



Management Board Report on Performance of mBank Group in 2016

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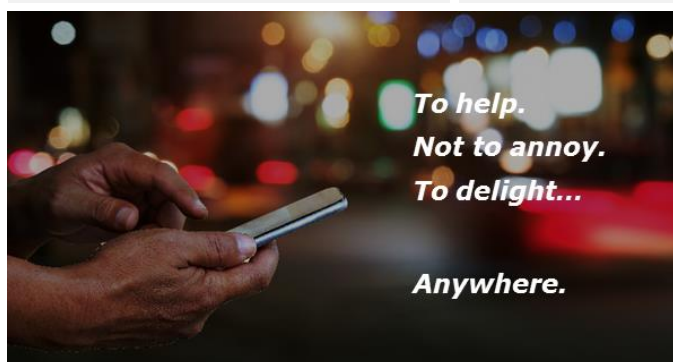
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mBank Group at a glance

Who we are

mBank Group is the fourth largest financial institution in Poland as measured by total assets. We are a truly digital bank focused on offering our clients the best mobile and transactional services backed by an agile bank infrastructure and award-winning traditional internet service and quick and reliable contact center. On the Corporate and Investment Banking side, we are a leader in providing advanced solutions in terms of transactional banking and successfully integrate our traditional lending business with investment banking and specialized services offered by Group subsidiaries. We are present in Poland, Czech Republic and Slovakia.

Capitalization PLN 14.2 B
Share price PLN 328.2
Member of WIG20 index

Our clients:

Retail customers: 5.3 million

Corporate clients: 20.9 thousand

Mobile application users: above 1.3 million

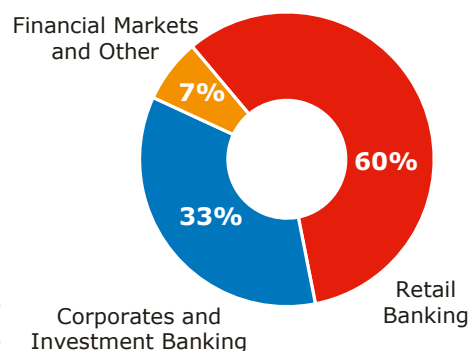
Our employees:

8.4 thousand (6.5 thousand of FTEs)

Key financial data (PLN M)

	2012	2013	2014	2015	2016
Total assets	102,145	104,283	117,986	123,523	133,744
Net loans	66,947	68,210	74,582	78,434	81,763
Deposits	57,984	61,674	72,422	81,141	91,418
Equity	9,619	10,256	11,073	12,275	13,051
Net interest income	2,280	2,226	2,491	2,511	2,833
Net fees and commissions	787	835	902	897	906
Total income	3,571	3,674	3,939	4,093	4,295
Total costs	-1,661	-1,678	-1,771	-2,053	-1,963
Loan loss provisions	-447	-478	-516	-421	-365
Net profit	1,197	1,206	1,287	1,301	1,219
Net interest margin	2.4%	2.2%	2.3%	2.1%	2.3%
Cost/Income ratio	46.5%	45.7%	44.9%	50.1%	45.7%
Return on Equity (ROE)	14.6%	13.1%	13.1%	11.8%	10.1%
Return on Assets (ROA)	1.23%	1.14%	1.13%	1.04%	0.95%
CET 1 ratio*	13.0%	14.2%	12.2%	14.3%	17.3%
Total Capital Ratio*	18.7%	19.4%	14.7%	17.3%	20.3%
Loan/Deposit ratio	115.5%	110.6%	103.0%	96.7%	89.4%
Employment (FTEs)	6,138	6,073	6,318	6,540	6,528

* till March 2014 – Core Tier 1 and Capital Adequacy Ratio

Income structure

mBank's ratings

Fitch	
Long-term rating	BBB
Short-term rating	F2
Standard & Poor's	
Long-term credit rating	BBB
Short-term credit rating	A-2

Core mBank Group subsidiaries


is a specialized mortgage bank and Poland's largest issuer of covered bonds



offers financial and operating leasing of vehicles of up to 3,5 tonnes, heavy transport vehicles, machines and devices



offers domestic and export factoring with recourse, non-recourse factoring, import guarantees

Introduction

2016 was marked by surprising political developments and a number of changes. These include: the result of the US election and the Brexit referendum, the alleviation of concerns about growing deflation trends in many economies and recovered hopes for quick growth in the global economy.

Poland's economy reported a slowdown. According to the initial data, GDP rose by 2.8% in 2016, which is well below expectations from the beginning of the year. Private consumption replaced investment as the main driver of economic growth. Upswing in private consumption is attributable to surging real wages, 500+ programme benefits and further improvement in the household sentiment, which is currently at a record-high level. Investment expenditure plummeted as a result of a great many factors. These include exhaustion of funds from the EU's previous budget and a delay in the preparation of new projects, which led to an investment gap, visible especially in the activity of local governments and railway companies. This also led to a drop in private investments, additionally stimulated by the growing uncertainty about the tax and regulatory environment and prospects for the global economy.

The unfavourable market environment caused by the economic slowdown, financial market turbulence, continued low interest rates as well as regulatory and tax changes (e.g. introduction of a new tax on assets of financial institutions) made 2016 a difficult period for Polish banks. Since the Polish Monetary Policy Council cut the reference rate to a historical low of 1.5% in March 2015, the Polish banking sector has taken steps to rebuild the interest margin. Repricing affected mainly the cost of financing while credit margins improved mainly thanks to a shift in the structure of the loan portfolio. The net fee and commission income continued to be adversely impacted by reduced interchange fees on cashless transactions with payment cards, slowdown in new lending, Recommendation U, and weak capital markets. An important factor that partly offset the tax on certain financial institutions introduced in February 2016 was a one-off gain on the Visa transaction, which pushed up banks' income in June 2016. In the discussed period (PFSA data), the banking sector reported a 24.3% year-on-year increase in its total net profit.

For mBank Group, despite a challenging market environment, 2016 was another good year marked by business growth across segments. As a result of growing income, profit before tax went up compared with 2015. However, a higher tax rate led to a lower net profit. The key events of 2016 include:

- Growth in the profit before tax of mBank Group by 1.2% to PLN 1,637.7 million compared with 2015. Drop in the net profit by 6.3% to PLN 1,219.3 million.
- Increase in income by 4.9% year on year, mainly thanks to the record-high core income and the posting of proceeds from the takeover of Visa Europe by Visa Inc.
- Drop in operating costs by 4.3%, which had a positive impact on the effectiveness measured with the cost / income ratio. It stood at 45.7% compared with 50.1% in 2015.
- Rising volumes:
 - Increase in gross loans by 3.9% year on year. Net of reverse repo/buy sell back transactions and the FX effect, gross loans increased by 3.1% compared to 2015.
 - Considerable rise in amounts due to customers (by 12.7% year on year), due to growth in the deposit base of both retail and corporate clients.
- Retail lending expansion reflected in record-high sale of non-mortgage loans – PLN 6.1 billion of new loans sold.
- As a result of rapid growth of deposits, record-breaking reduction of the loan to deposit ratio to 89.4%.
- Further improvement in the quality of assets, with a significantly lower cost of risk (46 bps) compared with 2015.
- High quality of capital base - capital ratios surpassing regulatory requirements: CET 1 ratio at 17.3%, Total Capital Ratio at 20.3%.
- Accelerating client acquisition – in 2016, 400.5 thousand retail and 1,378 corporate clients were acquired.
- Strengthening the position of a mobile and transactional bank with more than 1.3 million users of mBank's mobile banking.

2016 in numbers



Revenues

PLN **4,295**
million

RoE

10.1%

Increase in loans

Excluding reverse repo and FX effect

3.1% 

Increase in deposits

12.7% 

No. of clients

5.4
million

No. of employees

6,528
FTEs

No. of mobile application users

More than
1.3 million

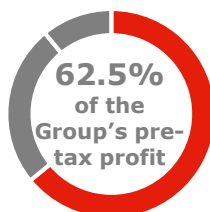
Market positioning

#4
in terms of assets

RETAIL BANKING

mBank runs its retail operations in Poland, Czech Republic and Slovakia, providing service to individual clients as well as micro-enterprises.

Many innovations are introduced each year in order to satisfy needs of the clients.



Profit before tax: **PLN 1,023.9 M**

No. of branches: **154**

No. of clients: **5.3 million**

Increase in loans (excluding FX effect): **3.3%**

Increase in deposits: **16.0%**

CORPORATE AND INVESTMENT BANKING

The aim of commercial operations of the Bank is supporting the development of companies from SME and corporate sector.

Many years of Bank's experience in providing services to this segment lead to a successful cooperation with the companies.



Profit before tax: **PLN 498.6 M**

No. of branches and offices: **45**

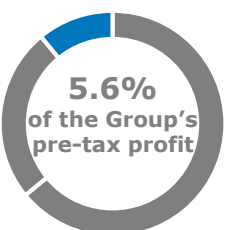
No. of clients: **20.9 thousand**

Increase in loans: **3.6%**

Increase in deposits: **7.4%**

FINANCIAL MARKETS

Among the main tasks of this business line there are- direct sale of financial products, management of assets and liabilities of the Bank, interest rate risk management, depositary services.



Profit before tax: **PLN 90.9 M**

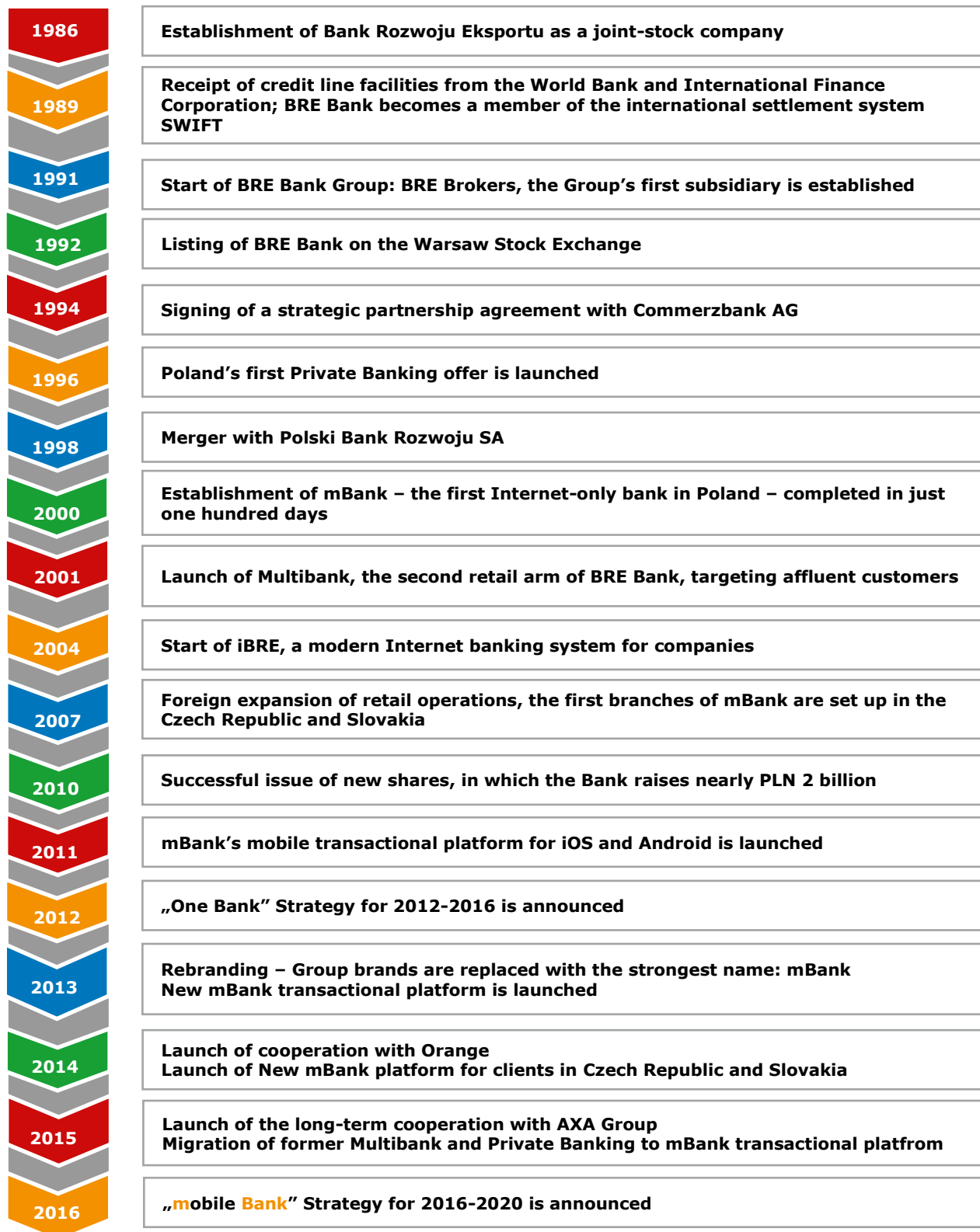
Increased transactionality: **8.6%**

Increase of number of active clients: **6.2%**

Market share of treasury bills and bonds: **16.2%**

1. About mBank Group

1.1. History of mBank Group



1.2. mBank Group's business model in a snapshot

[G4-4, G4-6, G4-8] mBank Group is the fourth largest financial institution, measured by total assets, in Poland, providing retail, corporate and investment banking as well as other financial services, including leasing, factoring, commercial real estate financing, brokerage, wealth management, corporate finance and capital markets advisory.

Historically, mBank developed its operations from corporate banking, which has always been its strength. Since its establishment in 1986 the Bank has served some of Poland's largest companies involved in foreign trade on export markets. A longstanding experience in corporate banking services set the stage for the Bank's further expansion into the small and medium-sized corporate client segment.

In 2000, mBank started its retail operations by launching a fully Internet-based bank in Poland. It was a pioneering project in the local market, based on the Internet, direct service through call centre, and later on mobile banking and also other new technology-based solutions. In 2001, mBank also launched a high street brick-and-mortar bank, offering a broad range of products and services targeted at affluent customers and micro-businesses seeking an access to high quality, personalised service at branches.

mBank is the only Polish bank with a successful track record of rolling out its domestic business model into foreign markets. In 2007, mBank launched retail operations in the Czech Republic and Slovakia, focusing initially on transactional banking and deposit products and further expanding into mortgage and consumer loans as the bank has been able to establish and develop strong client relationships. The Bank also offers to its Czech and Slovak clients a convenient mobile application.

As a result, the Bank's client base has grown almost entirely organically, reaching 5,348 thousand retail clients and 20,940 corporate customers at the end of 2016.

Over the past few years, mBank has strengthened its client-oriented approach and has been pursuing a stable, focused strategy as a modern and innovative transactional bank providing an integrated range of multiple products and services meeting the needs of its clients. In 2013, mBank launched a reinvented, modern, convenient, easily accessible and user-friendly Internet platform (New mBank) with more than 200 new features, which won global recognition for innovation in banking taking home many international awards. The bank has been also systematically expanding its mobile application to provide the customers with the ability to manage their finances wherever they are.

mBank's widely recognised operational excellence is based on its state-of-the-art user interface for online banking, next-generation mobile applications, video banking and P2P payments via Facebook and text messaging, and real-time, event-driven customer relationship management (CRM) based on client behaviour patterns. The whole product offer is centred around the current account with a broad spectrum of financial services accessible in just "one click", as the aim is to be the most convenient transactional bank on the market.

