value of the Bank's investments in subsidiaries, valued using equity method, also changed. The impact of the above change was negative and amounted to PLN 22 553 thousand excluding deferred tax effect.

As at 1 January 2018 Bank did not identify financial assets which were designated as measured at fair value through profit or loss in order to eliminate "accounting mismatch".

Financial liabilities

As a result of implementing IFRS 9, the Bank did not change the classification of financial liabilities in comparison to the requirements in IAS 39, which could have a significant impact on the financial position and profit or loss of the Bank.

The Bank did not elect an option to measure financial liabilities at fair value.

As of 1 January 2018 the value of the Bank's financial liabilities increased due to the methodology and approach to fair value measurement through profit and loss for the part of retail loan portfolio and a small number of corporate loans as a result of the implementation of IFRS 9, which under IAS 39 were measured at amortised cost. The impact of this change amounted to PLN 2 581 thousand excluding deferred tax effect.

Impairment

The implementation of the new impairment model based on the concept of ECL resulted in the moderate increase of the Bank's loss allowance, particularly with regard to exposures allocated to Stage 2 and 3. Contrary to IAS 39, IFRS 9 does not require the entities to identify the impairment trigger in order to estimate lifetime credit losses in Stage 2. Instead, the Bank is obliged to constantly estimate the level of credit losses since the initial recognition of a given asset until its derecognition. In the event of significant increase in credit risk since the initial recognition of the asset, the Bank will be obliged to calculate lifetime expected credit losses – Stage 2. Such an approach resulted in the earlier recognition of credit losses which causes an increase in loss allowance. Increase in loss allowance in stage 3 is mainly driven by a change in "cure" definition, so it is in line with "default" definition and takes into account life-time losses for re-defaulting assets evaluated on portfolio basis, as well as implementation of scenario approach for individually assessed borrowers. With regard to retail exposures classified to Stage 1 the Bank identified only minor change in the level of impairment allowances. In the corporate segment the Bank identified the increase of impairment allowances due to the cease of application of LIP parameter.

The total effect of the above changes on the category "Financial assets at amortized cost" was negative and amounted to PLN 216 995 thousand, of which PLN 216 496 thousand relates to loans and advances to clients, while PLN 499 thousand to receivables from banks. In addition, these changes also influenced the increase in provisions for off-balance sheet liabilities presented in the category "Provisions" in the amount of PLN 40 906 thousand.

As a result, the total negative impact of the implementation of IFRS 9 in the amount of PLN 365 918 thousand PLN and the tax effect resulting from the implementation of IFRS 9 in the form of an increase in net deferred tax asset in the amount of PLN 63 903 thousand caused a decrease in the retained earnings and other items of the Bank's equity by PLN 293 015 thousand.

Impact of IFRS 9 on capital adequacy

The total impact of applying IFRS 9, calculated as at 1 January 2018, in relation to the total capital ratio (TCR) and the Tier1 ratio of the Bank and the Group is immaterial and amounts to no more than 5 bps.

The Bank decided, for the purpose of capital adequacy calculation, including calculation of own funds, based on the Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December 2017 (Regulation) amending Regulation (EU) No 575/2013 in light of Article 1 paragraph 9 of the Regulation, not to apply the transitional arrangements that would mitigate the impact on capital resulting from the introduction of IFRS9.

The consolidated data as at 31 December 2017 and 31 March 2017 is comparable with the current accounting period and therefore has not been adjusted.

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

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

Impairment of loans and advances

The Group reviews its loan portfolio in terms of possible impairments at least once per quarter. In order to determine whether any impairment loss should be recognised in the income statement, the Group assesses whether any evidence exists that would indicate some measurable reduction of estimated future cash flows attached to the loan portfolio. The methodology and the assumptions (on the basis of which the estimated cash flow amounts and their anticipated timing are determined) are regularly verified. If the current value of estimated cash flows for portfolio of loans and advances and contingent liabilities which are impaired, change by +/-10%, the estimated loans and advances and contingent liabilities impairment would either decrease by PLN 50.7 million or increase by PLN 57.4 million as at 31 March 2018, respectively. This estimation was performed for portfolio of loans and advances and contingent liabilities individually assessed for impairment on the basis of future cash flows due to repayments and recovery from collateral - Stage 3. The rules of determining write-downs and provisions for impairment of credit exposures have been described under Note 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 are described in Note 2.8.

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

The remuneration included in fee and commission income is recognised partly as upfront income and partly including deferring over time based on the analysis of the stage of completion of the service.

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

Liabilities due to post-employment employee benefits

The costs of post-employment employee benefits are determined using an actuarial valuation method. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and other factors. Due to the long–term nature of these programmes, such estimates are subject to significant uncertainty.

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., as well as the results of retail segments of mLeasing Sp. z o.o. and mBank Hipoteczny S.A.

- The Corporates and Financial Markets segment, which is divided into two sub-segments:

  - *Corporate and Investment Banking* sub-segment (business line), which targets small, medium and large-sized companies and public sector entities. The key products offered to these customers include transactional banking products and services including current account products, multi-functional internet banking, tailor-made cash management and trade finance services, term deposits, foreign exchange transactions, a comprehensive offer of short-term financing and investment loans, cross-border credit, project finance, structured and mezzanine finance services, investment banking products including foreign exchange options, forward contracts, interest rate derivatives and commodity swaps and options, structured deposit products with embedded options (interest on structured deposit products are directly linked to the performance of certain underlying financial instruments such as foreign exchange options, interest rate options and stock options), debt origination for corporate clients, treasury bills and bonds, non-government debt, medium-term bonds, buy sell back and sell buy back transactions and repo transactions, as well as leasing, factoring and brokerage services. The Corporate and Investment Banking sub-segment includes the results of the following subsidiaries: mFaktoring S.A., Garbary Sp. z o.o., Tele-Tech Investment Sp. z o.o. as well as the results of corporate segments of mLeasing Sp. z o. o. and mBank Hipoteczny S.A.

  - *Financial Markets* sub-segment (business line) consists primarily of treasury, financial markets, and financial institutions operations, manages the liquidity, interest rate and foreign exchange risks of the Bank, its trading and investment portfolios, and conducts market making in PLN denominated cash and derivative instruments. The Bank also maintains an extensive correspondent banking network and also develops relationships with other banks providing products such as current accounts, overdrafts, stand alone and syndicated loans and loans insured by KUKE to support the Polish export market. This sub-segment also includes the results of mFinance France S.A. as well as the results of mLeasing Sp. z o.o and mBank Hipoteczny S.A. with regard to activities concerning funding.

  - Operations which are not included in the Retail Banking segment and the Corporates and Financial Markets segment are reported under "Other". This segment includes the results of mCentrum Operacji Sp. z o.o., BDH Development Sp. z o.o., Future Tech Fundusz Inwestycyjny Zamknięty and results of mLocum S.A. until the date of sale of the majority stake of the company on 31 July 2017.

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

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

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

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

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

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

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

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

Business segment reporting on the activities of mBank S.A. Group
for the period from 1 January to 31 March 2018
(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	**216 575**	**62 872**	**535 606**	**1 371**	**816 424**	**816 424**
- sales to external clients	222 648	155 068	437 536	1 172	816 424	
- sales to other segments	(6 073)	(92 196)	98 070	199	-	
Net fee and commission income	**111 739**	**(2 060)**	**157 344**	**1 853**	**268 876**	**268 876**
Dividend income	**-**	**-**	**-**	**167**	**167**	**167**
Trading income	**55 960**	**993**	**28 638**	**(1 098)**	**84 493**	**84 493**
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	**(3 948)**	**-**	**(33 184)**	**(171)**	**(37 303)**	**(37 303)**
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates	**329**	**4 337**	**-**	**(362)**	**4 304**	**4 304**
Other operating income	**16 701**	**565**	**247 765**	**3 914**	**268 945**	**268 945**
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	**(10 666)**	**367**	**(74 692)**	**520**	**(84 471)**	**(84 471)**
Overhead costs	**(204 888)**	**(26 255)**	**(297 937)**	**(6 081)**	**(535 161)**	**(535 161)**
Amortisation	**(20 442)**	**(2 775)**	**(42 263)**	**(352)**	**(65 832)**	**(65 832)**
Other operating expenses	**(13 252)**	**(389)**	**(48 862)**	**(142)**	**(62 645)**	**(62 645)**
Operating profit	**148 108**	**37 655**	**472 415**	**(381)**	**657 797**	**657 797**
Taxes on Group balance sheet items	**(36 659)**	**(10 523)**	**(49 418)**	**(1 863)**	**(98 463)**	**(98 463)**
Share in profits (losses) of entities under the equity method	**-**	**-**	**-**	**289**	**289**	**289**
Gross profit of the segment	**111 449**	**27 132**	**422 997**	**(2 244)**	**559 334**	**559 334**
Income tax					(148 632)	(148 632)
Net profit attributable to Owners of mBank S.A.					411 000	411 000
Net profit attributable to non-controlling interests					(9)	(9)
Assets of the segment	**37 965 542**	**42 970 047**	**51 096 410**	**1 608 217**	**133 640 216**	**133 640 216**
Liabilities of the segment	**33 635 900**	**25 169 336**	**60 343 596**	**5 049**	**119 153 881**	**119 153 881**
Expenditures incurred on fixed assets and intangible assets	9 422	697	17 047	-	27 166	

Business segment reporting on the activities of mBank S.A. Group
for the period from 1 January to 31 December 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	**832 749**	**282 176**	**2 013 103**	**7 632**	**3 135 660**	**3 135 660**
- sales to external clients	897 740	595 308	1 638 103	4 509	3 135 660	
- sales to other segments	(64 991)	(313 132)	375 000	3 123	-	
Net fee and commission income	**406 289**	**(7 602)**	**582 321**	**11 150**	**992 158**	**992 158**
Dividend income	**-**	**11**	**-**	**3 417**	**3 428**	**3 428**
Trading income	**246 341**	**(64 902)**	**114 184**	**(1 560)**	**294 063**	**294 063**
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates	**(6 050)**	**20 783**	**-**	**(18 670)**	**(3 937)**	**(3 937)**
Other operating income	**58 067**	**877**	**55 871**	**127 545**	**242 360**	**242 360**
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	**(168 099)**	**2 119**	**(342 625)**	**884**	**(507 721)**	**(507 721)**
Overhead costs	**(607 721)**	**(111 090)**	**(1 074 961)**	**(25 177)**	**(1 818 949)**	**(1 818 949)**
Amortisation	**(74 088)**	**(9 849)**	**(137 278)**	**(3 004)**	**(224 219)**	**(224 219)**
Other operating expenses	**(40 138)**	**(1 147)**	**(89 603)**	**(79 283)**	**(210 171)**	**(210 171)**
Operating profit	**647 350**	**111 376**	**1 121 012**	**22 934**	**1 902 672**	**1 902 672**
Taxes on Group balance sheet items	**(141 748)**	**(32 264)**	**(195 832)**	**(5 412)**	**(375 256)**	**(375 256)**
Gross profit of the segment	**505 602**	**79 112**	**925 180**	**17 522**	**1 527 416**	**1 527 416**
Income tax					(432 832)	(432 832)
Net profit attributable to Owners of mBank S.A.					1 091 530	1 091 530
Net profit attributable to non-controlling interests					3 540	3 540
Assets of the segment	**37 438 110**	**41 469 251**	**50 963 246**	**1 553 412**	**131 424 019**	**131 424 019**
Liabilities of the segment	**31 408 233**	**27 320 647**	**57 764 732**	**638 851**	**117 132 463**	**117 132 463**
Expenditures incurred on fixed assets and intangible assets	199 415	19 834	260 484	25 084	504 817	