In the corporate and investment banking area, mBank's offer for business clients include a range of fully integrated commercial banking products, services and solutions, with particular emphasis on the advanced transactional banking platform. This comprehensive product offering is complemented by investment banking services, such as ECM, DCM and M&A advisory services.

mBank's distribution concept combines the most technologically advanced solutions adapted for the Polish banking market as well as current and future operating environment. It has been primarily based on Internet and mobile-based tools, tailored separately to the needs of both retail and corporate clients, and a mid-sized physical distribution network, offering premium service quality, located throughout Poland.

With its proven ability in achieving the communicated targets, mBank is well positioned to continue its successful business growth in selected client segments through exploiting attractive market opportunities. The IT platform architecture allows the Bank to develop and introduce new products, services and sales channels rapidly, efficiently and with a low operational risk. Thanks to such a flexible infrastructure, mBank is able to manage its business expansion strategy.

[G4-15] Voluntarily endorsed external codes:

- Best Practice of GPW Listed Companies;
- Code of Banking Ethics (Principles of Good Banking Practice);
- UN Global Compact;
- Corporate Governance Principles for Supervised Institutions.

[G4-16] Organisations in whose operations mBank engaged:

- Dolnośląska Izba Gospodarcza;
- Francusko-Polska Izba Gospodarcza;
- ICC Polska;
- Izba Przemysłowo Handlowa w Toruniu;
- Izba Przemysłowo Handlowa Ziemi Radomskiej;
- Lubelski Klub Biznesu Stowarzyszenie;
- Lubelskie Towarzystwo Naukowe;
- Organizacja Pracodawców Ziemi Lubuskiej;
- Polski Komitet Użytkowników SWIFT;
- Polskie Stowarzyszenie Inwestorów Kapitałowych;
- Polsko-Niemiecka Izba Przemysłowo Handlowa;
- Polsko-Szwajcarska Izba Przemysłowo Handlowa;
- Północna Izba Gospodarcza;
- Regionalna Izba Przemysłowo Handlowa w Gliwicach;
- Sąddecka Izba Gospodarcza;
- SEPA – ZBP;
- Starogardzko Klub Biznesu;
- Stowarzyszenie Polsko-Niemieckie Koło Gosp. w Poznaniu;
- Wielkopolska Izba Przemysłowo Handlowa;
- Wielkopolski Związek Pracodawców Prywatnych;
- Zachodnia Izba Gospodarcza;
- ZBP - Rada ds. Zarządzania Środkami Finansowymi;
- Związek Pracodawców Forum Okrętowe.

1.3. Value creation process

Every business model, also in banking, is based on engaging capital: financial, human, organisational, intellectual, social and natural. The business activity and day-to-day decisions transform them. It is easiest for us to describe and measure the financial capital as it is the foundation of the traditional reporting. However, we cannot forget about the fact that our activities transform the rest of capitals, causing their increase or decline.

The diagram below shows our most important capitals and the value creation process at mBank Group.

Basing on our capitals...

Financial capital	Human capital	Manufactured capital	Intellectual capital	Social capital	Natural capital
<i>...that is: financial fundamentals of our operations – funds obtained from our shareholders and clients as well as generated financial results</i>	<i>...that is: team of engaged people, their know-how, values and attitudes, which are fundamental for innovations and development of our Group</i>	<i>...that is: organisational structure, continuously improving procedures and processes, infrastructure and IT as well as our branch network</i>	<i>...that is: exceptional intangible assets being a unique and extinguishing value represented by mBank brand</i>	<i>...that is: our relations with stakeholders and community; social activities and our contribution to banking sector and economy</i>	<i>...that is: our direct and indirect impact on natural environment as well as our ability to shape this impact</i>
<ul style="list-style-type: none"> Own funds: PLN 13 B Total assets: PLN 134 B Deposits: PLN 91 B Loans: PLN 85 B Net profit: PLN 1,219 M 	<ul style="list-style-type: none"> Over 6 thou. employees High (over the Polish and European average for banks) and stable over the last 3 years employee engagement score, measured every year by AoN Hewitt 	<ul style="list-style-type: none"> Distribution model based on direct channels (the highest share of clients using mobile banking), supported by agile and modern branch network 	<ul style="list-style-type: none"> Mobile DNA – dynamically developing mobile banking, supported by the strongest banking brand (mBank) in Poland acc. to BrandZ ranking Innovative business solutions – including a strategic co-operation with external partners, such as AXA and Orange 	<ul style="list-style-type: none"> Proactive education of the society in the area of internet and mobile banking security Popularisation of mathematics within the activities of mFoundation 72% outlets adopted for the disabled 	<ul style="list-style-type: none"> Limiting of the use of paper and developing paperless processes Gradual exchange of the car fleet to eco-friendly

...we develop our business...

What we do?

<p>We finance the activities of our clients – individual, enterprises and corporations - including leasing and factoring services</p> <p>As a result, individual clients can satisfy their housing and other needs, companies are able to invest, create new jobs and the state budget is supported by corporate taxes</p>	<p>We enable our retail and corporate clients to deposit and invest their funds in a safe way</p>	<p>We facilitate safe and convenient transactions</p> <p>We offer possibilities of active investments on capital markets</p>	<p>We offer companies access to financial markets and hedging against market fluctuations, including interest rates, FX rates, commodity and raw materials prices</p>	<p>We invest in our employees and create a friendly workplace for them. We support their development and sensitize them to the unique mBank values</p> <p>We permanently develop our infrastructure, searching for best, safest and most convenient IT solutions for our clients</p>	<p>We rank among the largest corporate tax-payers in Poland, we also pay other fees supporting the state budget and the sector as well as invest in education of the society through our social campaign and our foundation's activities</p>
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What effects are visible in certain P&L items?

Interest income: PLN 3,873 M	Interest cost: PLN 1,040 M	Net fee and commission income: PLN 2,833 M	Net trading income: PLN 245 M	Overhead cost: PLN 1,963 M, including Wages and salaries: PLN 877 M	Taxes, including: CIT: PLN 416 M Tax on certain financial institutions: PLN 329 M Contributions to the BFG: PLN 162 M Funds spent by mFoundation: PLN 3 M
Impairment losses on loans and advances: PLN 365 M					

See Chapter 6.2. Financial position of mBank Group in 2016 for more information.

What risks do we take?

credit	market	operational	business	liquidity	reputational	model	capital
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See chapter 4. Risk management for more information.

... creating value for all our stakeholders in 2016.

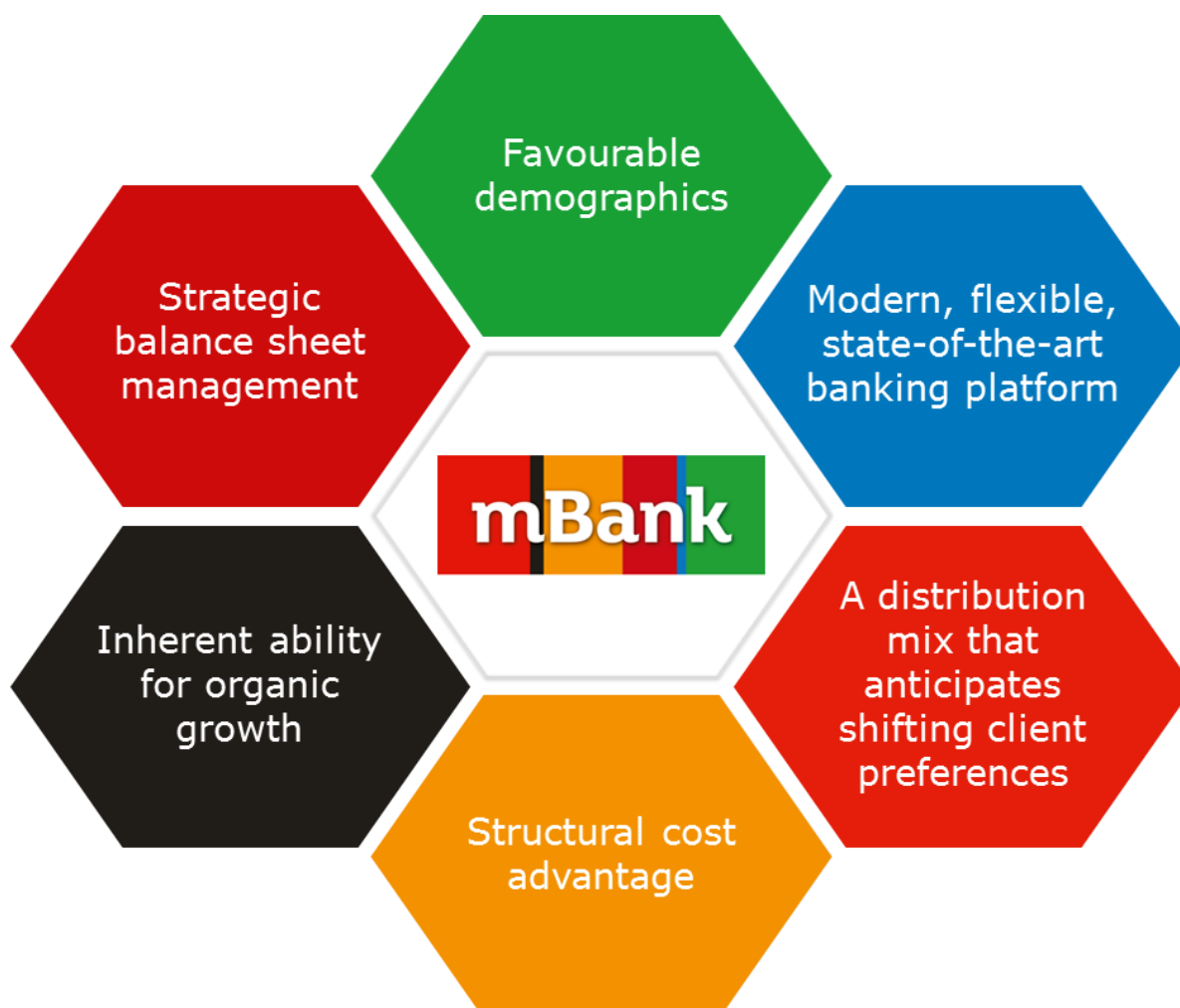
Clients	Investors	Employees	Partners	Society
<ul style="list-style-type: none"> We granted: <ul style="list-style-type: none"> - PLN 2.9 B of mortgage loans - PLN 6.1 B of non-mortgage loans - PLN 8.7 B of corporate loans We introduced a number of facilities for mobile and internet application users, e.g.: <ul style="list-style-type: none"> - push messages on forthcoming payments, - mobile authorization - mAccounting 	<ul style="list-style-type: none"> We communicate with the market in a transparent way: <ul style="list-style-type: none"> - 1 local and 6 foreign roadshows, - 4 local and 3 foreign conferences We strengthened the funding profile and the balance sheet security – LTD ratio at 89.4% Return on mBank shares in 2016: +6.8% v. WIG20 +4.8%, WIG-Banks +2.9% 	<ul style="list-style-type: none"> We started building our new headquarters in Łódź Employees took part in almost 16 thou. hours of training Almost 100% of recruitment processes for managerial and specialist positions are internal 	<ul style="list-style-type: none"> We further developed our co-operation with AXA (in particular stand-alone products) and Orange (product offering development) We started co-operation with new partners: - SuperKsięgowa (mAccounting) - IT Card and Planet Pay (servicing payment cards in terminals) 	<ul style="list-style-type: none"> We set ourselves highest standards with regard to regulatory compliance and other relevant regulations We pursue the social campaign "If you don't do it in real life, don't do it online!" We granted over PLN 1.2 M within mPotęga program

1.4. mBank Group's strategic advantages

Over the past years we developed a range of competitive strengths, which enable our organisation to take advantage of growth opportunities and successfully achieve its strategic objectives. Our strengths include:

- favourable demographics,
- modern, flexible, state-of-the-art banking platform,
- a distribution mix that anticipates shifting client preferences,
- structural cost advantage,
- inherent ability for organic growth,
- strategic balance sheet management,
- strong, unified brand, associated with internet and mobile banking,
- technological and project agility, proved in fast implementation of complex business projects,
- strong market presence and trust of corporate clients, including leading position in transactional banking offer as well as successful integration of traditional corporate banking with the investment banking offering,
- engaged staff (engagement score above 50%),
- experience built on the strategic co-operation with the business partners outside of the banking sector (Orange, Axa).

The key factors are illustrated and described below:



Favourable demographics

mBank's unique value proposition in the retail banking segment, anchored in an attractive and forefront business model, has been developed to target young, aspiring and tech-savvy clients, who quickly adapt innovative solutions. Consequently, mBank's customer base has an advantageous demographic profile as compared to the Polish market.

A half of the Bank's retail clients are under the age of 35 and are expected to reach their highest personal income levels in the coming years, positioning mBank to reap the benefits from additional cross-selling opportunities of banking and insurance products. Maturing of the customer base provides a natural source for revenue growth as well as supports the asset quality of the Group and the responsiveness of its clients to cross-selling initiatives.

Modern, flexible, state-of-the-art banking platform

Anticipating the development and increasing accessibility of the Internet, already since 2001, mBank has applied and promoted a modern and highly convenient retail banking model based on the Internet and other new technologically advanced solutions. As a result, the Bank is uniquely positioned in the market to offer a wide range of innovative products and services, meeting the changing needs of its target clients.

mBank, as a global innovator in banking, has been constantly improving its Internet and mobile transaction systems. In 2013, a re-developed, modern, intuitive, easily accessible and user-friendly Internet platform (New mBank) with more than 200 new features and improvements was launched. Implemented solutions have been delivering higher client acquisition and transactionality. A flexibility of the mBank's platform to expand or roll-out new strategic ventures is an additional advantage (e.g. an offering for the customers of Orange Finanse). At the same time, the Bank has been continuously enhancing its mobile application, providing the customers with even more convenient way to manage their finances wherever they are.

A distribution mix that anticipates shifting client preferences

Given its multi-channel approach, which has been designed to anticipate and follow the changing needs of clients, mBank's current sales mix is already ahead of what is expected to be the pattern of distribution prevailing in the banking sector in the coming years. Internet, mobile, video and call centre channels are rapidly gaining importance as demonstrated by the sales levels of various banking products generated by these channels as compared to traditional branches.

In particular, a half of current accounts and more than 2/3 of saving products are sold through mBank's Internet platform. In addition, a dynamically growing number of banking activities has been performed through mBank's mobile application, of which checking the balance of current account and making transfers are the most popular. Such a sales mix guarantees no need for painful structural adjustments in the near future. Moreover, as the Bank promotes a self-service model in which retail customers operate their accounts predominantly via remote channels, it gains an opportunity to proactively use modern real time marketing and cross-sell more products.

Structural cost advantage

Heavy investments in the Internet and mobile transaction platforms along with maintaining a light and efficient branch infrastructure result in a lower overall cost base and a high degree of operating flexibility for mBank. The Group's competitive advantage stemming from its business model manifests itself in superior efficiency metrics compared to other Polish banks. Based on such ratios as cost to income, cost to average assets or gross loans to number of branches, mBank ranks among the top in all three categories when compared to the major Polish banks. mBank operates through the optimal number of branches, what implies no need to carry out a restructuring of its physical distribution network resulting in the branch closures.

Inherent ability for organic growth

mBank is the largest organically developed retail banking franchise in the CEE region. In contrast to most financial services groups in Poland, mBank has not grown through any significant mergers and acquisitions, proving its strong ability to constantly attract new customers in the three countries. The Group's retail client base in Poland, the Czech Republic and Slovakia has grown solely organically by 395.9 thousand and 400.5 thousand in 2015 and 2016, respectively, reaching in total 5,348 thousand retail customers.

Strategic balance sheet management

Due to its continued focus on diversified, long-term and attractively priced funding, mBank Group managed to improve its liquidity profile, as demonstrated by gradually declining loan to deposit ratio, which reached 89.4% at the end of 2016.

On the asset side, development of balance sheet benefits from the phasing out of the legacy CHF-denominated mortgage loan portfolio and the intended expansion of higher margin lending products, such as retail consumer loans (predominantly cross-selling of non-mortgage loans to existing current account customers), PLN-denominated mortgage loans and SME loans. On the liabilities side, mBank is focused on ensuring a stable and adequate deposit base by leveraging the higher sight deposit volume as a primary banking relationship for majority of its retail clients.

Strengthening of balance sheet funding quality is also supported by issuances of senior unsecured and subordinated bonds in domestic and international markets. Moreover, mBank Hipoteczny maintains a leadership position on the Poland's covered bond market, adding to the Group's long-term financing sources. Issues of these instruments, performed both in EUR and PLN, not only help to cut the funding costs, but also better match the maturity of assets and liabilities as well as their currency structure.

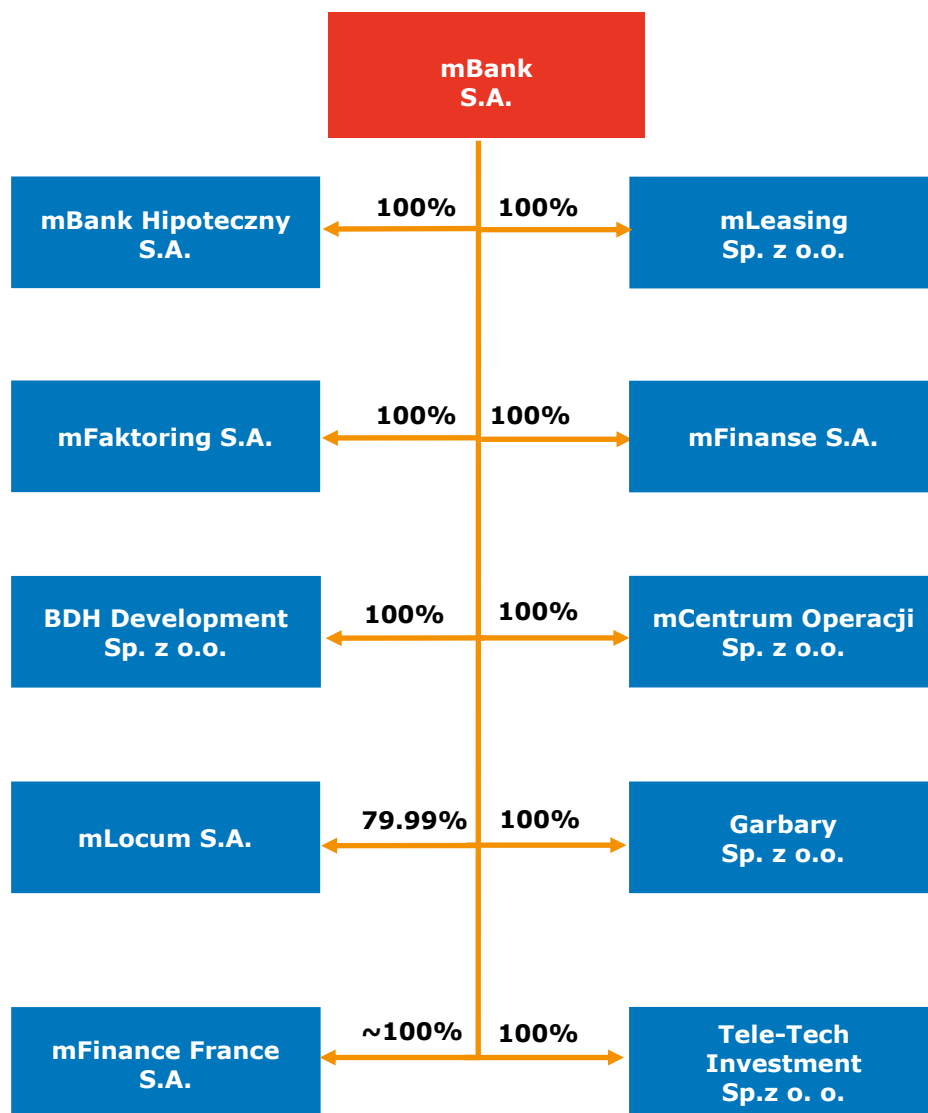
1.5. Composition of mBank Group

Composition of mBank Group and main activities areas

[G4-13] Year 2016 was marked by further changes in the structure of mBank Group. In May 2016 the integration of the brokerage operations of mBank, Dom Maklerski mBanku (mDM) and mWealth Management (mWm) into an expanded brokerage bureau of mBank was completed. The aim of the integration of all brokerage entities of mBank Group is to optimise the portfolio of brokerage services offered to all client groups, both individuals and institutions. Moreover, the integration will allow the Bank to better use its resources and potential, thus giving the brokerage services of mBank Group a greater competitive advantage. In order of integration, mDM and mWM were divided and on May 20, 2016, the companies were struck off the National Court Register.

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

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



[G4-8] In view of the above, at the end of 2016 the division of the operations of mBank Group into segments and business areas was the following:

Composition of mBank Group

Segment	Retail Banking	Corporates and Financial Markets	
		Corporate and Investment Banking	Financial Markets
Bank	<ul style="list-style-type: none"> Retail customers and microenterprises Affluent retail customers Private Banking 	<ul style="list-style-type: none"> Corporations and non-banking financial institutions (capital groups) (K1) Large Companies (K2) SME (K3) 	<ul style="list-style-type: none"> Banks Corporate clients in scope of trading and sales Market and Liquidity Risk Management
	<ul style="list-style-type: none"> mLeasing Sp. z o.o. - Retail mBank Hipoteczny S.A. - Retail mFinanse S.A. 	<ul style="list-style-type: none"> mLeasing Sp. z o.o. - Corporate mBank Hipoteczny S.A. - Corporate mFaktoring S.A. Garbary Sp. z o.o. Tele-Tech Investment Sp. z o.o. 	<ul style="list-style-type: none"> mFinance France S.A. (special purpose entity reserved for financing activities of the Bank) mLeasing Sp. z o.o. - within the scope related to fund raising mBank Hipoteczny S.A. - within the scope related to fund raising
Consolidated subsidiaries	Other subsidiaries	<ul style="list-style-type: none"> mLocum S.A. (a real estate developer) mCentrum Operacji Sp. z o.o. (outsourcing services provider) BDH Development Sp. z o.o. (a real estate management company) 	

Subsidiaries of mBank Group



mBank Hipoteczny (mBH) is the largest mortgage bank in Poland by both the scale of financing of the real property market and covered bond issuance.

mBH finances commercial investments on the real property market, including office buildings, commercial centres and facilities, hotels, warehouses, logistics centres, housing estates. Another important area of mBH's operation is lending to the public sector in the area of municipal investments and real properties of local government units.

At the beginning of September 2016 mBank Hipoteczny ultimately became the only provider of housing loans to individuals in Poland in mBank Group. This decision is an effect of the transformation of the Group's approach to funding mortgage loans started in 2013. Lending in the retail area is now financed by the issuance of covered bonds, which increase the share of long-term liabilities in the balance sheet with every issued tranche.

The subsidiary is the largest issuer of covered bonds, which are its core source of funding. The covered bonds issued by mBH rank among the safest investment instruments on the Polish capital market. The value of outstanding covered bonds issued by mBH reached nearly PLN 4.6 billion, representing a market share of 50.2%.

In addition to its lending activity, mBH offers also market analyses and advisory services addressed to investors and entities active on the commercial real property market.

According to Fitch Ratings, mBH's long-term and short-term ratings are "BBB" and "F2", respectively. The mortgage covered bonds issued by mBH are rated "A". For more information about mBH's ratings, see later in the chapter.

Finanse

Until September 30, 2016, the company operated under the name Aspiro. The change of its name resulted from the Group's strategy, according to which all subsidiaries within mBank Group use the prefix "m" in the name.

mFinanse is a financial services intermediary operating as an open platform for selling financial products of various institutions including mBank. Its product offer includes loans, accounts, insurance as well as investment and savings products for both individuals and companies. The subsidiary offers the products of 19 financial entities, in more than 100 outlets across Poland with the participation of 600 customer advisors.

Leasing

mLeasing is one of the largest leasing companies in Poland and ranks third on the real property leasing market and third on the leasing market.

The subsidiary offers lease financing, loans, and car fleet rental and management services addressed to both corporate and retail clients.

In the corporate segment mLeasing offers various types of leasing products, including lease of private and commercial cars and heavy transport vehicles, car fleet management, lease of machines and equipment, and real property lease.

In the retail segment the subsidiary operates the "Leasing in Retail" programme addressed to micro-enterprises and SMEs, which are offered lease contracts using dedicated lease processes.

Faktoring

mFaktoring is the eight largest player on the Polish factoring market among the members of the Polish Factors Association.

The services provided by mFaktoring are complementary to mBank's corporate offer. mFaktoring offers the financing of ongoing business operations, receivables management, credit protection, maintenance of debtors' settlement accounts and enforcement of receivables. In addition, the offer includes domestic and export factoring with recourse and credit protection, as well as import guarantees.

Products offered by mFaktoring are available in all mBank branches providing services to SMEs and corporations in Poland.

Centrum Operacji

mCentrum Operacji (mCO) provides back-office support to the members of mBank Group.

In particular, the subsidiary handles the instructions and applications of retail and corporate clients of mBank Group. In addition, mCO supports the Group in terms of professional data archiving solutions, both electronic and paper-based.

The company's services enable monitoring of data security and confidentiality, quick access to information, as well as support in planning, controlling and reducing costs. This ensures the timeliness and quality of services, which translates into an increase in the efficiency of customer service processes.



mLocum S.A. is an experienced and active real property developer that has been present on the real property market since 2000. It is one of the first real property developers in Poland having a presence on many local markets, including Kraków, Łódź, Wrocław, Warsaw, Poznań and Sopot.

The subsidiary organises and manages housing development projects. Other activities of the subsidiary include management of real properties, including condominiums.

So far, mLocum has built more than 4.3 thousand apartments in 34 projects. The company is an active member of the Polish Association of Developers for the largest estate companies advancing the Polish housing industry.

mBank's Authorities

Supervisory Board of mBank

As of December 31, 2016, the Supervisory Board of mBank was composed as follows:

1. Maciej Leśny – Chairman of the Supervisory Board
2. Stephan Engels – Deputy Chairman of the Supervisory Board
3. Andre Carls – Member of the Supervisory Board
4. Marcus Chromik – Member of the Supervisory Board
5. Jörg Hessenmüller – Member of the Supervisory Board
6. Thorsten Kanzler – Member of the Supervisory Board
7. Michael Mandel – Member of the Supervisory Board
8. Teresa Mokrysz – Member of the Supervisory Board
9. Agnieszka Słomka-Gołębiowska – Member of the Supervisory Board
10. Waldemar Stawski – Member of the Supervisory Board
11. Wiesław Thor – Member of the Supervisory Board
12. Marek Wierzbowski – Member of the Supervisory Board

The five independent members of the Supervisory Board are: Maciej Leśny, Teresa Mokrysz, Agnieszka Słomka-Gołębiowska, Waldemar Stawski and Marek Wierzbowski.

Detailed résumés of all members of mBank authorities are available on <https://www.mbank.pl/en/about-us/bank-authorities/>.

Management Board of mBank

As of December 31, 2016, the Management Board of mBank was composed as follows:

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

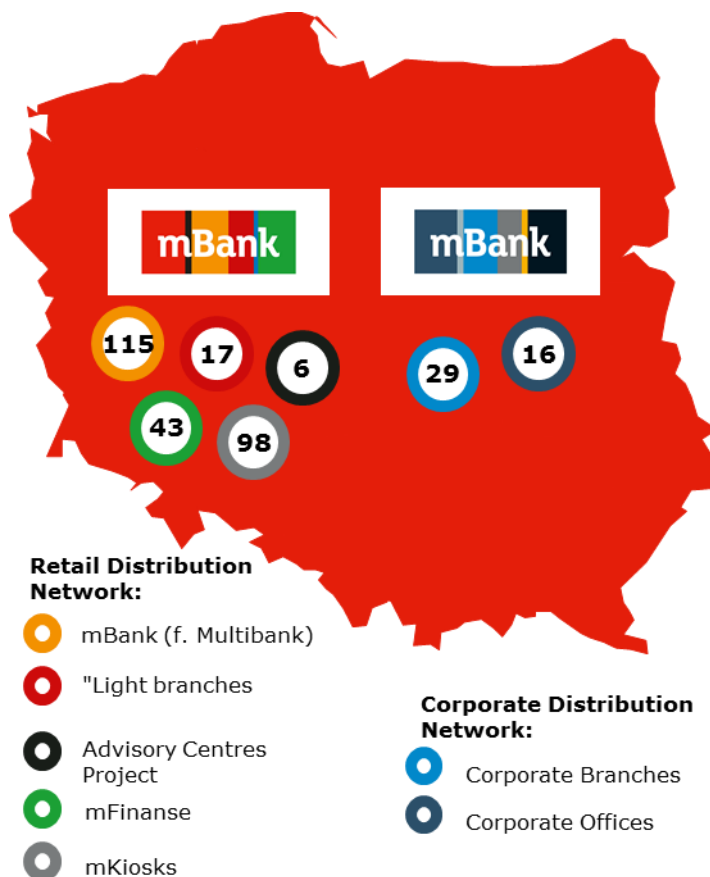
Detailed résumés of all members of mBank authorities are available on <https://www.mbank.pl/en/about-us/bank-authorities/>.

For more information on changes in the Management Board and Supervisory Board of mBank, see chapter 8. Statement of mBank S.A. on application of Corporate Governance principles in 2016.

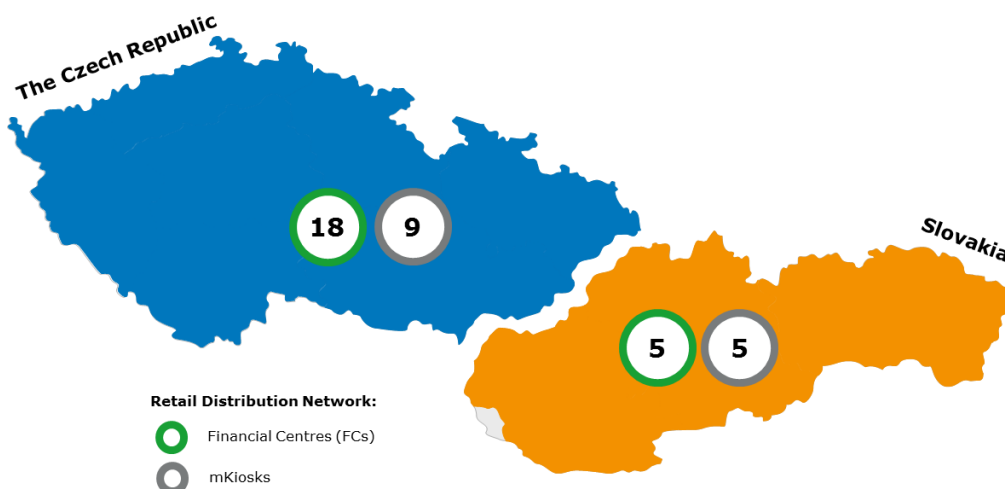
1.6. mBank Group geographical presence

[G4-6] mBank Group operates successfully not only in Poland, but also in the Czech Republic and Slovakia.