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

	Corporates & Financial Markets		Retail Banking (including Private Banking)	Other	Total figure for the Group	Statement of financial position reconciliation/ income statement reconciliation
	Corporate and Investment Banking	Financial Markets				
Net interest income	**193 200**	**80 991**	**473 337**	**1 479**	**749 007**	**749 007**
- sales to external clients	209 275	165 164	373 974	594	749 007	
- sales to other segments	(16 075)	(84 173)	99 363	885	-	
Net fee and commission income	**100 668**	**(1 574)**	**149 153**	**1 307**	**249 554**	**249 554**
Dividend income	**-**	**-**	**-**	**154**	**154**	**154**
Trading income	**60 532**	**(9 975)**	**26 584**	**(244)**	**76 897**	**76 897**
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates	**354**	**1 282**	**-**	**-**	**1 636**	**1 636**
Investments in joint ventures	**-**	**-**	**-**	**-**	**-**	**-**
Other operating income	**17 651**	**84**	**7 670**	**20 904**	**46 309**	**46 309**
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	**(6 472)**	**1 508**	**(78 509)**	**552**	**(82 921)**	**(82 921)**
Overhead costs	**(194 264)**	**(64 513)**	**(259 630)**	**(8 202)**	**(526 609)**	**(526 609)**
Amortisation	**(17 318)**	**(2 441)**	**(30 493)**	**(830)**	**(51 082)**	**(51 082)**
Other operating expenses	**(11 686)**	**(761)**	**(10 919)**	**(18 413)**	**(41 779)**	**(41 779)**
Operating profit	**142 665**	**4 601**	**277 193**	**(3 293)**	**421 166**	**421 166**
Taxes on Group balance sheet items	**(33 237)**	**(6 807)**	**(49 754)**	**(1 507)**	**(91 305)**	**(91 305)**
Gross profit of the segment	**109 428**	**(2 206)**	**227 439**	**(4 800)**	**329 861**	**329 861**
Income tax					(110 937)	(110 937)
Net profit attributable to Owners of mBank S.A.					218 778	218 778
Net profit attributable to non-controlling interests					146	146
Assets of the segment	**34 629 413**	**44 138 473**	**50 403 983**	**1 316 512**	**130 488 381**	**130 488 381**
Liabilities of the segment	**29 419 737**	**31 377 181**	**55 414 472**	**938 707**	**117 150 097**	**117 150 097**
Expenditures incurred on fixed assets and intangible assets	30 169	1 026	17 736	562	49 493	

IFRS Condensed Consolidated Financial Statements for the first quarter 2018 PLN (000's)

Geographical areas reporting on the activities of mBank S.A. Group for the period	from 1 January to 31 March 2018		
	Poland	Foreign Countries	Total
Net interest income	773 868	42 556	**816 424**
Net fee and commission income	265 724	3 152	**268 876**
Dividend income	167	-	**167**
Trading income	82 244	2 249	**84 493**
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	(37 303)	-	**(37 303)**
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates	4 304	-	**4 304**
Other operating income	268 562	383	**268 945**
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(80 484)	(3 987)	**(84 471)**
Overhead costs	(506 198)	(28 963)	**(535 161)**
Amortisation	(64 745)	(1 087)	**(65 832)**
Other operating expenses	(61 393)	(1 252)	**(62 645)**
Operating profit	644 746	13 051	**657 797**
Taxes on Group balance sheet items	(92 799)	(5 664)	**(98 463)**
Share in profits (losses) of entities under the equity method	289	-	**289**
Gross profit of the segment	**552 236**	**7 387**	**559 623**
Income tax			(148 632)
Net profit attributable to Owners of mBank S.A.			411 000
Net profit attributable to non-controlling interests			(9)
Assets of the segment, including:	128 003 520	5 636 696	**133 640 216**
- tangible assets	1 411 841	10 880	1 422 721
- deferred income tax assets	735 675	2 144	737 819
Liabilities of the segment	109 820 214	9 333 667	**119 153 881**

IFRS Condensed Consolidated Financial Statements for the first quarter 2018 PLN (000's)

Geographical areas reporting on the activities of mBank S.A. Group for the period	from 1 January to 31 December 2017			from 1 January to 31 March 2017		
	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total
Net interest income	2 980 836	154 824	**3 135 660**	712 313	36 694	**749 007**
Net fee and commission income	985 828	6 330	**992 158**	250 384	(830)	**249 554**
Dividend income	3 428	-	**3 428**	154	-	**154**
Trading income	286 125	7 938	**294 063**	75 229	1 668	**76 897**
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates	(3 937)	-	**(3 937)**	1 636	-	**1 636**
Other operating income	239 157	3 203	**242 360**	45 759	550	**46 309**
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(497 246)	(10 475)	**(507 721)**	(81 310)	(1 611)	**(82 921)**
Overhead costs	(1 689 882)	(129 067)	**(1 818 949)**	(494 197)	(32 412)	**(526 609)**
Amortisation	(219 946)	(4 273)	**(224 219)**	(50 020)	(1 062)	**(51 082)**
Other operating expenses	(207 598)	(2 573)	**(210 171)**	(41 350)	(429)	**(41 779)**
Operating profit	1 876 765	25 907	**1 902 672**	418 598	2 568	**421 166**
Taxes on Group balance sheet items	(352 524)	(22 732)	**(375 256)**	(85 128)	(6 177)	**(91 305)**
Share in profits (losses) of entities under the equity method	486	-	**486**	-	-	**-**
Gross profit of the segment	**1 524 727**	**3 175**	**1 527 902**	**333 470**	**(3 609)**	**329 861**
Income tax			(432 832)			(110 937)
Net profit attributable to Owners of mBank S.A.			1 091 530			218 778
Net profit attributable to non-controlling interests			3 540			146
Assets of the segment, including:	125 313 613	6 110 406	**131 424 019**	125 208 193	5 280 188	**130 488 381**
- tangible assets	1 458 141	11 239	1 469 380	1 303 913	11 303	1 315 216
- deferred income tax assets	626 903	2 347	629 250	524 495	2 403	526 898
Liabilities of the segment	108 200 503	8 931 960	**117 132 463**	109 153 743	7 996 354	**117 150 097**

IFRS Condensed Consolidated Financial Statements for the first quarter 2018 PLN (000's)

5. Net interest income

the period	from 01.01.2018 to 31.03.2018	from 01.01.2017 to 31.03.2017
Interest income		
Financial assets held for trading	14 550	24 261
Non-trading financial assets mandatorily at fair value through profit or loss, including:	70 853	*n/a*
- *Loans and advances*	68 171	*n/a*
- *Debt securities*	2 682	*n/a*
Investment securities	*n/a*	170 794
Financial assets at fair value through other comprehensive income	122 313	n/a
Financial assets at amortised cost, including:	773 315	722 183
- *Loans and advances*	716 907	706 996
- *Debt securities*	44 889	*n/a*
- *Cash and short-term placements*	11 519	15 187
Interest income on derivatives classified into banking book	44 874	44 510
Interest income on derivatives concluded under the fair value hedge	18 912	15 928
Interest income on derivatives concluded under the cash flow hedge	6 830	4 359
Other	1 996	509
Total interest income	**1 053 643**	**982 544**

the period	from 01.01.2018 to 31.03.2018	from 01.01.2017 to 31.03.2017
Interest expenses		
Arising from amounts due to banks	(9 295)	(13 761)
Arising from amounts due to customers	(127 495)	(128 313)
Arising from issue of debt securities	(76 822)	(67 749)
Arising from subordinated liabilities	(18 780)	(18 236)
Other	(4 827)	(5 478)
Total interest expense	**(237 219)**	**(233 537)**

6. Net fee and commission income

the period	from 01.01.2018 to 31.03.2018	from 01.01.2017 to 31.03.2017
Fee and commission income		
Payment cards-related fees	99 474	88 862
Credit-related fees and commissions	89 965	81 364
Commissions for agency service regarding sale of insurance products of external financial entities	46 192	47 703
Fees from brokerage activity and debt securities issue	26 548	32 863
Commissions from bank accounts	53 460	46 554
Commissions from money transfers	31 563	28 171
Commissions due to guarantees granted and trade finance commissions	20 071	16 674
Commissions for agency service regarding sale of other products of external financial entities	27 652	34 313
Commissions on trust and fiduciary activities	6 596	6 589
Fees from portfolio management services and other management-related fees	2 839	3 457
Fees from cash services	13 969	12 690
Other	11 169	7 865
Fee and commission income	**429 498**	**407 105**

IFRS Condensed Consolidated Financial Statements for the first quarter 2018 PLN (000's)

the period	from 01.01.2018 to 31.03.2018	from 01.01.2017 to 31.03.2017
Fee and commission expense		
Payment cards-related fees	(56 785)	(52 803)
Commissions paid to external entities for sale of the Bank's products	(30 882)	(32 622)
Commissions paid for agency service regarding sale of insurance products of external financial entities	(1 879)	(1 484)
Discharged brokerage fees	(5 807)	(7 508)
Cash services	(12 833)	(10 602)
Fees to NBP and KIR	(2 211)	(2 106)
Other discharged fees	(50 225)	(50 426)
Total fee and commision expense	**(160 622)**	**(157 551)**

7. Dividend income

the period	from 01.01.2018 to 31.03.2018	from 01.01.2017 to 31.03.2017
Available for sale securities	n/a	154
Financial assets at fair value through other comprehensive income	167	n/a
Total dividend income	**167**	**154**

8. Net trading income

the period	from 01.01.2018 to 31.03.2018	from 01.01.2017 to 31.03.2017
Foreign exchange result	**71 427**	**76 407**
Net exchange differences on translation	(8 645)	166 844
Net transaction gains/(losses)	80 072	(90 437)
Gains or losses on financial assets and liabilities held for trading	**15 903**	**1 746**
Derivatives, including:	13 414	2 897
- *Interest-bearing instruments*	12 999	547
- *Market risk instruments*	415	2 350
Equity instruments	(353)	283
Debt securities	2 842	(1 434)
Gains or losses from hedge accounting	**(2 837)**	**(1 256)**
Net profit on hedged items	11 380	34 370
Net profit on fair value hedging instruments	(17 204)	(36 220)
Ineffective portion of cash flow hedge	2 987	594
Net trading income	**84 493**	**76 897**

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

The Group applies fair value hedge accounting and cash flow hedge accounting. Detailed information on hedge accounting are included in Note 16 " Financial assets held for trading and derivatives held for hedges".

IFRS Condensed Consolidated Financial Statements for the first quarter 2018 PLN (000's)

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

the period	from 01.01.2018 to 31.03.2018	from 01.01.2017 to 31.03.2017
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss		
Equity instruments	(119)	*n/a*
Loans and advances	(37 184)	*n/a*
Total gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	**(37 303)**	***n/a***

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

the period	from 01.01.2018 to 31.03.2018
Gains less losses related to sale of debt securities measured at fair value through other comprehensive income	4 326
Gains less losses related to sale of investments in subsidiaries and associates	(22)
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates	**4 304**

the period	from 01.01.2017 to 31.03.2017
Sale/redemption of financial assets available for sale	1 636
Tota gains less losses from investment securities and investments in subsidiaries and associates	**1 636**

11. Other operating income

the period	from 01.01.2018 to 31.03.2018	from 01.01.2017 to 31.03.2017
Income from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories	10 647	29 959
Income from insurance activity net	-	-
Income from services provided	9 407	6 679
Net income from operating lease	1 908	1 613
Income due to release of provisions for future commitments	737	649
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	15	542
Income from compensations, penalties and fines received	14	213
Net revenues from the sale of an organised part of the company mFinanse S.A.	219 717	-
Other	26 500	6 654
Total other operating income	**268 945**	**46 309**

Net revenues from the sale of an organised part of the company mFinanse S.A. refer to the transaction described under point 9 of selected explanatory information of these condensed consolidated financial statements.

In Q1 2017 income from sale or liquidation of tangible fixed assets, intangible assets as well as assets held for disposal comprises primarily income of the company mLocum S.A. from developer activity.