In Poland, retail distribution network consists of 279 branches. Corporate distribution network amounts to 29 corporate branches and 16 corporate offices.

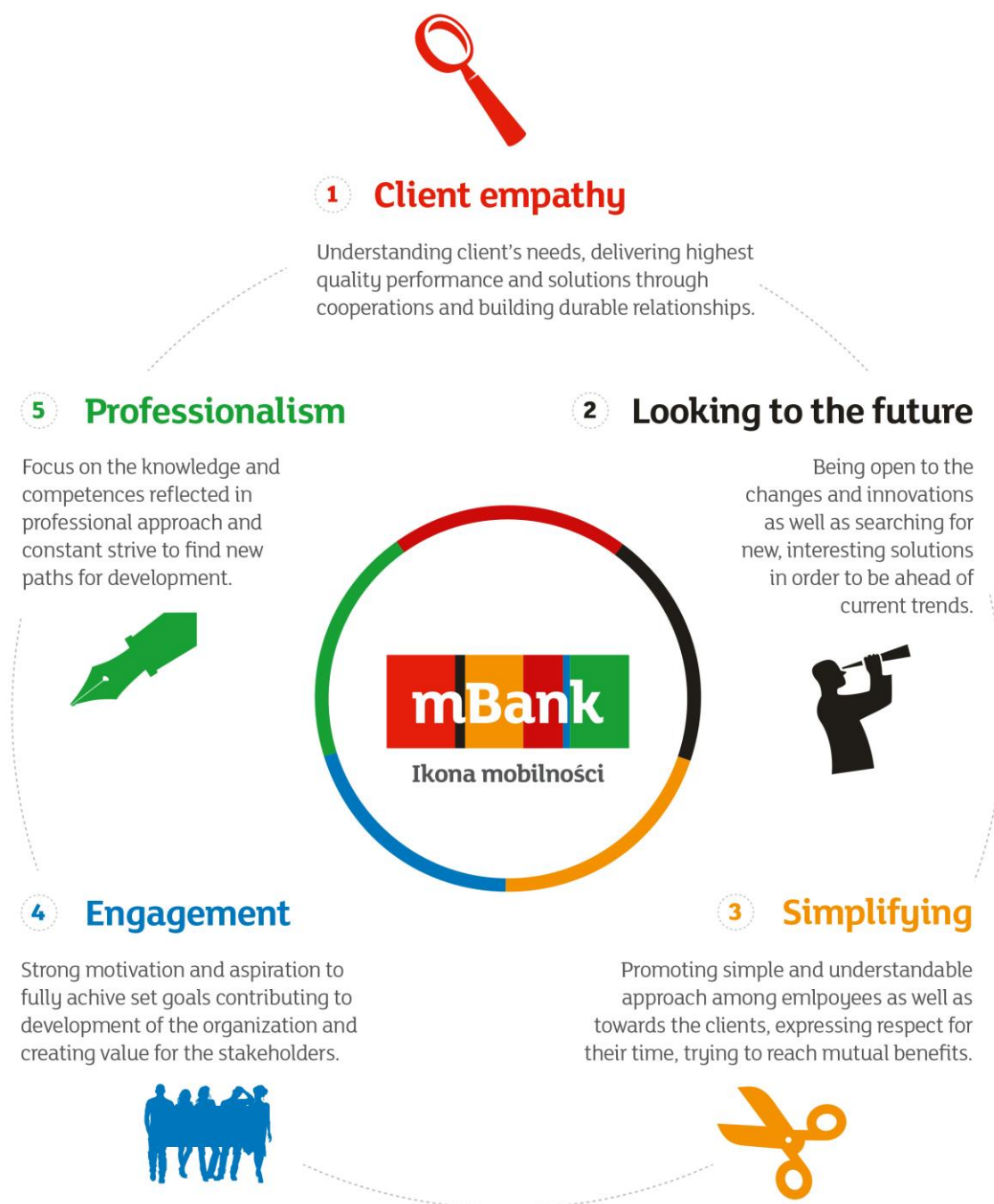


In the Czech Republic, retail distribution network consists of 18 financial centres and 19 mKiosks. In Slovakia there are 4 financial centres, 5 mKiosks and 1 light branch in Bratislava.



1.7. Model of values and behaviour

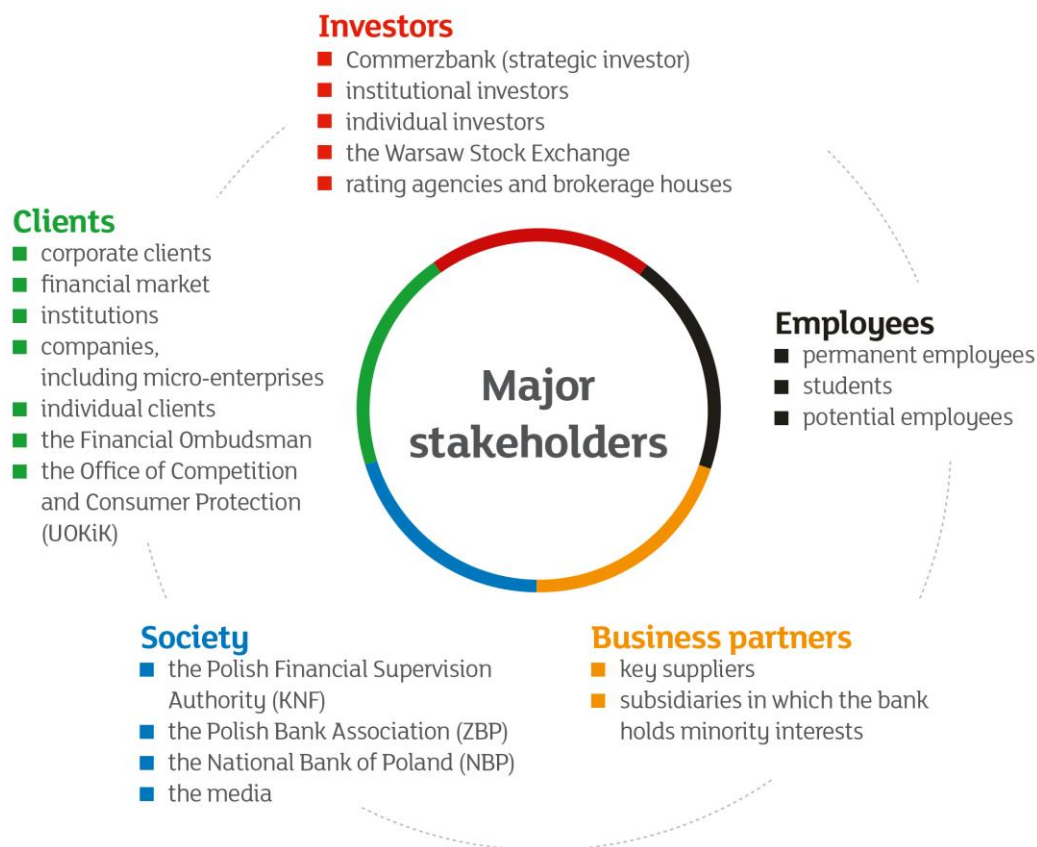
[G4-56] The model of behaviour provides answers to questions related to the practical significance of our values. What actions and attitudes does the management board expect from the employees and what do they expect from one another? We aim at making decisions which are consistent with our values. It is not only what we do that counts – how we do it is important too. In our daily work, the values are a compass indicating each and every one of us the direction in which we should be heading.



For more information on our model of values and behaviour see chapter 7. Responsible company.

1.8. Stakeholders

[G4-26] The identification and assessment of stakeholders conducted in mid-2015 revealed the major stakeholders in the largest categories. These are:



For more information on the stakeholders see chapter 9. About the report.

1.9. Information for investors

The table below presents the key share price data for mBank.

Share price data	2015	2016
Share price	314.0	335.3
Total number of shares	42,238,924	42,280,127
P/E ratio	10.2	11.6
P/BV ratio	1.1	1.1
Max. share price	505.0	393.0
Min. share price	294.7	268.2
Market capitalization (PLN B)	13.3	14.2
Average traded volume (PLN M)	12.2	8.8
Dividend per share	-	-

mBank shareholders and share price on the WSEmBank shareholders

[G4-7] Commerzbank AG has been the strategic shareholder of mBank since 1994. The stake of Commerzbank has been increasing gradually, from 21.0% in 1995 to 50.0% in 2000 and 72.2% in 2003. Starting from 2005, Commerzbank's stake has declined slightly due to the implementation of the managerial options programme at the Bank.

As at the end of 2016, Commerzbank AG held 69.4% of shares and votes at the General Meeting. The remaining 30.6% of mBank shares in free float are held mainly by financial investors (Polish pension funds, Polish and foreign investment funds). The only investor who exceeds the threshold of 5% of the total number of votes at the General Meeting is Nationale Nederlanden Otwarty Fundusz Emerytalny (Nationale Nederlanden OFE). According to Bloomberg, Nationale Nederlanden held 5.05% of the total number of shares and votes at the General Meeting. An important shareholder is also Otwarty Fundusz Emerytalny Aviva BZ WBK, with ca. 4.9 % stake.

Performance of mBank shares in 2016

Key characteristics of mBank shares:

- nominal value per share: PLN 4.00;
- registered share capital: PLN 169,121 thousand, paid-up in full;
- mBank shares have been listed on the Warsaw Stock Exchange (WSE) since 1992;
- mBank shares are part of the following WSE indices: WIG, WIG-Poland, WIG20, WIG30 and WIG-Banks; the shares are also included in derivative indices based on WIG20.

In 2016 the total number of mBank shares increased by 41,203 shares issued as part of an incentive programme. Consequently, the registered share capital increased by PLN 164.8 thousand.

In 2016, mBank's stock prices were subject to considerable fluctuations and should be analysed in the context of the situation on the Warsaw Stock Exchange and stock market performance of other banks.

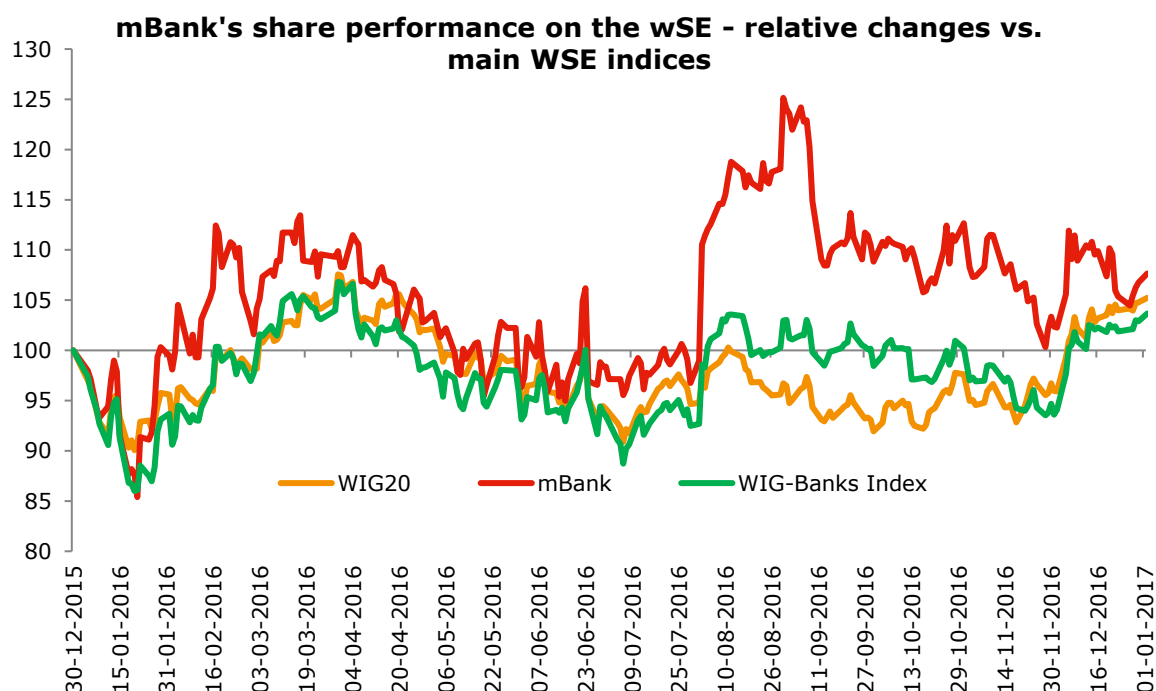
The year 2016 was a turbulent period for stock exchange investors. The developments in Poland and external factors affected the situation on the Warsaw Stock Exchange. As regards the former, investors focused on the discussions about the future of open-end pension funds, Standard & Poor's (S&P) downgrade of Poland's credit rating and the concerns other credit rating agencies could follow suit, the major review of the optimistic forecasts of economic growth made at the beginning of 2016, changes in the composition of management boards and supervisory boards of a number of companies controlled by the State Treasury, as well as speculations over the financing from the Polish energy companies to rescue the coal mining industry. This was further compounded by the concerns about the consequences of Brexit, presidential elections in the USA, the prospect of interest rates increase by the Federal Reserve and the problems of Italian banks and concerns over whether they would receive state aid. The share prices of banks in Poland were also impacted by the proposals of politicians relating to foreign currency housing loans, concerns about the effects of the tax on certain financial institutions introduced in February 2016 and consolidation processes in the banking sector, in particular the finalisation of one of the biggest financial transactions in the recent years – the purchase of a 32.8% stake in Pekao S.A. by PZU and the Polish Development Fund (PFR) from Unicredit.

Investment decisions were made in the atmosphere of uncertainty, while investors' sentiment was changing dramatically amid different information. The massive stock-market sell-off following the surprising results of the referendum held in the United Kingdom and nervous reactions of investors to the FX housing loans bills presented by the Chancellery of the President of the Republic of Poland are only some of the examples to illustrate this. In 2016, stock market trading volumes decreased by 10% year on year. The uncertainty resulted also in a small number of initial public offerings on the WSE. In 2016, 19 companies debuted on the Main Market (including those which moved there from the NewConnect market), however, as some companies decided to leave the Warsaw Stock Exchange, the number of Warsaw-listed companies did not increase year on year for the first time in the history of the WSE.

WIG increased by 11.3% in 2016. The year 2016 was a very good time for the shareholders of medium-sized companies - mWIG40 increased by 18.2%. The WIG-20 index, made up of the largest companies, went up by 4.8% in 2016, while sWIG80, comprising 80 small-sized companies listed on the Main Market of the WSE, rose by 7.9%. Against this background WIG-Banki, which in 2016 increased by 2.9% year on year, did not perform equally well.

The closing price of mBank's stocks on the last trading day in 2016 stood at PLN 335.25 and was by 6.8% higher than a year before. The company's capitalisation increased by PLN 0.9 billion and at the end of 2016 stood at PLN 14.2 billion. Among the banks listed on the WSE only ING BSK and BZ WBK performed better in 2016.