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

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

IFRS Condensed Consolidated Financial Statements for the first quarter 2018 PLN (000's)

Net income from operating lease for the first quarter of 2018 and the first quarter of 2017 is presented below.

the period	from 01.01.2018 to 31.03.2018	from 01.01.2017 to 31.03.2017
Net income from operating lease, including:		
- Income from operating lease	13 167	13 750
- Depreciation cost of fixed assets provided under operating lease	(11 259)	(12 137)
Total net income from operating lease	**1 908**	**1 613**

12. Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss

the period	from 01.01.2018 to 31.03.2018	from 01.01.2017 to 31.03.2017
Financial assets at amortised cost, including:	**(84 933)**	**(84 905)**
- Loans and advances	(84 933)	(84 905)
Stage 1	(28 339)	n/a
Stage 2	(17 471)	n/a
Stage 3	(45 806)	n/a
POCI	6 683	n/a
Financial assets at fair value through other comprehensive income	**349**	n/a
- Debt securities	349	n/a
Stage 1	380	n/a
Stage 2	(31)	n/a
Commitments and guarantees given	**113**	**1 984**
Stage 1	(1 833)	n/a
Stage 2	2 213	n/a
Stage 3	(1 199)	n/a
POCI	932	n/a
Net impairment losses on financial assets not measured at fair value through profit or loss	**(84 471)**	**(82 921)**

13. Overhead costs

the period	from 01.01.2018 to 31.03.2018	from 01.01.2017 to 31.03.2017
Staff-related expenses	(227 707)	(223 275)
Material costs, including:	(182 606)	(164 150)
- costs of administration and real estate services	(91 085)	(88 943)
- IT costs	(42 685)	(38 431)
- marketing costs	(29 693)	(22 983)
- consulting costs	(15 310)	(11 185)
- other material costs	(3 833)	(2 608)
Taxes and fees	(5 282)	(5 185)
Contributions and transfers to the Bank Guarantee Fund	(117 315)	(132 227)
Contributions to the Social Benefits Fund	(2 251)	(1 772)
Total overhead costs	**(535 161)**	**(526 609)**

IFRS Condensed Consolidated Financial Statements for the first quarter 2018 PLN (000's)

Staff-related expenses for the first quarter of 2018 and the first quarter of 2017 are presented below.

the period	from 01.01.2018 to 31.03.2018	from 01.01.2017 to 31.03.2017
Wages and salaries	(183 491)	(180 687)
Social security expenses	(33 531)	(32 827)
Remuneration concerning share-based payments, including:	(3 824)	(3 033)
- share-based payments settled in mBank S.A. shares	(3 682)	(2 498)
- cash-settled share-based payments	(142)	(535)
Other staff expenses	(6 861)	(6 728)
Staff-related expenses, total	**(227 707)**	**(223 275)**

14. Other operating expenses

the period	from 01.01.2018 to 31.03.2018	from 01.01.2017 to 31.03.2017
Costs arising from sale or liquidation of fixed assets, intangible assets, assets held for resale and inventories	(9 269)	(23 553)
Provisions for future commitments	(31 129)	(2 702)
Costs arising from provisions created for other receivables (excluding loans and advances)	(72)	(897)
Donations made	(7 000)	(2 500)
Costs of sale of services	(146)	(687)
Compensation, penalties and fines paid	(547)	(255)
Costs arising from receivables and liabilities recognised as prescribed, remitted and uncollectible	(18)	-
Other operating costs	(14 464)	(11 185)
Total other operating expenses	**(62 645)**	**(41 779)**

In Q1 2017 costs arising from sale or liquidation of fixed assets, intangible assets, assets held for resale and inventories comprise primarily the expenses incurred by mLocum in connection with its developer activity.

Costs of services provided concern non-banking services.

15. Earnings per share

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

the period	from 01.01.2018 to 31.03.2018	from 01.01.2017 to 31.03.2017
Basic:		
Net profit attributable to Owners of mBank S.A.	411 000	218 778
Weighted average number of ordinary shares	42 312 122	42 280 127
Net basic profit per share (in PLN per share)	**9.71**	**5.17**
Diluted:		
Net profit attributable to Owners of mBank S.A., applied for calculation of diluted earnings per share	411 000	218 778
Weighted average number of ordinary shares	42 312 122	42 280 127
Adjustments for:		
- share options	26 040	29 631
Weighted average number of ordinary shares for calculation of diluted earnings per share	42 338 162	42 309 758
Diluted earnings per share (in PLN per share)	**9.71**	**5.17**

IFRS Condensed Consolidated Financial Statements for the first quarter 2018 PLN (000's)

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

the period	from 01.01.2018 to 31.03.2018	from 01.01.2017 to 31.03.2017
Basic:		
Net profit	414 232	215 742
Weighted average number of ordinary shares	42 312 122	42 280 127
Net basic profit per share (in PLN per share)	**9.79**	**5.10**
Diluted:		
Net profit applied for calculation of diluted earnings per share	414 232	215 742
Weighted average number of ordinary shares	42 312 122	42 280 127
Adjustments for:		
- share options	26 040	29 631
Weighted average number of ordinary shares for calculation of diluted earnings per share	42 338 162	42 309 758
Diluted earnings per share (in PLN per share)	**9.78**	**5.10**

16. Financial assets held for trading and derivatives held for hedges

	31.03.2018	31.12.2017	31.03.2017
Derivatives, including:	**1 137 925**	**1 236 303**	**1 680 769**
- Held for trading derivative financial instruments classified into banking book	189 983	220 694	277 403
- Held for trading derivative financial instruments classified into trading book	883 129	1 003 020	1 324 757
- Derivative financial instruments held for fair value hedging	140 996	93 752	190 049
- Derivative financial instruments held for cash flow hedging	76 855	30 312	38 266
- Offsetting effect	(153 038)	(111 475)	(149 706)
Equity instruments	**1 245**	**1 474**	**3 891**
- Credit institutions	30	-	114
- Other financial corporations	244	160	162
- Non-financial corporations	971	1 314	3 615
Debt securities	**3 161 688**	**1 523 908**	**3 534 231**
- General governments	2 900 638	1 232 515	3 257 055
pledged securities	934 624	25 837	1 094 507
- Credit institutions	112 520	112 697	96 577
- Other financial corporations	71 921	80 260	71 460
- Non-financial corporations	76 609	98 436	109 139
Total financial assets held for trading	**4 300 858**	**2 761 685**	**5 218 891**

The above note includes government bonds subject to pledge in sell buy back transactions.

Derivative financial instruments

The Group has the following types of derivative instruments:

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

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

The Group applies fair value hedge accounting for fixed interest rate Eurobonds issued by mFinance France S.A, subsidiary of mBank, fixed interest rate mortgage bonds issued by mBank Hipoteczny a subsidiary of mBank, fixed interest rate loans received by mBank from European Investment Bank as well as cash flow hedge accounting of variable rate loans indexed to market rates, granted by the Bank. Hedging instrument in both types of hedge accounting are fix to float Interest Rate Swap.

Detailed information on hedge accounting are presented in these Note below.

Currency and interest rate options are agreements, pursuant to which the selling party grants the buying party the right, but not an obligation, to purchase (call option) or sell (put option) a specific quantity of a foreign currency or a financial instrument at a predefined price on or by a specific date or within an agreed period. In return for accepting currency or interest rate risk, the buyer offers the seller a premium. An option can be either a public instrument traded at a stock exchange or a private instrument negotiated between the Group and a customer (private transaction). The Group is exposed to credit risk related to purchased options only up to the balance sheet value of such options, i.e. the fair value of the options.

Market risk transactions include futures contracts as well as commodity options, stock options and index options.

Face values of certain types of financial instruments provide a basis for comparing them to instruments disclosed in the statement of financial position but they may not be indicative of the value of the future cash flows or of the present fair value of such instruments. For this reason, the face values do not indicate the level of the Group's exposure to credit risk or price change risk. Derivative instruments can have positive value (assets) or negative value (liabilities), depending on market interest or currency exchange rate fluctuations. The aggregate fair value of derivative financial instruments may be subject to strong variations.

Hedge accounting

In accordance with the IFRS9 provisions, only on the day of initial application the Group had the opportunity to choose as its accounting policy element to continue to apply the IAS 39 hedge accounting requirements instead of the IFRS 9 requirements.

IFRS 9 requires the Group to ensure that its hedging relationships are compliant with the risk management strategy applied by the Group and its objectives. IFRS 9 introduces new requirements with regard to the assessment of hedge effectiveness, rebalancing of the hedge relationship as well as it prohibits voluntary discontinuation of hedge accounting (i.e. in the absence of the conditions to stop the application of hedge accounting, as defined in the standard).

The Group decided to continue from 1 January 2018, to apply the hedge accounting requirements in accordance with IAS 39.

Fair value hedge accounting

The Group applies fair value hedge accounting, under which the only kind of hedged risk is the risk of changes in interest rates.

At the end of each month, the Group evaluates effectiveness of the applied hedging by carrying out analysis of changes in fair value of the hedged and hedging instruments in respect of the hedged risk in order to confirm that hedging relationships are effective in accordance with the accounting policy described in Note 2.14.

<u>Description of the hedging relation</u>

The Group hedges against the risk of change in fair value:

- fixed interest rate Eurobonds issued by mFinance France S.A. (mFF), subsidiary of mBank. The hedged risk results from changes in interest rates.
- mortgage bonds issued by mBank Hipoteczny (mBH), a subsidiary of mBank. The hedged risk results from changes in interest rates.
- loans received by mBank from European Investment Bank. The hedged risk results from changes in interest rates.

IFRS Condensed Consolidated Financial Statements for the first quarter 2018 PLN (000's)

Hedged items

The hedged items are:

- three tranches of fixed interest rate Eurobonds issued by mFF with a total nominal value of EUR 1 500 000 thousand,
- two tranches of fixed interest rate Eurobonds issued by mFF with a total nominal value of CHF 400 000 thousand,
- fixed interest rate Eurobonds issued by mFF with a nominal value of CZK 500 000 thousand,
- fixed interest rate mortgage bonds issued by mBH with a nominal value of EUR 172 900 thousand,
- fixed interest rate loans received by mBank from European Investment Bank with a nominal value of respectively EUR 100 000 thousand and CHF 113 110 thousand.

Hedging instruments

IRS is the hedging instrument swapping the fixed interest rate for a variable interest rate.

Presentation of the result from hedged and hedging transactions

Fair value adjustment of the hedged assets and liabilities as well as valuation of the hedging instruments are recognised in the income statement as trading income.

The total results of fair value hedge accounting recognised in the income statement

the period	from 01.01.2018 to 31.03.2018	from 01.01.2017 to 31.03.2017
Interest income on derivatives concluded under the fair value hedge accounting (Note 5)	18 912	15 928
Net profit on hedged items (Note 8)	11 380	34 370
Net profit on fair value hedging instruments (Note 8)	(17 204)	(36 220)
The total results of fair value hedge accounting recognised in the income statement	**13 088**	**14 078**

Cash flow hedge accounting

The Group applies cash flow hedge accounting of the part of loans at a variable interest rate indexed to the market rate portfolio, granted by the Bank. An Interest Rate Swap is the hedging instrument changing the variable interest rate to a fixed interest rate. The interest rate risk is the hedged risk within applied by the Group cash flow hedge accounting. The ineffective portion of the gains or losses on the hedging instrument is presented in Note 9 in the position "Other net trading income and result on hedge accounting". Portion of the gains or losses on the hedging instrument that is an effective hedge, is presented in the statement of comprehensive income as "Cash flow hedges (net)".

The following note presents other comprehensive income due to cash flow hedges as at 31 March 2018 and 31 March 2017.

the period	from 01.01.2018 to 31.03.2018	from 01.01.2017 to 31.03.2017
Other gross comprehensive income from cash flow hedge at the beginning of the period	**(6 418)**	**(1 907)**
- Unrealised gains/losses included in other gross comprehensive income during the reporting period	33 895	3 671
Accumulated other gross comprehensive income at the end of the reporting period	**27 477**	**1 764**
Deferred income tax on accumulated other comprehensive income at the end of the reporting period	(5 221)	(335)
Accumulated net other comprehensive income at the end of the reporting period	**22 256**	**1 429**
Impact on other comprehensive income in the reporting period (gross)	33 895	3 671
Deferred tax on cash flow hedges	(6 441)	(697)
Impact on other comprehensive income in the reporting period (net)	**27 454**	**2 974**

IFRS Condensed Consolidated Financial Statements for the first quarter 2018 PLN (000's)

the period	from 01.01.2018 to 31.03.2018	from 01.01.2017 to 31.03.2017
Gains/losses rocognised in comprehensive income (gross) during the reporting period, including:		
- Unrealised gains/losses included in other comprehensive income (gross)	33 895	3 671
- Amount included as interest income in income statement recognised during the reporting period	6 830	4 359
- Ineffective portion of hedge recognised in net trading income	2 987	594
Impact on other comprehensive income in the reporting period (gross)	**43 712**	**8 624**

Total results of cash flow hedge accounting recognised in the income statement

the period	from 01.01.2018 to 31.03.2018	from 01.01.2017 to 31.03.2017
Interest income on derivatives concluded under the cash flow hedge (Note 5)	6 830	4 359
Ineffective portion of cash flow hedge accounting (Note 8)	2 987	594
The total results of cash flow hedge accounting recognised in the income statement	**9 817**	**4 953**

17. Non-trading financial assets mandatorily at fair value through profit or loss

	31.03.2018	31.12.2017	31.03.2017
Equity instruments	**40 854**	*n/a*	*n/a*
- Other financial corporations	15 406	*n/a*	*n/a*
- Non-financial corporations	25 448	*n/a*	*n/a*
Loans and advances	**2 939 264**	*n/a*	*n/a*
- Individual customers	2 373 414	*n/a*	*n/a*
- Corporate customers	548 244	*n/a*	*n/a*
- Public sector customers	17 606	*n/a*	*n/a*
Total non-trading financial assets mandatorily at fair value through profit or loss	**2 980 118**	*n/a*	*n/a*

18. Financial assets at fair value through other comprehensive income

31.03.2018	Carrying amount	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Equity instruments	**47 879**								
- Credit institutions	-								
- Other financial corporations	47 879								
- Non-financial corporations	-								
Debt securities	**22 876 878**	**22 865 631**	**15 541**	**-**	**-**	**(4 085)**	**(209)**	**-**	**-**
- Central banks	2 563 317	2 563 317	-	-	-	-	-	-	-
pledged securities	-	-	-	-	-	-	-	-	-
- General governments, including:	18 635 000	18 635 185	-	-	-	(185)	-	-	-
pledged securities	1 846 285	*1 846 285*	-	-	-	-	-	-	-
- Credit institutions	394 126	395 963	-	-	-	(1 837)	-	-	-
- Other financial corporations	754 196	754 799	-	-	-	(603)	-	-	-
- Non-financial corporations	530 239	516 367	15 541	-	-	(1 460)	(209)	-	-
Total financial assets at fair value through other comprehensive income	**22 924 757**								

The above note includes government bonds pledged under the Bank Guarantee Fund and government bonds pledged as collateral for the loans received from the European Investment Bank.

The note below presents the carrying amount of investment securities in accordance with IAS 39 as at 31 December 2017 and as at 31 March 2017.

IFRS Condensed Consolidated Financial Statements for the first quarter 2018 PLN (000's)

Investment securities according to IAS 39	**31.12.2017**	**31.03.2017**
Equity securities	**87 625**	**69 102**
- Other financial corporations	83 122	64 602
- Non-financial corporations	4 503	4 500
Debt securities	**32 057 074**	**38 133 074**
- Central banks, including:	2 322 914	649 827
- General governments, including:	27 619 604	29 541 826
pledged securities	*6 299 892*	*6 512 273*
- Credit institutions	426 136	181 979
- Other financial corporations	1 103 781	687 022
- Non-financial corporations	584 639	560 147
Total investment securities according to IAS 39	**32 144 699**	**31 689 903**

The above note includes government bonds pledged under the Bank Guarantee Fund, government bonds pledged as sell-buy-back transactions, government bonds pledged as collateral for the loans received from the European Investment Bank.

19. Financial assets at amortised cost

31.03.2018	Carrying amount	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Debt securities	**8 689 402**	**8 689 437**	**-**	**-**	**-**	**(35)**	**-**	**-**	**-**
- General governments, including:	7 756 944	7 756 944	-	-	-	-	-	-	-
pledged securities	*3 958 004*	*3 958 004*	-	-	-	-	-	-	-
- Other financial corporations	932 458	932 493	-	-	-	(35)	-	-	-
Loans and advances to banks	**3 811 337**	**3 811 915**	**273**	**772**	**-**	**(1 394)**	**-**	**(229)**	**-**
Loans and advances to customers	**82 724 119**	**73 461 898**	**7 881 379**	**4 033 743**	**211 778**	**(180 668)**	**(198 067)**	**(2 486 638)**	**694**
Individual customers	44 798 294	38 804 421	5 255 466	2 286 112	105 849	(89 003)	(154 008)	(1 414 138)	3 595
Corporate customers	37 001 522	33 737 463	2 621 631	1 746 662	105 929	(90 770)	(44 045)	(1 072 447)	(2 901)
Public sector customers	924 303	920 014	4 282	969	-	(895)	(14)	(53)	-
Total financial assets at amortised cost	**95 224 858**	**85 963 250**	**7 881 652**	**4 034 515**	**211 778**	**(182 097)**	**(198 067)**	**(2 486 867)**	**694**

The above note includes government bonds pledged under the Bank Guarantee Fund, government bonds pledged as sell-buy-back transactions, government bonds pledged as collateral for the loans received from the European Investment Bank.

Loans and advances to customers 31.03.2018	**Gross carrying amount**	**Gross carrying amount**		
		Individual customers	**Corporate customers**	**Public sector customers**
Current accounts	11 502 047	6 283 358	5 212 648	6 041
Term loans, including:	71 788 553	39 981 757	30 887 572	919 224
- housing and mortgage loans	32 737 314	32 737 314	-	-
Reverse repo / buy-sell-back	25 828	-	25 828	-
Other loans and advances	2 059 954	-	2 059 954	-
Other receivables	212 416	186 733	25 683	-
Total gross carring amount	**85 588 798**	**46 451 848**	**38 211 685**	**925 265**

Loans and advances to customers 31.03.2018	**Accumulated impairment**	**Accumulated impairment**		
		Individual customers	**Corporate customers**	**Public sector customers**
Current accounts	(965 373)	(725 151)	(240 222)	-
Term loans, including:	(1 872 517)	(928 403)	(943 152)	(962)
- housing and mortgage loans	(419 303)	(419 303)	-	-
Other loans and advances	(26 789)	-	(26 789)	-
Total accumulated impairment	**(2 864 679)**	**(1 653 554)**	**(1 210 163)**	**(962)**

Total gross carring amount	**85 588 798**	**46 451 848**	**38 211 685**	**925 265**
Total accumulated impairment	(2 864 679)	(1 653 554)	(1 210 163)	(962)
Total nett carring amount	**82 724 119**	**44 798 294**	**37 001 522**	**924 303**

Short-term (up to 1 year)	**31 510 828**
Long-term (over 1 year)	**51 213 291**

IFRS Condensed Consolidated Financial Statements for the first quarter 2018 PLN (000's)

The following note presents loans and advances to banks as well as loans and advances to customers according to IAS 39, as at 31 December 2017 and as at 31 March 2017.

	31.12.2017	31.03.2017
Loans and advances to individuals:	**48 142 786**	**48 337 964**
- current receivables	7 324 329	6 794 178
- term loans, including:	40 818 457	41 543 786
- housing and mortgage loans	32 593 180	34 207 426
Loans and advances to corporate entities:	**37 941 722**	**34 840 546**
- current receivables	5 187 588	4 770 289
- term loans:	30 599 981	28 295 392
- corporate & institutional enterprises	5 030 702	4 954 597
- medium & small enterprises	25 569 279	23 340 795
- reverse repo / buy-sell-back transactions	57 119	81 275
- other loans and advances	2 097 034	1 693 590
Loans and advances to public sector	**995 570**	**1 146 488**
Other receivables	**307 627**	**213 468**
Total (gross) loans and advances to banks and customers	**87 387 705**	**84 538 466**
Provisions for loans and advances to customers (negative amount)	(2 911 861)	(2 840 524)
Total (net) loans and advances to customers	**84 475 844**	**81 697 942**
Short-term (up to 1 year)	**29 191 490**	**26 993 896**
Long-term (over 1 year)	**55 284 354**	**54 704 046**

In the item loans and advances granted to corporate clients were also included loans granted to microenterprises serviced by mBank S.A. Retail Banking. Loans to microenterprises in the presented reporting periods amounted to respectively: 31 March 2018: PLN 5 844 538 thousand, 31 December 2017: PLN 5 756 476 thousand, 31 March 2017 – PLN 5 560 051 thousand.

Provisions for loans and advances to customers

	31.12.2017	31.03.2017
Incurred but not identified losses		
Gross balance sheet exposure	82 883 395	80 145 950
Impairment provisions for exposures analysed according to portfolio approach	(243 810)	(231 651)
Net balance sheet exposure	**82 639 585**	**79 914 299**
Receivables with impairment		
Gross balance sheet exposure	4 504 310	4 392 516
Provisions for receivables with impairment	(2 668 051)	(2 608 873)
Net balance sheet exposure	**1 836 259**	**1 783 643**

Loans and advances to banks

	31.12.2017	31.03.2017
Loans and advances to banks (gross)	**1 708 749**	**1 979 038**
Provisions for loans and advances to banks (negative amount)	(1 027)	(2 179)
Loans and advances to banks (net)	**1 707 722**	**1 976 859**

Provisions for loans and advances to banks

	31.12.2017	31.03.2017
Incurred but not identified losses		
Gross balance sheet exposure	1 708 532	1 949 759
Impairment provisions for exposures analysed according to portfolio approach (IBNI)	(810)	(713)
Net balance sheet exposure	**1 707 722**	**1 949 046**
Receivables with impairment		
Gross balance sheet exposure	217	29 279
Provisions for receivables with impairment	(217)	(1 466)
Net balance sheet exposure	**-**	**27 813**

IFRS Condensed Consolidated Financial Statements for the first quarter 2018 PLN (000's)

20. Investments in associates

On 2 June 2017, mBank S.A. signed a preliminary conditional agreement on the sale of mLocum S.A. shares to Archicom S.A. After meeting the conditions precedent, on 31 July 2017 were sold 14 120 880 shares representing 51% of the share capital of mLocum S.A. 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 on 30 June 2020. From 31 July 2017, the mLocum's shares held by the Bank have been presented in the statement of financial position under position "Investments in associates".

On 3 January 2018, an amendment to the Statute of mLocum S.A. was registered, regarding the change of the name of the company and its branches. Currently, the company is called Archicom Polska S.A.

21. Non-current assets held for sale

As at 31 December 2017 and as at 31 March 2018, as non-current assets (disposal groups), the Group disclosed the value of the property owned by Garbary Sp. z o.o.

On 28 December 2017, the company Garbary Sp. z o.o. signed a preliminary agreement for sale of real estate placed at Garbary 101/11 Street in Poznań.

On 27 April 2018, the company Garbary Sp. z o.o. signed the final agreement on the sale of real estate. The transaction is described under Note 32 of Selected explanatory information "Events after the balance sheet date".