The decrease in mBank's share price in January 2016 was driven by investors' reactions to the presidential bill on the manners of restoring the equality of parties to certain loan agreements and borrowing agreements providing for conversion of the foreign currency housing loans at the fair FX rate and the return of spreads. The sharp growth in the Bank's share price in August was a result of investors' enthusiastic reaction following the presentation of a new presidential bill on the return of spreads on foreign currency housing loans on August 2, which does not provide for a forced conversion of the foreign currency loans into PLN. The correction and the sale-off of mBank's shares on September 8-12 resulted from the fact that following the sharp share price growth the price-to-book ratio and the price / earnings ratio included an unjustifiable premium compared with the other banks from the WIG-Banks index.



Performance of mBank's share compared with WIG-Banks and EURO STOXX Banks

Change	2013	2014	2015	2016
mBank	+53.4%	-0.4%	-36.9%	+6.8%
WIG-Banks Index	+20.5%	-0.7%	-23.5%	+2.9%
EURO STOXX Banks Index	+25.9%	-4.9%	-4.9%	-8.1%

Investor Relations at mBank

mBank pays close attention to ensuring effective communication with its investors and analysts. Investor relations are part of the responsibilities of the Investor Relations and Group Strategy Department which, through cooperation with the Management Board and a number of units across the Bank, ensures that stakeholders receive correct and complete information about mBank Group.

In 2016, investors and stock market analysts participated in four conferences on mBank performance, both in person and via the Internet. Each time such a conference is attended by around twenty representatives of brokerage houses and investors. All the meetings with the Management Board accompanying the announcement of quarterly financial figures were broadcast on the Internet in Polish and English and made available on the Bank's website.

Relations with analysts, shareholders and potential investors are also strengthened through meetings at conferences held in Poland and abroad. In 2016, mBank participated in four conferences in Warsaw, three conferences held abroad and organised one-on-one meetings with representatives of the Management Board for institutional investors after publication of Q1 2016 results. Moreover, the Bank organised two roadshows in the United States, and four in Europe (including a roadshow in Estonia - for the first time). During the year, in addition to meetings at conferences and roadshows, the Bank held individual meetings of representatives of the Board and/or the Investor Relations team with investors and analysts.

Like every year, in 2016 two sessions were organised as part of regular meetings with the Bank's rating agencies and a number of video conferences with the rating agencies were held.

Analysts and investors of mBank are kept informed about important events related to mBank Group via monthly newsletters and e-mails.

The website of the Bank's investor relations (<https://www.mbank.pl/en/investor-relations/>) was designed with Polish and English speaking investors and analysts in mind. It offers up-to-date and thematically grouped information on mBank Group's financial results, shareholding structure, Annual General Meetings, ratings and performance of mBank shares on the WSE. It also includes current and periodic reports and details on consensus estimates for the Group. A dedicated interactive business intelligence application called mBank Analyzer offers a quick and easy insight into mBank Group's financial results and business data. A dedicated section for new investors includes a factsheet and an introductory presentation on mBank Group's operations, frequently asked questions as well as details of "Mobile bank" Strategy.

1.10. Ratings of mBank and mBank Hipoteczny

Rating assigned by Fitch Ratings

On March 7, 2016, Fitch Ratings upgraded mBank's long-term foreign currency IDR from "BBB-" to "BBB" and the short-term foreign currency IDR from "F3" to "F2". The outlook on the long-term rating is stable. The improvement in mBank's ratings was driven by the upgrade of the long-term rating of Commerzbank from "BBB" to "BBB+". According to Fitch, Commerzbank is highly likely to support mBank, if required.

mBank's viability rating assessing its creditworthiness based on factors such as business profile, management and strategy, risk profile, financial results and external environment remained unchanged at "BBB-" in 2016.

On January 18, 2017, Fitch affirmed all the ratings and the outlook on mBank's long-term rating.

Fitch Ratings – ratings of mBank	
Long-term IDR	BBB (stable outlook)
Short-term IDR	F2
Viability rating	bbb-
Support rating	2
Rating of unsecured debt issued under the Euro Medium Term Note Programme (EMTN)	BBB

The rating action on March 7, 2016, covered also mBank Hipoteczny. mBank Hipoteczny's long-term rating was upgraded from "BBB-" to "BBB" and the short-term rating was changed from "F3" to "F2". The rating of covered bonds issued by mBank Hipoteczny were upgraded from "BBB" to "BBB+". On July 1, 2016, Fitch upgraded the rating of mortgage covered bonds to "A" with a positive outlook. On December 20, following the adoption of the modified covered bond rating criteria, Fitch affirmed the rating for mBank

Hipoteczny's mortgage covered bonds issue programme at "A" with a positive outlook. On January 18, 2017, Fitch affirmed the ratings of mBank Hipoteczny.

The long- and short-term ratings of mBank Hipoteczny correspond to the rating of mBank, which proves the importance of this subsidiary to mBank.

Fitch Ratings – ratings of mBank Hipoteczny	
Long-term IDR	BBB (stable outlook)
Short-term IDR	F2
Support rating	2
Rating of mortgage covered bonds issued by mBank Hipoteczny	A

Rating assigned by S&P Global Ratings

On February 3, 2016, S&P Global Ratings (S&P) affirmed mBank's long-term counterparty credit rating at "BBB" and short-term counterparty credit rating at „A2", downgrading the rating outlook from stable to negative as a result of a similar change in the risk outlook for the banking sector in Poland. In the opinion of S&P, Polish banks' capacity to absorb losses and withstand shocks could decrease in the following two years as a result of the introduction of a new banking tax, increased regulatory costs and possible costs related to the considered statutory solutions to the CHF loans issue, which would put the profitability of the banking sector under additional pressure in the low interest rates environment.

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

On December 15, 2016, mBank's long-term rating was placed on CreditWatch Positive following the agency's similar rating action carried out with regard to Commerzbank, in connection with S&P's analysis of the possibility of including some subordinated debt instruments in the additional loss-absorbing capacity (ALAC) buffer under bank resolution regulations.

S&P Global Ratings – ratings of mBank	
Long-term deposit rating	BBB (on CreditWatch Positive)
Short-term rating	A-2
Stand-alone credit profile (SACP)	bbb-
Rating of unsecured debt issued under the Euro Medium Term Note Programme (EMTN)	BBB

Rating assigned by Moody's based on publicly available information

Moody's ratings for mBank are based solely on publicly available information, and the Bank does not take part in the rating process, having the "non-participating issuer" status. In 2016, both the ratings and the rating outlook remained unchanged.

Moody's – ratings of mBank based on publicly available information	
Long-term deposit rating	Baa2 (stable outlook)*
Short-term rating	Prime-2
Unsecured debt rating	Baa3
Counterparty risk assessment	Baa1 (cr)/ P-2 (cr)

* Rating based solely on publicly available information.

Ratings of Poland, mBank and Commerzbank – comparison

The table below compares the long-term ratings (issuer ratings) of Poland, mBank and Commerzbank (non-preferred senior unsecured debt) as of December 31, 2016.

Rating agency	Poland	mBank S.A.	Commerzbank AG
Fitch Ratings	A- (stab.)	BBB (stab.)	BBB+ (stab.)
Standard & Poor's	BBB+ (stab.)	BBB (CreditWatch Positive)	BBB+ (CreditWatch Positive)
Moody's	A2 (neg.)	Baa2 (stab.)	Baa1 (stab.)

The rating outlook in brackets: stab. – stable, neg. – negative, CreditWatch Positive – rating on a watchlist, upgrade possible.

2. mBank Group's environment

2.1. Macroeconomic environment

Economy and the banking sector in Poland

Key macroeconomic parameters	2016	Banking sector indicators	2016
Real GDP growth rate (forecast)	2.8%	Base interest rate	1.5%
Nominal GDP per capita (EUR)	11,200*	Loan to Deposit ratio	98.9%
GDP per capita in PPS (EU-28=100)	69%*	Non-performing loans ratio	7.0%
Average annual inflation rate	-0.6%	Total Capital Ratio (TCR)	17.6%*
Unemployment rate	6.3%	Return on Assets (ROA)	0.8%
Population	38 M	Return on Equity (ROE)	7.8%

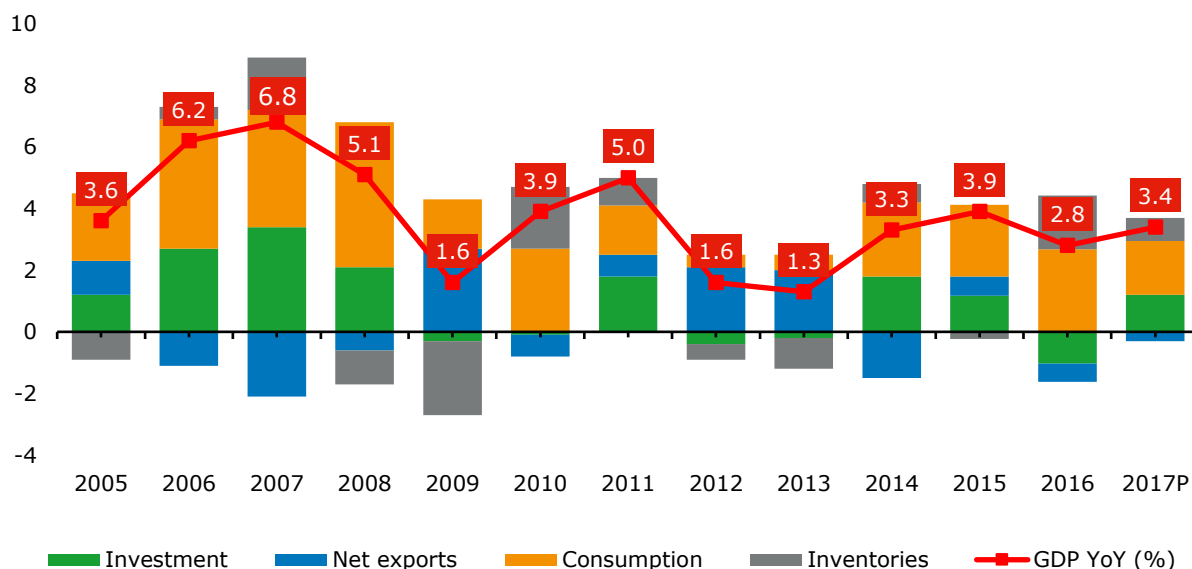
Source: Central Statistical Office (GUS), Eurostat, Polish Financial Supervision Authority.

* Data as of September 30, 2016.

Summary of changes

2016 was an eventful time with numerous changes taking place around the globe. Apart from the surprises in the political arena (the US election and the Brexit referendum), past year was also marked by the alleviation of concerns about growing deflation trends in many economies and recovered hopes for faster growth in the global economy. The political changes are a source of hope for financial markets. However, it is much too early to assess what impact on the global economy they will have.

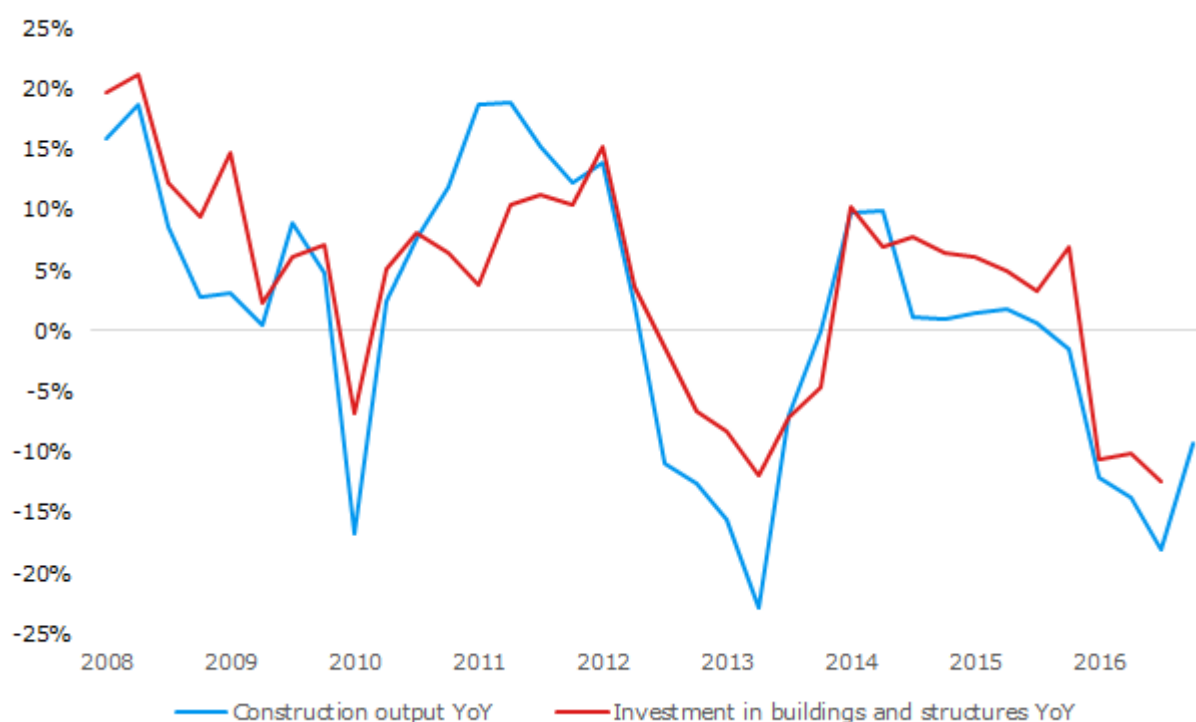
Poland's economy reported a slowdown. According to the initial data, GDP rose by 2.8% in 2016 (against 3.9% a year ago), which is well below expectations from the beginning of the year. In fact, 2016 saw numerous growth forecasts being revised down with every consecutive quarter turning out to be worse than expected (except for Q4). Looking at the downward trajectory of growth one can notice one more clear trend - private consumption is replacing investment as the main growth driver. It is worth stressing that the structure of the economic growth had not witnessed a shift like the one reported in 2016 for many years. In Q4 2016 private consumption rose by ca. 4-4.1%, whereas investment dropped by over 5% compared with +3.1% and +4.5% YoY, respectively, at the end of 2015. In other words, the difference between the contributions of private consumption and investment to GDP growth went up from 0.4 pp to record-high 3.6-3.7 pp in H2 2016. Changes in the remaining categories, i.e. a greater contribution of public consumption and changes in inventories, were in the background.

Contribution to GDP growth


Accelerating private consumption came as no surprise - the growth rate increased from 3.2% in early 2016 to ca. 4.1% in Q4. Much has been said about the fundamental reasons behind the growth in consumption, but let us repeat the most important of them, i.e.: fast growth of real wages driven by low inflation (deflation prevailed for the most part of the year) and increasing mismatch between demand and supply in the Polish labour market (companies find it increasingly difficult to fill in vacancies); payment of 500+ child benefits, which accounted for ca. 40% of growth in household incomes; further improvement in household sentiment with household optimism hitting a record high according to some estimates.