22. Intangible assets

	31.03.2018	31.12.2017	31.03.2017
Goodwill	3 532	3 532	3 532
Patents, licences and similar assets, including:	356 082	379 288	332 277
- computer software	253 265	264 764	255 398
Other intangible assets	2 899	3 150	3 825
Intangible assets under development	329 745	324 672	238 321
Total intangible assets	**692 258**	**710 642**	**577 955**

23. Tangible assets

	31.03.2018	31.12.2017	31.03.2017
Tangible assets, including:	613 108	623 228	672 760
- land	1 038	1 038	1335
- buildings and structures	160 009	162 546	185131
- equipment	164 811	161 574	170726
- vehicles	220 069	224 964	240808
- other fixed assets	67 181	73 106	74760
Fixed assets under construction	117 355	135 510	64501
Total tangible assets	**730 463**	**758 738**	**737 261**

24. Financial liabilities held for trading and derivatives held for hedges

	31.03.2018	31.12.2017	31.03.2017
Derivatives, including:	900 830	1 095 365	1 557 117
- Held for trading derivative financial instruments classified into banking book	41 850	84 859	73 112
- Held for trading derivative financial instruments classified into trading book	960 116	1 089 007	1 623 531
- Derivative financial instruments held for fair value hedging	7 992	35 631	26 516
- Derivative financial instruments held for cash flow hedging	-	2 103	955
- Offsetting effect	(109 128)	(116 235)	(166 997)
Total financial liabilities held for trading	**900 830**	**1 095 365**	**1 557 117**

IFRS Condensed Consolidated Financial Statements for the first quarter 2018 PLN (000's)

25. Financial liabilities measured at amortised cost

	31.03.2018	31.12.2017	31.03.2017
Individual customers:	**57 720 034**	**55 693 608**	**53 829 152**
Current accounts	45 367 294	43 733 114	39 112 324
Term deposits	12 248 092	11 819 154	14 651 009
Other liabilities due to:	104 648	141 340	65 819
- liabilities in respect of cash collaterals	63 028	62 279	28 890
- other	41 620	79 061	36 929
Corporate customers:	**34 024 662**	**34 589 603**	**33 550 651**
Current accounts	18 146 165	21 463 748	20 331 919
Term deposits	10 300 773	8 037 151	7 098 219
Loans and advances received	4 178 655	4 142 944	4 001 438
Repo transactions	841 901	439 637	1 471 055
Other liabilities due to:	557 168	506 123	648 020
- liabilities in respect of cash collaterals	341 530	348 268	438 599
- other	215 638	157 855	209 421
Public sector customers:	**2 563 876**	**1 212 816**	**1 364 234**
Current accounts	519 742	623 231	469 862
Term deposits	2 036 588	585 389	893 576
Other liabilities due to:	7 546	4 196	796
- liabilities in respect of cash collaterals	-	4 196	-
- other	7 546	-	796
Total amounts due to customers	**94 308 572**	**91 496 027**	**88 744 037**
Short-term (up to 1 year)	**89 623 277**	**86 874 677**	**83 249 993**
Long-term (over 1 year)	**4 685 295**	**4 621 350**	**5 494 044**

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

In the presented reporting periods the value of liabilities in respect of current accounts and term deposits accepted from micro enterprises amounted to respectively: 31 March 2018: PLN 5 847 353 thousand, 31 December 2017: PLN 5 950 020 thousand, 31 March 2017: PLN 4 720 461 thousand.

26. Provisions

	31.03.2018	31.12.2017	31.03.2017
Pending legal issues and tax litigation	103 567	95 282	115 092
Commitments and guarantees given	120 415	75 715	41 088
Other provisions	40 809	19 978	22 479
Total provisions	**264 791**	**190 975**	**178 659**

Movements in the provisions

	31.03.2018	31.12.2017	31.03.2017
As at the beginning of the period (by type)	**190 975**	**182 754**	**182 754**
For legal proceedings	95 282	113 192	113 192
Commitments and guarantees given	75 715	43 435	43 435
Other provisions	19 978	26 127	26 127
Impact of the implementation of IFRS 9 on 1 January 2018	**44 324**	**-**	**-**
- increase in provisions for commitments and guarantees given	44 324	-	-
As at the beginning of the period (by type)	**264 791**	**190 975**	**178 659**
For legal proceedings	95 282	113 192	113 192
Commitments and guarantees given	120 039	43 435	43 435
Other provisions	19 978	26 127	26 127

IFRS Condensed Consolidated Financial Statements for the first quarter 2018 PLN (000's)

Change in the period (due to)	**29 492**	**8 221**	**(4 095)**
- increase of provisions	80 607	183 058	25 706
- release of provisions	(49 886)	(162 041)	(24 988)
- write-offs	(675)	(2 723)	(1 763)
- utilization	(427)	(5 533)	(47)
- reclassification to other positions of statement of financial position	-	(2 587)	(2 587)
- foreign exchange differences	(127)	(1 953)	(416)
As at the end of the period (by type)	**264 791**	**190 975**	**178 659**
For legal proceedings	103 567	95 282	115 092
Commitments and guarantees given	120 415	75 715	41 088
Other provisions	40 809	19 978	22 479

27. Assets and liabilities for deferred income tax

Deferred income tax assets	31.03.2018	31.12.2017	31.03.2017
As at the beginning of the period	**960 678**	**859 609**	**859 609**
Impact of the implementation of IFRS 9 on 1 January 2018	109 632		
Restated opening balance	**1 070 310**		
Changes recognized in the income statement	109 075	114 022	7 634
Changes recognized in other comprehensive income	(366)	(14 264)	(16 494)
Other changes	2 020	1 311	1 335
As at the end of the period	**1 181 039**	**960 678**	**852 084**

Provisions for deferred income tax	31.03.2018	31.12.2017	31.03.2017
As at the beginning of the period	**(331 509)**	**(320 061)**	**(320 061)**
Impact of the implementation of IFRS 9 on 1 January 2018	(40 243)		
Restated opening balance	**(371 752)**		
Changes recognized in the income statement	(55 579)	15 650	(4 450)
Changes recognized in other comprehensive income	(15 970)	(26 862)	(1 854)
Other changes	-	(236)	-
As at the end of the period	**(443 301)**	**(331 509)**	**(326 365)**

Income tax	31.03.2018	31.12.2017	31.03.2017
Current income tax	(202 128)	(562 504)	(114 121)
Deferred income tax recognised in the income statement	53 496	129 672	3 184
Income tax recognised in the income statement	**(148 632)**	**(432 832)**	**(110 937)**
Recognised in other comprehensive income	(16 336)	(51 727)	(30 691)
Total income tax	**(164 968)**	**(484 559)**	**(141 628)**

28. Fair value of assets and liabilities

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

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

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.

IFRS Condensed Consolidated Financial Statements for the first quarter 2018 PLN (000's)

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

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

	31.03.2018	
	Carrying value	**Fair value**
Financial assets at amortised cost		
Debt securities	**8 689 402**	**8 808 415**
Loans and advances	**205 185 721**	**205 581 405**
Current accounts	82 724 119	83 177 981
Term placements	44 798 294	45 942 009
Term loans, including:	5 558 207	5 728 500
- housing and mortgage loans	39 053 354	40 026 776
Reverse repo / buy-sell-back	186 733	186 733
Finance leases	37 001 522	36 315 429
Cash collaterals OTC derivatives	4 972 426	4 841 258
Other receivables	29 944 420	29 389 495
Financial liabilities measured at amortised cost		
Deposits, including:	**949 986**	**946 226**
Current accounts	25 683	25 683
Term deposits	924 303	920 543
Loans and advances received	**4 475 332**	**4 685 615**
Debt securities issued	**94 308 572**	**94 324 534**
Subordinated financial liabilities	**14 414 161**	**14 752 425**
Other financial liabilities	**2 157 269**	**2 172 966**

	31.12.2017		31.03.2017	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial assets at amortised cost				
Loans and advances to banks	**1 707 722**	**1 701 570**	**1 976 859**	**1 954 944**
Loans and advances to customers	**84 475 844**	**84 924 846**	**81 697 942**	**81 825 949**
Loans and advances to individuals	**46 567 862**	**47 629 716**	**46 768 165**	**48 029 780**
Current accounts	6 669 099	6 825 992	6 149 055	6 140 037
Term loans	39 898 763	40 803 724	40 619 110	41 889 743
Loans and advances to corporate entities	**36 605 346**	**35 993 148**	**33 570 520**	**32 469 445**
Current accounts	4 975 919	4 851 402	4 568 522	4 298 013
Term loans	29 502 709	29 014 447	27 257 430	26 426 864
Reverse repo / buy sell back transactions	57 119	57 119	81 275	81 275
Other receivables	2 069 599	2 070 180	1 663 293	1 663 293
Loans and advances to public sector	**995 009**	**994 355**	**1 145 789**	**1 113 256**
Other receivables	**307 627**	**307 627**	**213 468**	**213 468**
Financial liabilities measured at amortised cost				
Amounts due to other banks	**5 073 351**	**5 100 040**	**8 767 283**	**8 843 826**
Amounts due to customers	**91 496 027**	**91 518 916**	**88 744 037**	**88 809 934**
Debt securities in issue	**14 322 852**	**14 685 791**	**13 260 781**	**13 599 065**
Subordinated liabilities	**2 158 143**	**2 137 590**	**2 250 473**	**2 166 394**

Differences between fair value presented in the table above and in the financial statements for the year 2017 and for the first quarter 2017 result from the update of the methodology for estimating the fair value of financial assets.

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.

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

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

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

The fair value for these financial liabilities with more than 1 year to maturity is based on cash flows discounted using interest rates. For loans received from Commerzbank in CHF, the Group used the curve based on quotations of Commerzbank CDS for exposures in EUR and quotations of issued bonds under EMTN programme in EUR and CHF. For the loans received from European Investment Bank in EUR the Group used the EBI yield curve. With regard to the own issue as part of the EMTN programme the market price of the relevant financial services has been used.

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

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

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

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

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

The 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.

IFRS Condensed Consolidated Financial Statements for the first quarter 2018 PLN (000's)

31.03.2018	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
Financial assets				
Financial assets held for trading and derivatives held for hedges	**4 300 858**	**2 901 883**	**1 137 925**	**261 050**
Debt securities	**3 161 688**	**2 900 638**	**-**	**261 050**
- General governments	2 900 638	2 900 638	-	-
- Credit institutions	112 520	-	-	112 520
- Other financial corporations	71 921	-	-	71 921
- Non-financial corporations	76 609	-	-	76 609
Equity securities	**1 245**	**1 245**	**-**	**-**
- Credit institutions	30	30	-	-
- Other financial corporations	244	244	-	-
- Non-financial corporations	971	971	-	-
Derivative financial instruments, including:	**1 137 925**	**-**	**1 137 925**	**-**
Derivative financial instruments held for trading:	**1 004 559**	**-**	**1 004 559**	**-**
- interest rate derivatives	618 254	-	618 254	-
- foreign exchange derivatives	316 156	-	316 156	-
- market risks derivatives	70 149	-	70 149	-
Derivative financial instruments held for hedging:	**133 366**	**-**	**133 366**	**-**
- derivatives designated as fair value hedges	128 625	-	128 625	-
- derivatives designated as cash flow hedges	4 741	-	4 741	-
Non-trading financial assets mandatorily at fair value through profit or loss	**2 980 118**	**867**	**-**	**2 979 251**
Loans and advances to custumers	**2 939 264**	**-**	**-**	**2 939 264**
- Individual customers	2 373 414	-	-	2 373 414
- Credit institutions	548 244	-	-	548 244
- Corporate customers	17 606	-	-	17 606
Equity securities	**40 854**	**867**	**-**	**39 987**
- Other financial corporations	15 406	867	-	14 539
- Non-financial corporations	25 448	-	-	25 448
Financial assets at fair value through other comprehensive income	**22 924 757**	**19 176 446**	**2 563 317**	**1 184 994**
Debt securities	**22 876 878**	**19 176 446**	**2 563 317**	**1 137 115**
- Banki centralne	2 563 317	-	2 563 317	-
- General governments	18 635 000	18 598 368	-	36 632
- Credit institutions	394 126	-	-	394 126
- Other financial corporations	754 196	578 078	-	176 118
- Non-financial corporations	530 239	-	-	530 239
Equity securities	**47 879**	**-**	**-**	**47 879**
- Other financial corporations	47 879	-	-	47 879
Total financial assets	**30 205 733**	**22 079 196**	**3 701 242**	**4 425 295**

31.03.2018	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	**900 830**	**-**	**900 830**	**-**
Derivative financial instruments held for trading	**987 162**	**-**	**987 162**	**-**
- interest rate derivatives	713 735	-	713 735	-
- foreign exchange derivatives	208 871	-	208 871	-
- market risks derivatives	64 556	-	64 556	-
Derivative financial instruments held for trading	**(86 332)**	**-**	**(86 332)**	**-**
- derivatives designated as fair value hedges	(14 217)	-	(14 217)	-
- derivatives designated as cash flow hedges	(72 115)	-	(72 115)	-
Total financial liabilities	**900 830**	**-**	**900 830**	**-**
TOTAL RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS	**30 205 733**	**22 079 196**	**3 701 242**	**4 425 295**
FINANCIAL LIABILITIES	**900 830**	**-**	**900 830**	**-**

IFRS Condensed Consolidated Financial Statements for the first quarter 2018 PLN (000's)