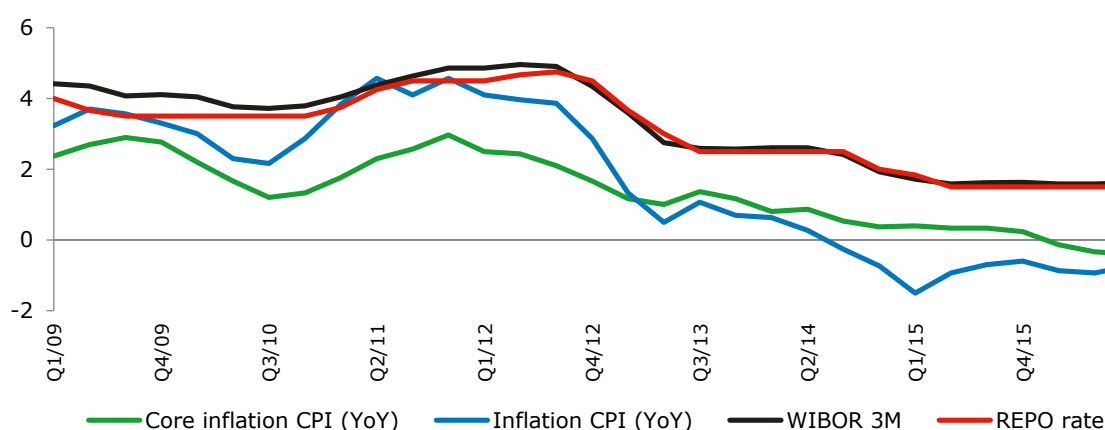
As far as investment is concerned, the deep reduction in investment expenditure (-7.7% reported in Q3 marking the worst result in 15 years) was derivative of numerous, uncorrelated factors. These include primarily the exhaustion of funds from the EU's previous budget and a delay in the preparation of new projects, which led to an investment gap, visible especially in the activity of local governments and railway companies. Secondly, the delayed spending of EU funds led to a drop in private investment, which was additionally stimulated by the growing uncertainty about the tax and regulatory environment and prospects for the global economy. Thirdly, investment in the linear infrastructure (water supply and sewage systems, power infrastructure) was badly affected by the announced legal changes, which resulted in a 50% decrease in the sector's investment activity.

Construction output and investment in buildings and structures



Inflation remained negative in 2016 with average rate dropping by -0.6% against 2015. Thus, the figure was only slightly higher than a year ago. The first period of deflation in Poland's history lasted until Q4, when rising oil prices, the strengthening dollar and base effects (with an additional contribution of higher food prices) pushed inflation up to 0.8% YoY. The period of persistent deflation and economic slowdown met with a calm reaction from the Monetary Policy Council, which focused on medium-term aspects and stressed the temporary nature of both deflation and the slowdown. As a result, interest rates were kept unchanged throughout 2016 while the Council's rhetoric was subject to only minor changes as new, initially pessimistic, and later optimistic data was coming in.

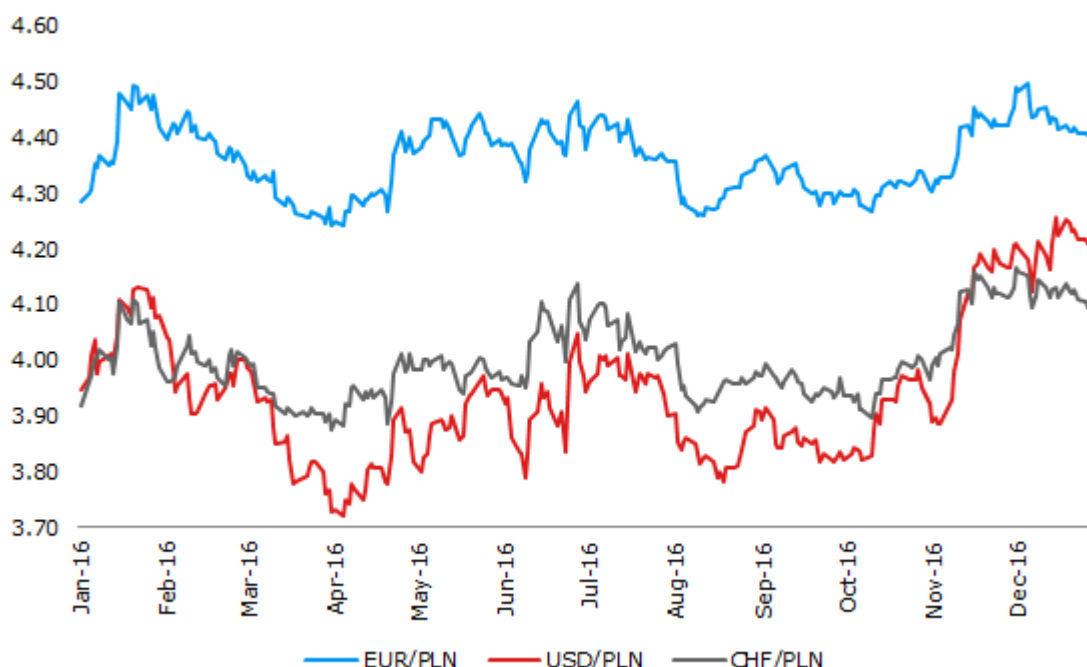
CPI inflation and NBP reference rate



Throughout 2016 the zloty was weaker than in 2015. In fact, every day in 2016 (apart from the first week of the year) the EUR/PLN exchange rate was higher than on the same day a year before. The year started with a dramatic weakening of the zloty due to the downgrade of Poland's rating by S&P and growing political risk. In February and March, improved perception of Polish assets and very favourable conditions in the emerging markets (dovish rhetoric and actions of central banks) resulted in a major strengthening of the zloty. The perception of Polish assets deteriorated again in Q2 due to a negative combination of both domestic (speculation around possible statutory solutions to the CHF loans issue) and international factors

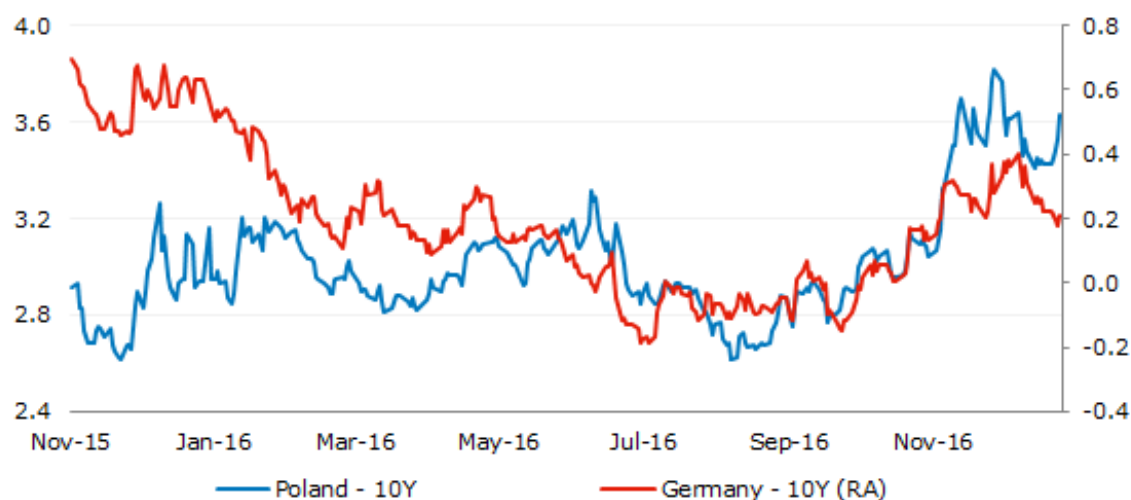
(aversion to the emerging markets, the Brexit vote). The second half of the year was the time of US election. The zloty weakened against the euro (for the third time that year) with PLN traded at 4.50 to the euro following the outcome of the vote. The major strengthening of the dollar that took place immediately after the election pushed the USD/PLN pair up to 4.30. As a result, the zloty fell to a new multi-year low against the dollar.

Currency exchange rates in 2016



The market for treasury securities was marked by similar volatility in 2016. Compared with 2015, yields on Polish Treasury bonds went up from 1.62% to 2.03% for two-year securities, from 2.23% to 2.88% for five-year bonds and from 2.94% to 3.63% for ten-year bonds. Similarly to the exchange rate of the zloty, the demand for Polish bonds was determined by both domestic and foreign factors. In particular, in late 2016 the Polish bond market proved sensitive to growing expectations regarding economic growth and inflation in both Poland and globally. This pushed up both the risk-free rate (i.e. yields on German and US bonds) and the spread between the yield on Polish Treasury securities and German and US securities with the same maturities. The Warsaw capital market revived thanks to improved sentiment for the Polish economy and inflow of capital to the emerging markets. At the end of 2016, the main indices were by ca. 10% higher than at the beginning of the year.

Bond yields in Poland and Germany



Development of economy and banking sector in the Czech Republic

Key macroeconomic parameters	2016	Banking sector indicators	2016
Real GDP growth rate (forecast)	2.2%	Base interest rate	0.05%
Nominal GDP per capita (EUR)	16,400*	Loan to Deposit ratio	78.3%
GDP per capita in PPS (EU-28=100)	87%*	Non-performing loans ratio	4.8%
Average annual inflation rate	0.6%	Total Capital Ratio (TCR)	17.7%*
Unemployment rate	4.0%	Return on Assets (ROA)	1.4%*
Population	10.6 M	Return on Equity (ROE)	15.3%*

Source: Eurostat, Česká národní banka (ČNB).

* Cumulative data for 9 months (as of September 30, 2016) or latest available.

GDP, inflation, interest and FX rates

Economic growth in the Czech Republic is expected to have fallen to 2.2% in 2016 from 4.5% recorded in 2015, largely due to the drop in investment linked to the cycle of EU investment funding. In contrast, private consumption and foreign demand have provided a solid positive contribution. GDP growth is expected to pick up to 2.6% in 2017 and 2.7% in 2018 as investment activity recovers, also supported by the continuing strength in domestic consumption.

On November 7, 2013, the Czech National Bank (CNB) committed to sell the Czech crowns and buy euros as needed in order to prevent the crown from appreciating beyond the historically low rate of CZK 27 per euro, while the currency floats freely on the weaker side of this threshold. Since then, the central bank's board has repeatedly confirmed the validity of this exchange rate commitment. At its most recent meeting on February 2, 2017, it was stated again that the CNB would not discontinue the use of the exchange rate as a monetary policy instrument before Q2 2017.

In 2013-2016, interest rates remained unchanged and the repo rate was maintained at 0.05%.

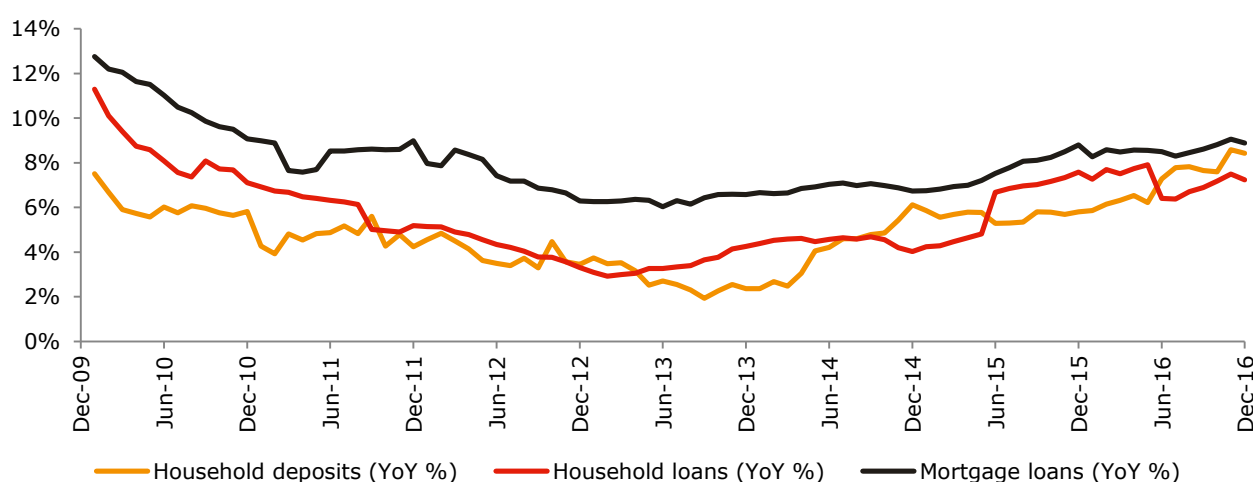
The year-on-year growth of consumer prices amounted to 2.1% in December 2016 and was significantly higher compared to -0.1% recorded at the end of 2015. The sharp rise in inflation at the close of last year was mainly due to a recovery in food price growth and an unwinding of the year-on-year fall in fuel prices. The average inflation rate for 2016 reached 0.6% and increased by 0.3 p.p. from the preceding year level of 0.3%.

Czech labour market parameters have been improving further. The country's unemployment rate has remained the lowest in the Central and Eastern Europe (CEE) region. Its seasonally adjusted level reached 4.0% in December 2016 and decreased by 1.1 p.p. year on year.

Banking sector

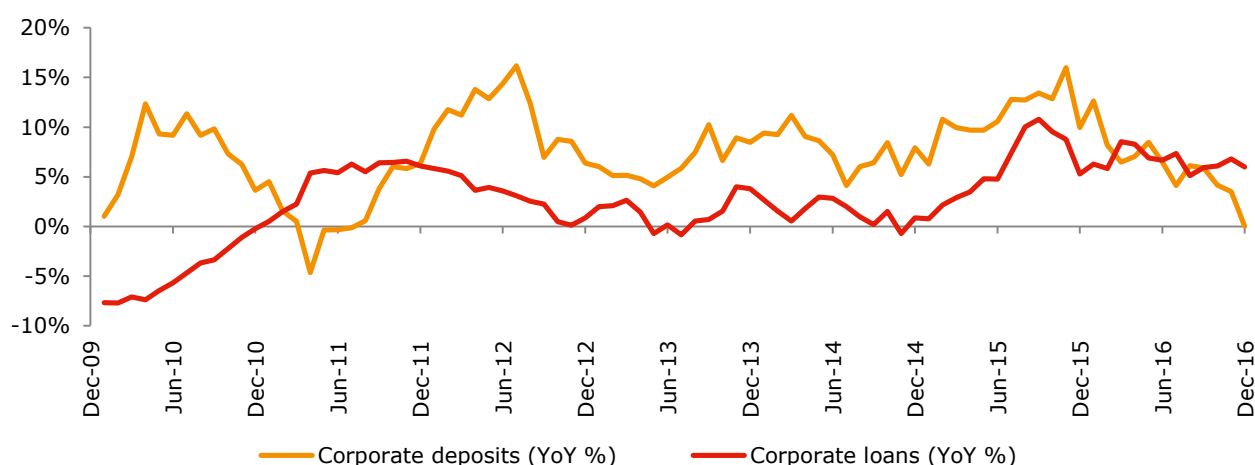
The favourable developments recorded in the Czech financial sector in past years continued into 2016. The good economic conditions were reflected in growth of the assets of banks, which managed to maintain high profitability and strengthen their capital adequacy. The main challenge for Czech banks is a permanent low interest rate environment, causing a pressure on loan yields. Funding and liquidity profiles continued to be solid with the sector's loan-to-deposit ratio of 78.3%. Asset quality remained resilient as demonstrated by a further decrease of NPL ratio to 4.8% at the end of 2016 from 5.8% observed a year earlier. Better risk indicators in the Czech Republic compared to other countries in the CEE region reflect the country's relatively strong industrial base and limited foreign-currency lending (predominantly to corporate customers and almost non-existent in retail segment).

The Czech Republic: Household Loans and Deposits



The growth in total retail lending was predominantly driven by mortgage loans, which expanded by 8.9% in 2016, while the volume of consumer and other loans showed a slower increase of 4.1% during the same period. The share of non-performing loans in the total volume of loans to households was 3.2% in December 2016, declining from 4.1% at the end of 2015. The annual growth pace of household deposits accelerated in 2016 and reached 8.4% in December. However, the maturity structure of deposit base has been evolving significantly over the last three years, with demand deposits rising at double-digit rate and term deposits falling by around 5% annually.

The Czech Republic: Corporate Loans and Deposits



After subdued growth in corporate loan volume in 2014, the year-on-year dynamics accelerated visibly during 2015 and stabilized at a moderate pace of around 6% in 2016. The share of non-performing loans in the total volume of loans to non-financial corporations has been constantly declining since 2011 and amounted to 5.0% at the end of 2016, compared to 5.7% a year earlier. Corporate deposits decelerated visibly in 2016 and the end-year volume was almost unchanged versus December 2015.

Development of economy and banking sector in Slovakia

Key macroeconomic parameters	2016	Banking sector indicators	2016
Real GDP growth rate (forecast)	3.4%	Base interest rate	0.00%
Nominal GDP per capita (EUR)	14,700*	Loan to Deposit ratio	98.8%
GDP per capita in PPS (EU-28=100)	77%*	Non-performing loans ratio	3.8%
Average annual inflation rate	-0.5%	Total Capital Ratio (TCR)	17.7%*
Unemployment rate	9.7%	Return on Assets (ROA)	1.1%
Population	5.4 M	Return on Equity (ROE)	10.0%

Source: Eurostat, Národná banka Slovenska (NBS).

* Cumulative data for 9 month (as of September 30, 2016) or latest available.

GDP, inflation and interest rates

The Slovak economy has remained on a stable growth path. After a strong GDP expansion of 3.8% showed in 2015, the growth is seen to have reached 3.4% in 2016, underpinned by strengthening household demand and net exports. Although an increase in private investment is unlikely to fully compensate for a pronounced downturn in public investment linked to the cycle of EU investment co-funding in 2016, overall investment is forecast to return to solid growth in 2017 and 2018 thanks to buoyant investment in the car industry and a rise in spending on large infrastructure projects. Private consumption growth is set to accelerate in 2016 and 2017, benefitting from the continued improvement in the labour market, subdued inflation and consequently gains in real disposable income.

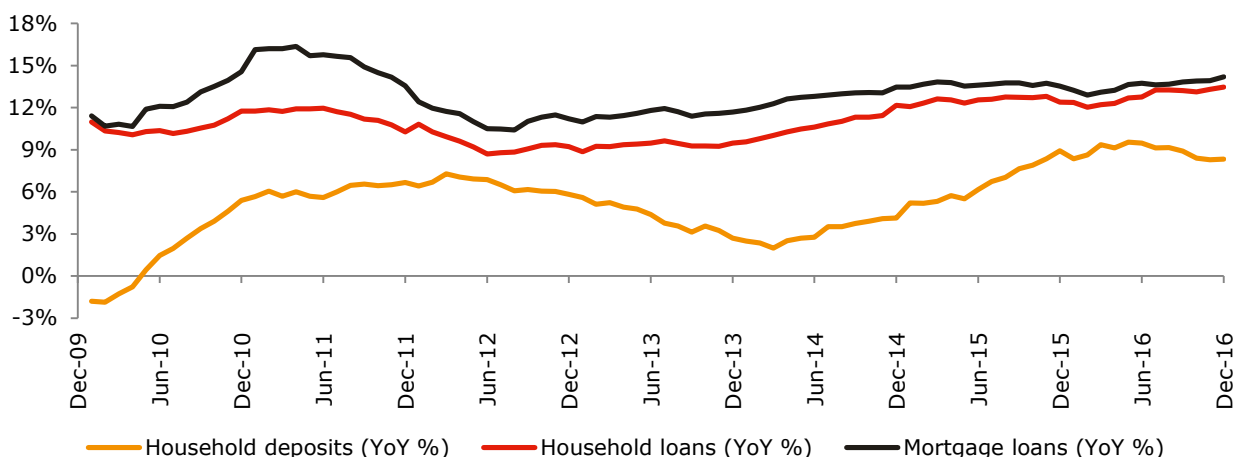
In Slovakia, as a member of euro zone, the key interest rate, set by the European Central Bank (ECB), was reduced to 0.00% in March 2016 from 0.05% kept during 2015.

In December 2016, annual inflation stood at 0.2%, compared to a contraction of consumer prices at 0.5% recorded at the end of 2015. The main drags were falling energy and food prices, which were overshadowing rising service prices. The average annual inflation rate for 2016 reached -0.5%, dropping by 0.2 percentage point from -0.3% in 2015.

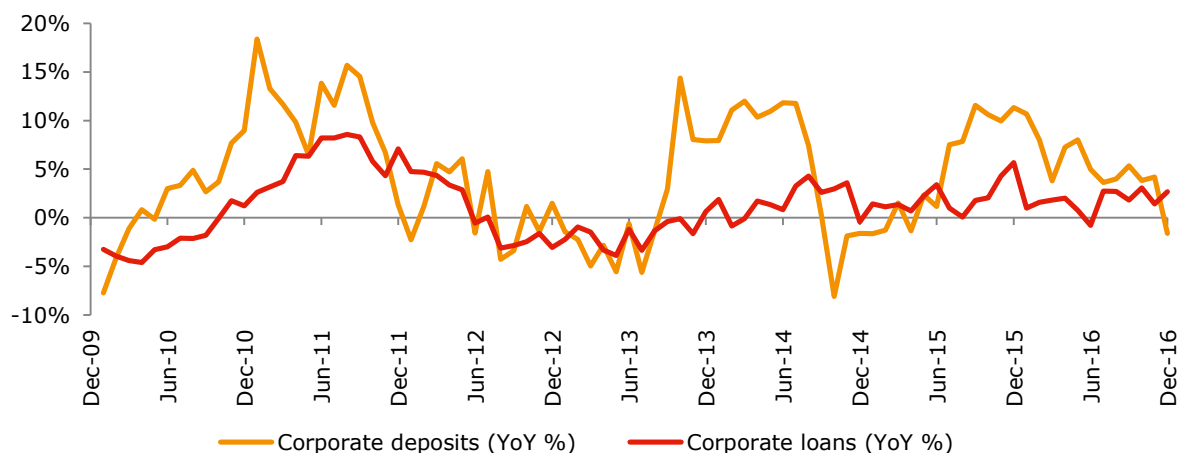
Since 2014 unemployment in Slovakia has been gradually decreasing in line with the improvement in economic activity and sustained job creation. Its seasonally adjusted rate reached 9.7% in December 2016 and was lower by 1.8 percentage point year on year. At the same time, the participation rate is set to gradually increase, as incentives to join the labour force for the long-term unemployed rise.

Banking sector

Slovak banks have operated in a relatively strong economic environment, but their profitability has been exposed to several headwinds. The ultra-low interest rate level has caused a continued compression of margins in the sector. In addition, following the introduction of a statutory cap on housing loan early repayment fees as from March 21, 2016, the yield on retail loans has been decreasing at an accelerating pace. Consequently, the profitability of the Slovak banking sector improved in 2016 only due to a one-off gain on Visa transaction. With strong lending growth, the overall loan-to-deposit ratio has been gradually increasing and exceeded 98% at the end of 2016. However, the Slovak banking sector's capital adequacy has remained among the highest in the CEE region, along with the Czech Republic. The overall improvement of the NPL ratio was mainly the result of the high growth in retail loans and stabilisation in the stock of non-performing loans. The NPL ratio for Slovakia is the lowest in the CEE region at 3.8% at the end of December 2016, dropping from 4.2% a year earlier.

Slovakia: Household Loans and Deposits


The improving economy and low credit costs have promoted strong development of household loans in Slovakia. Retail lending has continued to rise rapidly over the recent years, mainly due to housing loan acceleration, with the year-on-year growth pace exceeding 13% in 2016, spurred recently by demand for credit refinancing. The share of non-performing loans in the total volume of loans to households declined to 3.7% in December 2016 from 3.9% at the end of 2015. Development of retail deposits have shown clearly upward trend since Q1 2014, with the annual dynamics oscillating around 8-9% in 2016. Since the mid-2013 the structure of household deposit base have been changing. The volume of term deposits has been decreasing over the past quarters, what is more than compensated by strong inflows of retail demand deposits, which expanded by more than 17% in 2016.

Slovakia: Corporate Loans and Deposits


















The favourable economic trends have not been fully reflected in the stock of corporate loans, with its average annual growth rate remaining at around 2.5% in H2 2016. The share of non-performing loans in the total volume of loans to non-financial corporations decreased to 6.3% at the end of 2016 from 6.9% in 2015. After acceleration of corporate deposits at the end of 2015, the year-on-year dynamics visibly slowed down in 2016 and finally were negative in the last month of the year.

2.2. Regulatory environment





















Amendments to legal acts affecting banks in Poland and changes in recommendations of the Polish Financial Supervision Authority (PFSA)













Amendments to legal acts affecting banks in Poland and changes in recommendations of the Polish Financial Supervision Authority (PFSA) are presented in the table below:

Legal act / Recommendation	Date of entry into force and a summary of new challenges	Influence on the main areas of the Bank		
		YES – the regulation impacts on a given area NO – the regulation does not impact on a given area, or impacts on a given area to a very limited extent		
Basel III (CRD IV/CRR Regulatory Package)	2015			
	January 1, 2014 - >2019	It defines requirements in the scope of, among other things, capital base, liquidity, leverage ratio, corporate governance and remuneration policy. The provisions have been transposed into Polish law by way of the Act on Macroprudential Supervision and amendments to the Banking Law Act. Standards and accompanying documents are being published on an ongoing basis.	<div><div>▪ Capital base</div><div>YES</div><div></div></div> <div><div>▪ IT & HR</div><div>NO</div><div></div></div> <div><div>▪ Financial result (excluding IT/HR costs)</div><div>YES</div><div></div></div> <div><div>▪ Clients and offer</div><div>YES</div><div></div></div>	
Bank Recovery and Resolution Directive (BRRD)	January 1, 2015	The Directive introduces the management framework in the scope of bank recovery and resolution. It imposes an obligation to draw up relevant plans (recovery plans - by banks and resolution plans by the competent bodies, i.e. BFG in Poland) and to set up the resolution fund supporting the process. The Directive also stipulates the minimum requirement for own funds and eligible liabilities to allow an effective bail-in of an appropriate amount of liabilities, prevent other banks from being “infected” and counteract a bank run.	<div><div>▪ Capital base</div><div>YES</div><div></div></div> <div><div>▪ IT & HR</div><div>NO</div><div></div></div> <div><div>▪ Financial result (excluding IT/HR costs)</div><div>YES</div><div></div></div> <div><div>▪ Clients and offer</div><div>NO</div><div></div></div>	
	In December 2016, amendments to CRD IV/CRR and BRRD were proposed and forwarded for further consultation within Basel IV.			

Act on Macroprudential Supervision over the Financial System and Crisis Management in the Financial System	Q4 2015/January 1, 2016 The Act partially introduces CRD IV and BRRD into Polish law, by, among others, appointing the BFG to be the authority responsible for resolution in Poland. As regards capital requirements, the capital buffers effective since 1 January 2016 are important. These include the conservation buffer (1.25% of the total risk exposure amount in 2017), the buffer on other systemically important institutions imposed individually on particular banks for the first time in October 2016, the systemic risk buffer (its value is unknown at the moment of report preparation) and the counter-cyclical buffer, at present at 0%. The level of compliance with the combined buffer requirement affects banks' dividend policies. Additionally, the Act lays down corporate governance principles, framework provisions on disclosures and crisis management rules.	<ul style="list-style-type: none"> ▪ Capital base YES  ▪ IT & HR NO  ▪ Financial result (excluding IT/HR costs) NO  ▪ Clients and offer YES 
2016		
Act on Covered Bonds and Mortgage Banks	January 1, 2016 The amendments to the Act introduce solutions to foster the development of mortgage banking in Poland. The amendments aim at increasing the attractiveness of covered bonds as safe financial instruments, which should help to reduce the mismatch between maturity dates of long-term loans and short-term deposits used to finance them.	<ul style="list-style-type: none"> ▪ Capital base NO  ▪ IT & HR YES  ▪ Financial result (excluding IT/HR costs) NO  ▪ Clients and offer YES 
Act on Capital Market Supervision	January 1, 2016 The provisions of the Act of 12 June 2015 on Amendments to the Act on Capital Market Supervision and certain other acts entered into force on 1 January 2016, introducing changes to the system of financing the supervision. All entities operating on the capital market have been obliged to pay annual fees for the supervision. This has changed the size of charges that were earlier incurred only by certain market participants.	<ul style="list-style-type: none"> ▪ Capital base NO  ▪ IT & HR NO  ▪ Financial result (excluding IT/HR costs) YES  ▪ Clients and offer NO 
Act on Tax on Certain Financial Institutions	February 1, 2016 The Act levies a monthly tax of 0.0366% (0.44% p.a.) on selected financial institutions, including banks. The tax is calculated at the end of every month on the basis of the value of their total assets in excess of PLN 4 billion reduced by the value of own funds and Treasury securities.	<ul style="list-style-type: none"> ▪ Capital base NO  ▪ IT & HR NO  ▪ Financial result (excluding IT/HR costs) YES  ▪ Clients and offer YES 

Act on Assistance to Borrowers in Difficult Financial Situation	February 19, 2016	The aim of the Act is to provide interest-free returnable financial support to natural persons who took out a mortgage loan and meet specific criteria. The funds necessary to provide such support come from the Borrowers Support Fund financed by banks (an initial amount of PLN 600 million) proportionally to the value of their portfolios of mortgage loans for households which are over 90 days past due.	<ul style="list-style-type: none"> ▪ Capital base ▪ IT & HR ▪ Financial result (excluding IT/HR costs) ▪ Clients and offer 	NO NO YES NO	
Act on Financial Market Supervision	March 2016	The amendment aims at protecting consumers against unfair provisions in contracts concluded with lenders. It sets the maximum amount of non-interest costs, i.e. total costs a client must pay under a consumer credit agreement aside from interest. In addition, the Act caps the amounts of fees and interest on overdue debt.	<ul style="list-style-type: none"> ▪ Capital base ▪ IT & HR ▪ Financial result (excluding IT/HR costs) ▪ Clients and offer 	NO NO NO YES	
Act on the Bank Guarantee Fund, Deposit Guarantee Scheme and Resolution	October 9, 2016	The Act implements the EU Bank Recovery and Resolution Directive (BRRD) and Directive on Deposit Guarantee Schemes (DGS) into Polish law. The Act and implementing regulations thereto amend the rules governing the way banks and cooperative savings and credit unions (SKOKs) make contributions to the (guarantee and resolution) funds maintained by the BFG, impose the obligation to prepare recovery plans on financial institutions, and oblige the BFG to draw up resolution plans in cooperation with the entities concerned. As part of the latter process, the BFG will set minimum requirements for own funds and eligible liabilities (MREL) for every bank. The regulation introduces a number of requirements concerning the provision of specific data and information to the BFG, significantly expanding the reporting requirements applicable hitherto.	<ul style="list-style-type: none"> ▪ Capital base ▪ IT & HR ▪ Financial result (excluding IT/HR costs) ▪ Clients and offer 	NO YES YES YES	
Market Abuse Regulation (596/2014, MAR)	July 3, 2016	The Market Abuse Regulation changes the rules on market abuse prevention. The most important provisions include the modification of how confidential information should be prepared and disclosed in order to ensure proper communication with investors and prevent market manipulation.	<ul style="list-style-type: none"> ▪ Capital base ▪ IT & HR ▪ Financial result (excluding IT/HR costs) ▪ Clients and offer 	NO YES NO NO	