Assets Measured at Fair Value Based on Level 3 - changes in the period from 1 January to 31 March 2018	Debt trading securities	Non-trading equity securities mandatorily at fair value through profit or loss	Debt securities at fair value through other comprehensive income	Equity securities at fair value through other comprehensive income
As at the beginning of the period	**288 676**	**-**	**1 214 940**	**86 639**
Transfer between asset categories due to the implementation of IFRS 9 as at 01.01.2018	**-**	**40 101**	**-**	**(40 101)**
Restated opening balance	**288 676**	**40 101**	**1 214 940**	**46 538**
Gains and losses for the period:	**1 522**	**8**	**6 336**	**1 341**
Recognised in profit or loss:	1 522	8	-	(602)
- Net trading income	1 522	8	-	(602)
Recognised in other comprehensive income:	-	-	6 336	1 943
- Financial assets at fair value through other comprehensive income	-	-	6 336	1 943
Purchases	206 169	-	42 024	-
Redemptions	(26 401)	-	(5 572)	-
Sales	(732 159)	(122)	(172 851)	-
Issues	523 243	-	52 238	-
As at the end of the period	**261 050**	**39 987**	**1 137 115**	**47 879**

31.12.2017	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, including:	**1 525 382**	**1 236 546**	**160**	**288 676**
Debt securities	***1 523 908***	***1 235 232***	**-**	***288 676***
- government bonds	1 232 515	1 232 515	-	-
- deposit certificates	14 096	-	-	14 096
- banks bonds	98 601	-	-	98 601
- corporate bonds	178 696	2 717	-	175 979
Equity securities	***1 474***	***1 314***	***160***	**-**
- listed	1 314	1 314	-	-
- unlisted	160	-	160	-
Derivative financial instruments, including:	***1 236 303***	**-**	***1 236 303***	**-**
Derivative financial instruments held for trading	***1 146 956***	**-**	***1 146 956***	**-**
- interest rate derivatives	708 582	-	708 582	-
- foreign exchange derivatives	393 723	-	393 723	-
- market risks derivatives	44 651	-	44 651	-
Derivative financial instruments held for hedging	***89 347***	**-**	***89 347***	**-**
- derivatives designated as fair value hedges	59 652	-	59 652	-
- derivatives designated as cash flow hedges	29 695	-	29 695	-
Investment securities, including:	**32 144 699**	**28 520 206**	**2 322 914**	**1 301 579**
Debt securities	***32 057 074***	***28 519 220***	***2 322 914***	***1 214 940***
- government bonds	27 583 694	27 583 694	-	-
- money bills	2 322 914	-	2 322 914	-
- deposit certificates	221 700	-	-	221 700
- banks bonds	204 436	-	-	204 436
- corporate bonds	1 688 420	935 526	-	752 894
- communal bonds	35 910	-	-	35 910
Equity securities	***87 625***	***986***	**-**	***86 639***
- unlisted	87 625	986	-	86 639
TOTAL FINANCIAL ASSETS	**34 906 384**	**29 756 752**	**3 559 377**	**1 590 255**

31.12.2017	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, including:	***1 095 365***	**-**	***1 095 365***	**-**
Derivative financial instruments held for trading	***1 069 691***	**-**	***1 069 691***	**-**
- interest rate derivatives	658 744	-	658 744	-
- foreign exchange derivatives	376 854	-	376 854	-
- market risks derivatives	34 093	-	34 093	-
Derivative financial instruments held for trading	***25 674***	**-**	***25 674***	**-**
- derivatives designated as fair value hedges	24 188	-	24 188	-
- derivatives designated as cash flow hedges	1 486	-	1 486	-
Total financial liabilities	***1 095 365***	**-**	***1 095 365***	**-**
TOTAL RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS	**34 906 384**	**29 756 752**	**3 559 377**	**1 590 255**
FINANCIAL LIABILITIES	**1 095 365**	**-**	**1 095 365**	**-**

IFRS Condensed Consolidated Financial Statements for the first quarter 2018 PLN (000's)

Assets Measured at Fair Value Based on Level 3 - changes in 2017	Debt trading securities	Debt investment securities	Equity investment securities
As at the beginning of the period	**290 544**	**901 885**	**65 261**
Total gains and losses for the period:	**3 274**	**(16 036)**	**3 339**
Recognised in profit or loss:	3 274	(7 511)	(4 751)
- Net trading income	*3 274*	-	-
- Gains less losses from investment securities, investments in subsidiaries and associates	-	*(7 511)*	*(4 751)*
Recognised in other comprehensive income:	-	*(8 525)*	*8 090*
- Available for sale financial assets	-	*(8 525)*	*8 090*
Purchases	1 038 365	478 498	22 636
Redemptions	(222 187)	(106 496)	-
Sales	(7 315 111)	(1 689 984)	(4 500)
Issues	6 493 791	1 647 073	-
Transfers out of Level 3	-	-	*(97)*
As at the end of the period	**288 676**	**1 214 940**	**86 639**

Transfers between levels in 2017	Transfer into level 1	Transfer out of level 1	Transfer into level 2	Transfer out of level 2
Investment securities	**97**	-	-	-
Equity securities	97	-	-	-

In 2017, one transfer from level 3 to level 1 of the fair value hierarchy took place and concerned a company whose shares were admitted to public trading.

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

IFRS Condensed Consolidated Financial Statements for the first quarter 2018 PLN (000's)

31.03.2017	Including:	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
FINANCIAL LIABILITIES				
Derivative financial instruments	**1 557 117**	**-**	**1 557 117**	**-**
Derivative financial instruments held for trading	**1 540 551**	**-**	**1 540 551**	**-**
- interest rate derivatives	977 567	-	977 567	-
- foreign exchange derivatives	534 957	-	534 957	-
- market risks derivatives	28 027	-	28 027	-
Derivative financial instruments held for hedging	**16 566**	**-**	**16 566**	**-**
- derivatives designated as fair value hedges	19 323	-	19 323	-
- derivatives designated as cash flow hedges	(2 757)	-	(2 757)	-
Total financial liabilities	**1 557 117**	**-**	**1 557 117**	**-**
TOTAL RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS	**36 908 794**	**33 343 806**	**2 330 399**	**1 234 589**
FINANCIAL LIABILITIES	**1 557 117**	**-**	**1 557 117**	**-**

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

Level 1

As at 31 March 2018, at level 1 of the fair value hierarchy, the Group has presented the fair value of held for trading government bonds in the amount of PLN 2 900 638 thousand (see Note 16) and the fair value of investment government bonds and treasury bills in the amount of PLN 18 598 368 thousand (see Note 18) (31 December 2017 respectively: PLN 1 232 515 thousand and PLN 27 583 694 thousand, 31 March 2017 respectively: PLN 3 257 055 thousand and PLN 29 504 517 thousand).

In addition, as at 31 March 2018 level 1 includes the value of the registered privileged shares of Giełda Papierów Wartościowych in the amount of PLN 867 thousand (31 December 2017: PLN 986 thousand, 31 March 2017: PLN 932 thousand) and the value of the shares of listed companies in the amount of PLN 1 245 thousand (31 December 2017: PLN 1 314 thousand, 31 March 2017: PLN 3 736 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 2 563 317 thousand (31 December 2017: PLN 2 322 914 thousand, 31 March 2017: PLN 649 827 thousand), whose valuation is based on a NPV model (discounted future cash flows) fed with interest rate curves generated by transformation of quotations taken directly from active and liquid financial markets.

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

As at 31 March 2018, 31 December 2017, and 31 March 2017, level 2 also includes the value of options referencing on the WIG20 index, listed on the Stock Exchange. For the valuation of index options on WIG20 the Bank applied an internal model (based on a model for implied volatility) for which market data have been used as input parameters.

Level 3

Level 3 of the hierarchy presents the fair values of commercial debt securities issued by local banks and companies (bonds and deposit certificates) in the amount of PLN 1 939 611 thousand (31 December 2017: PLN 1 467 706 thousand, 31 March 2017: PLN 1 128 758 thousand).

Level 3 includes also the fair value of local government bonds in the amount of PLN 36 632 thousand (31 December 2017: PLN 35 910 thousand, 31 March 2016: PLN 37 309 thousand).

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

As at 31 March 2018, Level 3 includes the fair value of loans and advances to customers in the amount of PLN 2 939 264 thousand.

The fair value for loans and advances to customers is calculated as the present value of future cash flows (adjusted by prepayments) using current interest rates, including credit spread, cost of liquidity and cost of capital margin. 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 Group's exposures are in major part collateralised whereas the median of market quotation is centred around unsecured issues, the Group applied appropriate adjustments.

Moreover, level 3 also includes the fair value of equity securities amounting to PLN 87 487 thousand (31 December 2017: PLN 86 639 thousand, 31 March 2017: PLN 68 170 thousand). As at 31 March 2018, these amount includes the value of preferred stock in Visa Inc. in the amount of PLN 47 879 thousand (31 December 2017: PLN 46 538 thousand, 31 March 2017 PLN 41 272 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.

Selected explanatory information

1. Compliance with international financial reporting standards

The presented condensed consolidated report for the first quarter of 2018 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

The detailed description of the Group's accounting policies is presented in Note 2 and 3 of these condensed consolidated financial statements. The accounting principles adopted by the Group were applied on a continuous basis for all periods presented in the financial statements, except for the accounting principles applied in connection with the implementation of IFRS 9 as of 1 January 2018. The main changes in the classification, measurement and principles for creating provisions for impairment of financial instruments introduced by IFRS 9 are presented under Note 2.31 Comparative data.

3. Seasonal or cyclical nature of the business

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

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

- From 1 January 2018, the Group has implemented the International Financial Reporting Standard - IFRS 9: "Financial Instruments", whose impact on the statement of financial situation and the level of own funds of the Bank and the Group as at 1 January 2018 has been presented under Note 2.31.
- On 21 March 2018, the Bank early redeemed two series of perpetual subordinated bonds in the total nominal amount of CHF 250 000 thousand (equivalent of PLN 905 125 thousand according to the average exchange rate of the National Bank of Poland of 21 March 2018). The bonds were entirely covered by Commerzbank AG. As at the repurchase date the bonds were redeemed. The Bank has made the early redemption as the funds obtained from these bonds were no longer included in Tier 2 capital, according to art. 490 of 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.

  Additionally, on 21 March 2018, the Bank drew a subordinated loan in the amount of CHF 250 000 thousand (equivalent of PLN 905 125 thousand according to the average exchange rate of the National Bank of Poland of 21 March 2018) based on a subordinated loan agreement signed with Commerzbank on 27 November 2017. Under the terms of the Agreement, the disbursement of the loan as well as the repurchase of subordinated bonds occurred by way of netting of the related claims.
- On 29 March 2018, the Polish Financial Supervision Authority gave a consent for qualifying funds from subordinated loan in the amount of CHF 250 million as instrument in the Bank's Tier 2 capital. The amount of CHF 250 million according to the average exchange rate of the National Bank of Poland of 29 March 2018 is the equivalent of PLN 893.2 million.

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

The impact of the implementation as at 1 January 2018 of IFRS 9 on the statements of financial position of the Bank and mBank S.A. Group prepared as at 31 December 2017 has been presented under Note 2.31 of these condensed consolidated financial statements.

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

In the first quarter of 2018, mBank Hipoteczny S.A. issued short term bonds in the amount of PLN 272 000 thousand. In the same time the company redeemed mortgage bonds in the amount of EUR 7 500 thousand and made an early redemption on the secondary market of private issue addressed to mBank in the amount of PLN 250 000 thousand.

Moreover, on 21 March 2018 made an early redemption of two series of perpetual subordinated bonds in the total nominal amount of CHF 250 000 thousand, which was described under point 4 above.

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

mBank S.A. received an individual recommendation of the Polish Financial Supervision Authority (KNF) of 16 March 2018 to increase the own funds by retaining at least 80% of the net profit generated by the Bank from 1 January to 31 December 2017. At the same time, the KNF confirmed that the Bank meets the requirements for dividend payment of up to 20% of the net profit for 2017.

In connection with the above, on 12 April 2018, the 31st Annual General Meeting of mBank S.A. adopted a resolution regarding the distribution of the net profit for 2017. The dividend for the Bank's shareholders will contribute the amount of PLN 217 907 428.30, with the amount of the dividend per share amounting to PLN 5.15. This amount represents 20% of the Bank's net profit generated in the period from 1 January to 31 December 2017, which is in line with the recommendation of the KNF.

The dividend day was set for 24 May 2018 (the dividend day), while the dividend payment date is 7 June 2018 (dividend payment date).

8. Significant events after the end of the first half of 2018, which are not reflected in the financial statements

Events as indicated above did not occur in the Group.

9. Effect of changes in the structure of the entity in the first quarter of 2018, including business combinations, acquisitions or disposal of subsidiaries, long-term investments, restructuring, and discontinuation of business activities

- The sale of an organised part of mFinanse

On 27 November 2017, mBank S.A. and mBank's subsidiary mFinanse S.A. ("mFinanse"), concluded a conditional agreement under which mBank was obliged to sell 100%, i.e. 100 000 shares in Latona S.A. to Phoebe IVS with its registered office in Denmark "Inwestor", then mFinanse was obliged to sell the organized part of the enterprise of mFinanse to Latona S.A.

In connection with the above, on 26 March 2018, the Bank sold 100% of shares in Latona S.A. to the Investor, and on 27 March 2018, mFinanse sold the organized part of mFinanse to Latona S.A.

The organized part of the enterprise is a separate activity under which, on the basis of agency agreements, mFinanse performs insurance intermediation activities in the field of group insurance contracts as an insurance agent.

As a result of finalizing the transaction, in the first quarter of 2018 the Group recognised a one-off gross profit in the amount of PLN 219 717 thousand. The maximum value of remuneration on account of the transaction is approximately PLN 491 million. Due to the nature of the transaction, the recognition of the part of the remuneration in the future will depend on the performance of the business sold. This may result in the recognition of an additional gross profit of up to PLN 237 million in the period of about 6 years from the closing of the transaction.

- Restructuring of mCentrum Operacji Sp. Z o.o.

On 1 March 2018, the Group completed the process of reorganisation of mCentrum Operacji Sp z o.o. ("mCO"). As part of the process, two organized parts of the enterprise were separated in the form of the Development Division of Automatic Processes and the General Division. On 1 March 2018, the Development Division of Automatic Process was sold to Feronia, of which the major shareholder is Future Tech FIZ, a subsidiary of the Bank, in order to automation of the processes handled by this part of mCO, while the General Division, including the majority of processes so far serviced by mCO, was sold to the Bank.

These transactions had no impact on the financial results and net assets of the Bank and mBank S.A. Group.

10. Changes in contingent liabilities and commitments

In the first quarter of 2018, there were no changes in contingent liabilities and commitments of credit nature, i.e., guarantees, letters of credit or unutilised loan amounts, other than resulting from current operating activities of the Group. There was no single case of granting of guarantees or any other contingent liability of any material value for the Group.

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

In the first quarter of 2018, events as indicated above did not occur in the Group.

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

In the first quarter of 2018, 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 is presented under Note 12 of these condensed consolidated financial statements.

14. Reversals of provisions against restructuring costs

In the first quarter of 2018, events as indicated above did not occur in the Group.

IFRS Condensed Consolidated Financial Statements for the first quarter 2018 PLN (000's)

15. Acquisitions and disposals of tangible fixed asset items

In the first quarter of 2018, there were no material transactions of acquisition or disposal of any tangible fixed assets, with the exception of typical lease and property development operations that are performed by the companies of the Group.

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

In the first quarter of 2018, 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 connection with the implementation of IFRS 9 as of 1 January 2018, the Group has appropriately changed the methods for determining the fair value of financial instruments, as described in detail under Note 2 "Description of relevant accounting policies".

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

In the reporting period there were no changes in the classification of financial assets as a result of a change in the purpose or use of these assets.

19. Corrections of errors from previous reporting periods

In the first quarter of 2018 there 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 quarter of 2018, 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 2018.

22. Registered share capital

The total number of ordinary shares as at 31 March 2018 was 42 312 122 shares (31 December 2017: 42 312 122 shares, 31 March 2017 - 42 280 127 shares) at PLN 4 nominal value each. All issued shares were fully paid up.

REGISTERED SHARE CAPITAL (THE STRUCTURE) AS AT 31 MARCH 2018						
Share type	**Type of privilege**	**Type of limitation**	**Number of shares**	**Series / face value of issue in PLN**	**Paid up**	**Registered on**
ordinary bearer*	-	-	9 988 000	39 952 000	fully paid in cash	1986
ordinary registered*	-	-	12 000	48 000	fully paid in cash	1986
ordinary bearer	-	-	2 500 000	10 000 000	fully paid in cash	1994
ordinary bearer	-	-	2 000 000	8 000 000	fully paid in cash	1995
ordinary bearer	-	-	4 500 000	18 000 000	fully paid in cash	1997
ordinary bearer	-	-	3 800 000	15 200 000	fully paid in cash	1998
ordinary bearer	-	-	170 500	682 000	fully paid in cash	2000
ordinary bearer	-	-	5 742 625	22 970 500	fully paid in cash	2004
ordinary bearer	-	-	270 847	1 083 388	fully paid in cash	2005
ordinary bearer	-	-	532 063	2 128 252	fully paid in cash	2006
ordinary bearer	-	-	144 633	578 532	fully paid in cash	2007
ordinary bearer	-	-	30 214	120 856	fully paid in cash	2008
ordinary bearer	-	-	12 395 792	49 583 168	fully paid in cash	2010
ordinary bearer	-	-	16 072	64 288	fully paid in cash	2011
ordinary bearer	-	-	36 230	144 920	fully paid in cash	2012
ordinary bearer	-	-	35 037	140 148	fully paid in cash	2013
ordinary bearer	-	-	36 044	144 176	fully paid in cash	2014
ordinary bearer	-	-	28 867	115 468	fully paid in cash	2015
ordinary bearer	-	-	41 203	164 812	fully paid in cash	2016
ordinary bearer	-	-	31 995	127 980	fully paid in cash	2017
Total number of shares			**42 312 122**			
Total registered share capital				**169 248 488**		
Nominal value per share (PLN)		**4**				

* As at the end of the reporting period

IFRS Condensed Consolidated Financial Statements for the first quarter 2018 PLN (000's)

23. Material share packages

In the first quarter of 2018, there were no changes in the holding of material share packages of the Bank.

Commerzbank AG is a shareholder holding over 5% of the share capital and votes at the General Meeting and as at 31 March 2018 it held 69.37% of the share capital and votes at the General Meeting of mBank S.A.

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

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

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

	Number of shares held as at the date of publishing the report for the year 2017	Number of shares acquired from the date of publishing the report for the year 2017 to the date of publishing the report for Q1 2018	Number of shares sold from the date of publishing the report for the year 2017 to the date of publishing the report for Q1 2018	Number of shares held as at the date of publishing the report for Q1 2018
Management Board				
1. Cezary Stypułkowski	16 275	-	-	16 275
2. Lidia Jabłonowska-Luba	-	-	-	-
3. Frank Bock	-	-	-	-
4. Andreas Böger	-	-	-	-
5. Krzysztof Dąbrowski	1 117	-	-	1 117
6. Cezary Kocik	-	-	-	-
7. Adam Pers	-	-	-	-

As at the date of publishing the report for the year 2017 and as at the date of publishing the report for the first quarter of 2018, 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 year 2017 and as at the date of publishing the report for the first quarter of 2018, the Member of the Supervisory Board of mBank S.A. Mr Jörg Hessenmüller had 6 118 and 6 118 Bank's shares respectively.

As at the date of publishing the report for the year 2017 and as at the date of publishing the report for the first quarter of 2018, the other Members of the Supervisory Board of mBank S.A. had neither Bank shares nor rights to Bank shares.

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

As at 31 March 2018, the Bank was not involved in any proceedings before a court, arbitration body, or public administration authority concerning liabilities of the Bank or its subsidiaries, which represent at least 10% of the Bank's equity. Moreover, the total value of claims concerning liabilities of the Bank or its subsidiary in all proceedings before a court, an arbitration body or a public administration authority as at 31 March 2018 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.

<u>Information on the most important court proceedings relating to the issuer's contingent liabilities</u>

1. Claims of Interbrok's clients

   Since 14 August 2008, 170 entities which have been clients of Interbrok Investment E. Dróżdż i Spółka Spółka jawna (hereinafter Interbrok) called the Bank for amicable settlement for the total amount of PLN 385,520 thousand via the District Court in Warsaw. Nine compensation lawsuits were filed against the Bank. Eight of the nine lawsuits were filed by former clients of Interbrok for the total amount of PLN 800 thousand with the proviso that the claims may be extended up to the total amount of PLN 5,950 thousand. The plaintiffs alleged that the Bank had aided in Interbrok's illegal activities, which caused damage to them. With regard to seven of the afore-mentioned cases, legal proceedings against the Bank were dismissed and the cases were finally concluded. In the eighth case, a plaintiff withdrew their suit waiving the claim and the Regional

Court dismissed the action. As far as the ninth suit is concerned, the amount in dispute is PLN 275,423 thousand, including statutory interest and costs of proceedings. According to the claims brought in the suit, this amount comprises the receivables, acquired by the plaintiff by way of assignment, due to the parties aggrieved by Interbrok on account of a reduction (as a result of Interbrok's bankruptcy) of the receivables by a return of the deposits paid by the aggrieved for making investments on the forex market. The plaintiff claims the Bank's liability on the grounds of the Bank's aid in committing the illicit act of Interbrok, consisting in unlicensed brokerage operations. On 7 November 2017, the Regional Court in Warsaw dismissed the action in its entirety. The ruling is not final.

2. Class action against mBank S.A. concerning the clause on changing interest rate

On 4 February 2011, a class action filed with the Regional Court in Łódź on 20 December 2010 by the Municipal Consumer Ombudsman representing a group of 835 individuals, the Bank's retail banking clients, was served on the Bank. The class action was filed to determine the Bank's liability for the improper performance of mortgage loan agreements. It was in particular claimed that the Bank had improperly applied provisions of agreements on changing interest rate, namely that the Bank had not lowered interest on loans, despite the fact that, according to the plaintiff, it was obliged to do so. The Bank does not agree with the above-mentioned allegations. On 18 February 2011, the Bank responded to the lawsuit filing for its dismissal in whole.

On 6 May 2011, the Regional Court in Łódź decided to dismiss the application for dismissing the lawsuit, filed by mBank S.A., and admitted the case to be heard as a class action. In response to this decision, mBank S.A. filed a complaint with the Court of Appeal in Łódź on 13 June 2011. However, the Court of Appeal in Łódź dismissed mBank S.A.'s complaint on 28 September 2011. Currently, the case proceeds as a class action. Until March 2012, new individuals had been joining the class action. As at 17 October 2012, the group of class members consisted of 1,247 individuals. The Regional Court in Łódź did not establish bail for the benefit of mBank S.A., which was applied for by the Bank. The Bank filed a complaint about this decision. But on 29 November 2012, the Court of Appeal in Łódź overturned the Bank's complaint about the establishment of bail. The judgment is binding and the plaintiff is not obliged to pay bail. The final statement of defence was sent in January 2013 and on 15 February 2013, the plaintiff answered it in a pleading. By its decision of 18 February 2013, the Regional Court in Łódź submitted the case to mediation. On 26 February 2013, the Municipal Consumer Ombudsman appealed against the case being submitted to mediation. On 22 June 2013, a trial was held and on 3 July 2013, the Court announced its judgment allowing the claim in full. According to the Court, the Bank did not properly execute the agreements concluded with consumers, as a result of which they suffered losses. The Bank appealed against this judgment on 9 September 2013. However, on 30 April 2014, the Court of Appeal in Łódź dismissed the appeal of mBank S.A., upholding the stance adopted by the Regional Court expressed in the judgment. Upon receiving a written justification of the judgment, mBank S.A. brought a cassation appeal. The cassation appeal was filed with the Supreme Court by mBank S.A. on 3 October 2014. By its decision of 7 October 2014, the Court of Appeal in Łódź suspended the enforcement of the judgment passed by the Regional Court until the cassation appeal of mBank S.A. has been resolved. On 18 February 2015, the Supreme Court accepted the cassation appeal filed by mBank S.A. for review. On 14 May 2015, the Supreme Court revoked the ruling of the Court of Appeal in Łódź and referred the case back to that court for re-examination. By the decision of 24 September 2015, the Court of Appeal in Łódź admitted the expert opinion evidence in order to verify the legality of mBank's actions connected with changing the interest rates on the mortgage loans covered by the class action in the period from 1 January 2009 to 28 February 2010.

mBank S.A. 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 answering 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.

On 24 February 2017, a trial was held during which the court admitted the oral supplementary expert opinion as evidence; however, the opinion did not allay the Court's doubts so by the resolution of 6 April 2017, the Court of Appeal admitted another written supplementary expert opinion as evidence. The supplementary opinion was issued by an expert and presented to Parties for comments. On 29 September 2017, the Bank submitted a comprehensive piece of writing with its comments on the opinion. On 30 April 2018, a hearing was held before the Court which accepted supplementary verbal testimony of an expert as evidence. The Court issued a decision obliging mBank to submit certificates containing the history of changes in interest rates applied to each credit agreement covered by the proceedings by 15 June 2018.

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

   On 4 April 2016, the Municipal Consumer Ombudsman representing a group of 390 individuals, retail clients of mBank, who concluded agreements on CHF-indexed mortgage loans with mBank, filed a class action with the Regional Court in Łódź against the Bank. With subsequent pleadings, the plaintiff reported other individuals who gradually joined the class action.

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

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

   By its decision of 9 May 2017, the Regional Court in Łódź decided on instigating a class action and set the time limit of three months from the publication of the decision for persons whose claims may be covered by the class action to join the class. Within the time limit set, 352 persons joined the group of class members. As decided by the Court on 13 March 2018, the group is composed of 1,731 persons. The said decision was appealed against by both parties. Regardless of the appeal proceedings, the Court scheduled a hearing for 5 October 2018.

As at 31 March 2018, the Bank was not involved in any proceedings before a court, arbitration body, or public administration authority concerning receivables of the Bank or its subsidiaries, which represent at least 10% of the Bank's equity. The total value of claims concerning receivables of the Bank or its subsidiaries in all proceedings before a court, an arbitration body or a public administration authority underway at 31 March 2018 was also not higher than 10% of the Bank's equity.

Tax audits

On 23 November 2017 at mBank S.A. has started the tax inspection regarding the correctness of settlement of the tax on goods and services due to the import of services for 2015, conducted by employees of the Mazowiecki Customs and Tax Office in Warsaw. The tax audit is under way.

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.

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

26. Off-balance sheet liabilities

Off-balance sheet liabilities as at 31 March 2018, 31 December 2017 and 31 March 2017 were as follows:

IFRS Condensed Consolidated Financial Statements for the first quarter 2018 PLN (000's)

mBank Group consolidated data

	31.03.2018	31.12.2017	31.03.2017
1. Contingent liabilities granted and received	**38 479 606**	**37 494 697**	**31 395 401**
Commitments granted	**34 039 223**	**33 491 642**	**28 578 947**
- financing	26 324 420	25 947 991	22 483 611
- guarantees and other financial facilities	7 547 011	7 143 651	6 091 906
- other commitments	167 792	400 000	3 430
Commitments received	**4 440 383**	**4 003 055**	**2 816 454**
- financial commitments	466 712	13 222	150 001
- guarantees	3 973 671	3 989 833	2 666 453
2. Derivative financial instruments (nominal value of contracts)	**455 943 814**	**429 312 795**	**415 158 037**
Interest rate derivatives	359 348 918	334 308 351	321 044 573
Currency derivatives	92 054 524	91 837 298	85 071 484
Market risk derivatives	4 540 372	3 167 146	9 041 980
Total off-balance sheet items	**494 423 420**	**466 807 492**	**446 553 438**

mBank stand - alone data

	31.03.2017	31.12.2017	31.03.2017
1. Contingent liabilities granted and received	**38 479 606**	**44 345 080**	**38 375 779**
Commitments granted	**34 039 223**	**40 342 025**	**35 559 927**
- financing	26 324 420	25 082 366	21 528 906
- guarantees and other financial facilities	7 547 011	14 859 659	14 027 921
- other commitments	167 792	400 000	3 100
Commitments received	**4 440 383**	**4 003 055**	**2 815 852**
- financial commitments	466 712	13 222	150 000
- guarantees	3 973 671	3 989 833	2 665 852
2. Derivative financial instruments (nominal value of contracts)	**455 943 814**	**430 977 784**	**417 730 269**
Interest rate derivatives	359 348 918	334 207 199	321 799 424
Currency derivatives	92 054 524	93 603 439	86 888 865
Market risk derivatives	4 540 372	3 167 146	9 041 980
Total off-balance sheet items	**494 423 420**	**475 322 864**	**456 106 048**

27. Transactions with related entities

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

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

The amounts of transactions with related entities, i.e., balances of receivables and liabilities and related costs and income as at 31 March 2018, 31 December 2017 and 31 March 2017 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	**31.03.2018**	**31.12.2017**	**31.03.2017**	**31.03.2018**	**31.12.2017**	**31.03.2017**
Statement of Financial Position						
Assets	1 245 371	610 783	1 180 390	28 751	19 565	826
Liabilities	3 135 821	4 442 482	8 216 214	1 157 668	1 120 961	872 092
Income Statement						
Interest income	25 364	110 603	29 305	359	1 369	71
Interest expense	(18 957)	(121 661)	(33 390)	(1 691)	(5 726)	(1 111)
Fee and commission income	273	1 158	-	80	177	4
Fee and commission expense	-	(5)	-	-	-	-
Other operating income	5	24	9	-	67	17
Overhead costs, amortisation and other operating expenses	(2 751)	(8 865)	(2 814)	-	(11)	-
Contingent liabilities granted and received						
Contingent liabilities granted	1 339 906	2 099 374	1 453 980	349 269	368 343	10 813
Contingent liabilities received	1 590 961	1 632 240	1 512 921	7 121	8 385	19 434

The total costs of remuneration of Members of the Supervisory Board, the Management Board and other key management personnel of the Bank that perform their duties from 1 January to 31 March 2018 recognised in the Group's income statement for that period amounted to PLN 10 918 690 (in the period from 1 January to 31 March 2017: PLN 8 456 985).

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

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

As at 31 March 2018, 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

On 12 April 2018, the 30^{th} the Supervisory Board of mBank S.A. selected members of the Management Board of mBank S.A. for a joint term of five years, with the following composition:

1. Cezary Stypułkowski – President of the Management Board,
2. Lidia Jabłonowska-Luba – Vice-President of the Management Board, Chief Risk Officer,
3. Frank Bock – Vice-President of the Management Board, Head of Financial Markets,
4. Andreas Böger – Vice-President of the Management Board, Chief Financial Officer,

5. Krzysztof Dąbrowski – Vice-President of the Management Board, Head of Operations and IT,
6. Cezary Kocik – Vice-President of the Management Board, Head of Retail Banking,
7. Adam Pers – Vice-President of the Management Board, Head of Corporate and Investment Banking,

30. Factors affecting the results in the coming quarter

Apart from operating activity of the Bank and mBank Group entities, there are no other events expected in the second quarter of 2018 that would have a significant impact on the profit of this period.

31. Other information

- Recommendations of Financial Stability Committee (FSC) on the restructuring of the foreign exchange housing loans portfolio

On 13 January 2017, FSC endorsed the resolution on the recommendation on the restructuring of the foreign exchange housing loans portfolio. The resolution includes a list of recommendations, part of which were introduced in the year 2017. Two of the recommendations that may have significant impact on the Group but have not yet been introduced, are:

- to increase the minimum LGD for exposures secured by mortgages on residential properties, 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.);
- introduction of changes in the rules of operation of the Borrower Support Fund, which would lead to a greater use of the funds to support borrowers in difficult financial situation - recommendation not introduced. In October 2017 the Parliament of the Republic of Poland has begun work on the draft of the amendment to the *act on support of borrowers in financial difficulties, who had taken out a housing loan* as well as a *law on corporate income tax*, proposed by the President of the Republic of Poland, which address the FSC recommendation.

Due to ongoing work on the implementation of these recommendations Bank is not able to assess at this moment the potential impact of the aforementioned changes on the capital ratios and financial statements of the Bank and the Group.

- Requirements on mBank Group capital ratios in 2018

Starting from 2018 the binding conservation capital buffer defined in the Act on Macro-prudential Supervision over the Financial System and Crisis Management in the Financial System of 5 August 2015 (Dz.U. 2015 item 1513), increased to 1.875% of the total risk exposure amount.

Starting from 1 January 2018, banks in Poland has been obliged to meet systemic risk buffer of 3% on individual and consolidated basis, resulting from entry into force of the Regulation of the Minister of Development and Finance with regard to systemic risk buffer, addressing one of the mentioned FSC recommendations. The regulation introduces systemic risk buffer of 3% of the total risk exposure amount applied to all exposures located in Poland. Due to the fact that not all exposures are located in Poland, mBank having two foreign branches in Czech Republic and in Slovakia, the systemic risk buffer rate to be applied to mBank Group shall be slightly below 3%.

Taking into account the above mentioned capital buffers and the position of KNF on the minimum level of capital ratios binding in 2017, the required level of capital ratios for 2018 will amount to:

- Individual total capital ratio – 17.52% and Tier 1 capital ratio – 14.49%
- Consolidated total capital ratio – 16.98% and Tier 1 capital ratio – 14.10%.

At the date of publication of these financial statements, mBank S.A. fulfils the KNF requirements related to the required capital ratios for 2018 on both individual and consolidated levels.

- 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 19 October 2016, the Parliament 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*. In addition, on 13 October 2017, the Parliament of the Republic of Poland has begun work on the draft *of the amendment of the act on support of borrowers in financial difficulties, who had taken out a housing loan as well as a law on corporate income tax*, proposed by the President of the Republic of Poland. 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.

32. Events after the balance sheet date

- Appointment of an auditor to audit financial statements

On 12 April 2018, the 31st Annual General Meeting of mBank S.A., pursuant to the applicable law and Article 11 letter n) of the By-laws of the Bank, appointed Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa as the auditor to examine the financial statements of mBank S.A. and consolidated financial statements of mBank S.A. Group for 2018 and 2019.

- New debt securities issue program (EMTN)

On 11 April 2018, the Management Board of mBank SA adopted a resolution regarding a consent to establish a new programme for the issuance of debt instruments (Euro Medium Term Note Program) directly by the Bank, in many tranches and currencies, with various interest structures and due dates, up to the total amount of EUR 3 000 000 000 ("New EMTN Programme"). The amount of EUR 3 billion is the equivalent of PLN 12 573 300 000.00 according to the average exchange rate of the National Bank of Poland of 11 April 2018.

The new EMTN Programme will be established by the way of update of the existing debt instruments programme of mFinance France S.A. (mFF) of a incorporated under the laws of France with its registered office in Paris, subsidiary of mBank S.A. The update does not affect the existence of the instruments already issued by mFF nor the validity of the guarantee granted by the Bank with regard to those instruments.

- Distribution of profit for 2017

On 12 April 2018, the 31st Annual General Meeting of mBank S.A. adopted a resolution regarding the distribution of the net profit for 2017. The net profit of mBank S.A. in the amount of PLN 1 089 703 775.81 will be allocated to:

1. in the amount of PLN 217 907 428.30 for a dividend for shareholders,
2. in the amount of PLN 871 796 347.51 for the Bank's supplementary capital.

- Sale of real estate by Garbary Sp. z o.o

On 28 December 2017, the company Garbary Sp. z o.o. signed a preliminary agreement for sale of real estate placed at Garbary 101/11 Street in Poznań.

In connection with the concluded agreement, as at 31 December 2017 and as at 31 March 2018, the Group disclosed in the fixed assets and disposal groups held for sale the value of the property owned by Garbary Sp. z o.o. in the amount of PLN 42 134 thousand.

On 27 April 2018, the company Garbary Sp. z o.o. signed the final agreement on the sale of real estate.