European Market Infrastructure Regulation (EMIR)	2016 / entry into force of certain provisions has been postponed	The Regulation governs the functioning of financial markets including, in particular, risk mitigation. It requires transactions to be cleared centrally through a central counterparty and sets margining requirements.	<ul style="list-style-type: none"> ▪ Capital base ▪ IT & HR ▪ Financial result (excluding IT/HR costs) ▪ Clients and offer 	NO YES NO YES	   
Recommendation K	March 1, 2016	The Recommendation lays down qualitative guidelines for registers of collateral for covered bonds. It has been adjusted to the new legal framework created by the amended Act on Covered Bonds and Mortgage Banks which entered into force on 1 January 2016. The Act should make the purchase of and trading in covered bonds more secure and thus, indirectly, facilitate the development of the Polish mortgage lending sector.	<ul style="list-style-type: none"> ▪ Capital base ▪ IT & HR ▪ Financial result (excluding IT/HR costs) ▪ Clients and offer 	NO YES NO NO	   
Recommendation W	June 30, 2016	The Recommendation sets standards for model risk management and creates the framework for the development, approval and quality assessment of models with a view to mitigating risk arising from the application of models.	<ul style="list-style-type: none"> ▪ Capital base ▪ IT & HR ▪ Financial result (excluding IT/HR costs) ▪ Clients and offer 	NO YES NO NO	   
Dividend Policy	2017				
	2017	In accordance with the PFSA's stance of 6 December 2016 on dividend policy in 2017, the existing criteria governing the payment and maximum amount of dividend paid to banks' shareholders have been changed. The existing criteria, i.e. lack of recovery plan activation, a positive result of supervisory review and evaluation process (BION score), adequate level of financial leverage, and fulfilment of relevant capital requirements, have been expanded by the criterion of being other systemically important financial institution and the criterion of significant exposure to FX housing loans for households.	<ul style="list-style-type: none"> ▪ Capital base ▪ IT & HR ▪ Financial result (excluding IT/HR costs) ▪ Clients and offer 	YES NO NO NO	   
Recommendation C	January 2017	The Recommendation sets out the rules for identification, measurement, monitoring and mitigation of concentration risk. All these processes should be covered by the internal control system, including interdependencies between exposures to particular risks.	<ul style="list-style-type: none"> ▪ Capital base ▪ IT & HR ▪ Financial result (excluding IT/HR costs) ▪ Clients and offer 	NO YES NO NO	   

Recommendation Z	2017 Draft Recommendation Z on corporate governance in banks has been subject to consultation since December 2015. The Recommendation covers the corporate governance principles provided for in other regulations, e.g. the Banking Law. The date of entry into force of the Recommendation depends on the approval time of the Regulation of the Minister of Finance on Risk Management System, Internal Control System, Remuneration Policy and Detailed Method for Internal Capital Estimation.	<ul style="list-style-type: none"> ▪ Capital base NO ▪ IT & HR YES ▪ Financial result (excluding IT/HR costs) NO ▪ Clients and offer NO 	   
Amendments to the Payment Services Act	February 2017 The amendments to the Payment Services Act include, among other things, the introduction of payment accounts with basic features defined in EU regulations. Banks will be obliged to provide every consumer free of charge with a payment account with basic features, given that they have no other bank account in the Polish zloty offering identical features. Holders of such accounts will be able to make free wire transfers and withdraw cash at ATMs and in bank branches free of charge under the conditions stipulated in the Act, however, without the option to link the account with any credit products.	<ul style="list-style-type: none"> ▪ Capital base NO ▪ IT & HR YES ▪ Financial result (excluding IT/HR costs) NO ▪ Clients and offer YES 	   
MIFID II & MIFIR	2018		
	2018 The set of ESMA technical standards on transparency requirements for trading venues and investment firms and on the obligation for investment firms to execute transactions in certain shares on a trading venue or a systematic internaliser was published in 2015. The standards will be implemented on January 1, 2018.	<ul style="list-style-type: none"> ▪ Capital base NO ▪ IT & HR YES ▪ Financial result (excluding IT/HR costs) NO ▪ Clients and offer NO 	   

Impact of the appreciation of the Swiss franc on the position of borrowers, the banking sector, and mBankProposal of the Polish Banks Association

Several days after the Swiss franc's abrupt surge in mid-January 2015 the Polish Banks Association (ZBP) proposed solutions to help CHF borrowers repay inflated credit instalments.

The package of solutions, the so-called "Six-pack", has been implemented by banks and includes:

- taking into account the negative CHF LIBOR;
- narrowing the currency spread;
- extending the repayment period at the client's request;
- not requesting new collateral or loan insurance from the borrowers who repay their instalments on time;
- option to convert the loan using the fixing rate of the National Bank of Poland (NBP);
- introducing more flexible rules for restructuring mortgage loans applicable to clients.

In May 2015, ZBP followed up with new measures. Banks declared financial and organisational involvement in the introduction of additional support for clients who took out housing loans, especially loans in foreign currencies. These measures include:

- extending the applicability period of the first ZBP package by the end of 2015 with an option to extend the applicability of certain solutions even further;
- setting up internal stabilization funds dedicated solely to CHF borrowers;
- allocating PLN 125 million from banks' own resources to the Mortgage Loans Restructuring Support Fund, whose creation by way of an act is requested by the banks declaring financial support;
- making it possible for the borrowers who took out mortgage loans in foreign currencies to meet their own housing needs to transfer mortgage collateral in order to facilitate the sale or exchange of flats.

The subsidies from internal stabilization funds would be granted if the exchange rate of CHF exceeded a pre-defined threshold. This solution would be available to the borrowers who are ready to undertake to convert their loans at a specified exchange rate and meet specific income criteria. The support would be addressed to the borrowers whose income at the time of requesting for an amending annex is below the average monthly income in the national economy and whose flat or house is not bigger than 75 or 100 square metres respectively. Another condition is regular repayment. According to the declaration signed by banks, the subsidies would be granted when the CHF exchange rate exceeded PLN 5, yet the amount of the subsidy cannot be higher than PLN 0.33 per 1 CHF. According to ZBP's estimations, in 10 years the amount of subsidies paid by banks from the stabilization funds would reach approximately PLN 3.5 billion. Certain aspects of ZBP's proposal were later incorporated into the Presidential Bill on the Borrowers Support Fund.

The Mortgage Loan Restructuring Support Fund has been in operation since February 19, 2016. It aims at helping mortgage borrowers, regardless of the loan currency, who found themselves in financial straits due to an adverse event such as unemployment or illness. The support would account for up to 100% of the principal and interest instalment over 12 months, but would not be higher than PLN 1,500 monthly. Except for special cases, the support would be reimbursable. The fund is financed by banks (initial value of PLN 600 million) proportionally to the volumes of their portfolios of mortgage loans to households, for which the delay in repayment exceeds 90 days. mBank's contribution to the Fund in 2015 amounted to PLN 52.1 million.

Presidential bill on refunding certain amounts due under loan and credit agreements

On August 2, 2016, the Chancellery of the President published the presidential bill on refunding certain amounts due under loan and credit agreements. The act covers agreements concluded from July 1, 2000 to August 26, 2011, when the so-called Anti-Spread Act came into force, and provides for reimbursement of the currency spreads charged in this period, i.e. the difference between the reference rate (NBP buy/sell rate + 0.5%) and the exchange rate adopted by the bank at the time of disbursement and repayment of the loan, plus 50% of statutory interest. The act applies to loans of up to PLN 350,000 per person and is addressed to individuals and entrepreneurs who did not apply depreciation charges and did not deduct interest from tax. The funds to be reimbursed will be deducted from the outstanding loan principal, and in the case of already repaid loans, the amount will be returned in cash. The act adopted a heterogeneous approach to denominated and indexed loans by using different reference exchange rates for the two types of loans. The Chancellery of the President estimated the cost for the banking sector at PLN 3.6-4 billion.

Moreover, it was announced that an additional capital requirement for FX mortgage loans would be imposed on banks to encourage them to voluntarily convert these loans into PLN. The requirement is supposed to be much higher than 150% (currently it is 100%) and it will increase gradually so that loans are converted over time. Should banks refuse to voluntarily convert the loans, legislative and court measures will be taken.

On September 1, 2016, NBP published its remarks about the bill. They referred, among others, to the provision on the level of the limit adopted, the fact that the act would cover repaid loans and entrepreneurs, and the name of the act. NBP also said that the implementation of the new law would cost banks more than the sponsors of the bill estimated – according to the initial estimates of NBP, the costs may be twice as high. NBP expressed its doubts about the fact that the amount of the spread refund would be calculated in a foreign currency instead of PLN as this would create an unjustified benefit for the borrowers, and consequently, inflate the costs to be borne by banks. In the opinion of NBP, there are no reasonable grounds for calculating (50% of) statutory interest on the spread refund. Another issue that NBP was concerned about was the method of setting the “reference” rate (any excess over this rate has to be refunded by banks to their clients) for indexed loans at the level of the NBP sell rate adjusted by 0.5%, whereas for denominated loans the reference rate is the NBP buy rate adjusted by 0.5%. According to NBP, in order to ensure equal treatment of borrowers who took out denominated and indexed loans, the legislator should consider replacing the NBP sell rate (adjusted by 0.5%) with the buy rate (adjusted by 0.5%) in the formula proposed in the bill.

According to the PFSA, the costs of the spread refund to be borne by banks would total PLN 9.3 billion, whereas the Polish Banks Association (ZBP) estimated that the cost of implementing the act in the proposed form would stand at PLN 7.7–14.0 billion depending on the level of spreads applied.

On October 20, 2016, the Sejm (lower chamber of the Polish parliament) discussed the bill for the first time. The Sejm decided to refer the presidential bill to the public finance committee.

Recommendations of the Financial Stability Committee of January 13, 2017

On January 13, 2017, the Financial Stability Committee (KSF) composed of the representatives of the National Bank of Poland (NBP), the Polish Financial Supervision Authority (PFSA), the Ministry of Finance and the Bank Guarantee Fund (BFG), issued a resolution on the recommendation regarding the restructuring of the FX housing loans portfolio. The Committee is of the opinion that the portfolio of FX loans does not generate any significant risk to the stability of the financial system in economic terms. The situation of the vast majority of households which took out FX loans is good, and their resilience to further exchange rate shocks is high. This stems from higher initial income buffers, the high increase in nominal wages that took place since loan origination, and low level of interest rates in foreign currencies. According to KSF, any potential invasive legal solutions that would lead to general conversion of FX housing loans, regardless of their form, are inadequate. Hence, the portfolio of FX housing loans generates a systemic risk in the context of potential consequences of the invasive legal solutions advocated in the public debate. KSF recommended that the Minister of Finance, PFSA and BFG take actions aimed at encouraging the banking system to convert exposures in foreign currencies into PLN.

Recommendations for the Minister of Finance:

- Increasing the risk weight for FX loans immediately, from current 100% to 150%.
- Increasing the minimum LGD (Loss Given Default) for FX mortgage loans.
- Introducing changes in the Borrowers Support Fund to increase the use of the fund. The resources could be used to support voluntary restructuring.
- Neutralising the excessive tax burden arising from the restructuring of CHF loans.
- Introducing a systemic risk buffer at the level of 3% applicable to all exposures (within the existing capital buffers).

Recommendations for PFSA:

- Updating the supervisory review and evaluation process (Polish: BION) methodology and expanding it with rules, enabling assignment of an appropriate capital add-on to relevant risk factors.
- Supplementing the additional capital requirements applied currently in the 2nd pillar, which are related to operational risk, market risk and risk of cross default.
- Issuing a set of good practices for the restructuring of FX loans, stipulating:
 - that it is necessary to identify all risk and cost types;
 - that excessive concentration of FX housing loans and the risk related to these loans may lead to the conclusion that there is no guarantee of safe and stable management of the bank;
 - that, as far as the stability of the sector is concerned, it is justified to actively restructure the portfolio of FX loans by means of individual agreements with borrowers;
 - that the restructuring process should be conducted in an organised way so that it does not threaten the appropriate levels of regulatory capital;
 - that banks are obliged to draw up plans for the restructuring process;
 - effective incentives to restructuring for banks and borrowers, making it possible to waive any future claims in exchange for more favourable conditions of restructuring;
 - desirable practices accompanying the restructuring process;
 - and taking into account the opinion of the European Central Bank regarding bills on FX housing loans.

Recommendations for BFG:

- Taking account of the risk arising from FX housing loans in the method of calculating contributions to the bank guarantee fund.

mBank Group's portfolio of FX mortgage loans

In response to market demand, based on funding provided by its parent entity in the form of medium-term and long-term loans, mBank offered mortgage loans in foreign currencies, mainly the Swiss franc (CHF), to its retail clients in 2003-2011. The volume of these loans grew the fastest in 2008-2009; their sales started going down gradually as of 2010; finally, sale of CHF loans was discontinued in August 2011. Consequently, the CHF mortgage loan portfolio has been falling steadily, by ca. CHF 350 million per year, with a large part of this amount being repaid in the form of early payments. At the end of 2016, the value of the portfolio stood at CHF 4.5 billion (PLN 18.7 billion). The mortgage loan portfolio of mBank Group stands out as the best-quality credit product of the Bank. The non-performing loans ratio (NPL) totalled 3.7% at the end of 2016, higher than the sector average (2.9%), resulting from the application of a conservative "cross-default" method.

2.3. Market environment

mBank Group operates in a changing market environment. Currently, the following factors impact the operations of the banking sector in Poland:

- a low interest rate environment – interest rates in Poland are at historically low levels – the NBP reference rate stood at 1.5% and WIBOR 3M reached 1.73% at the end of 2016. The low interest rate environment depresses generation of net interest income;
- limited interchange rates, i.e. commissions paid to the bank by the settlement agent for every non-cash transaction made with a payment card issued by the bank, to the level of 0.2% for debit cards and 0.3% for credit cards (from the end of January 2015). It restricts the generation of net fee and commission income;
- the introduction of a new tax on certain financial institutions (so called „bank tax”) in February 2016 in the amount of 0.44% of assets annually;
- stricter regulatory requirements, putting pressure on capital, costs as well as operations;
- proposals to convert the mortgage FX loans, mainly CHF loans, to PLN and draft Act on a refund of excessive spreads related to loans proposed by the Presidential Office (so called „spread bill”), stipulating the reimbursement of spreads over the acceptable level charged by banks in 2000-2011 (for more information see chapter 2.2. Regulatory environment);
- consolidation of the banking sector – banks with insufficient scale give way to bigger and stronger entities. Consequently, the share of five largest institutions in total banking assets in Poland grew from 43.9% in 2010 to 48.3% in 2016 (according to PFSA);
- challenges related to the management and storage of personal data and deposits security in the Internet – cyber risk;
- spreading technological solutions and demographic processes change clients’ behavior. Customers increasingly prefer to bank outside of the branches as their main contact center with banks;
- declining trust in the banking sector as a result of the ongoing debate in relation to the FX mortgage loans, started on 2015;
- non-financial sector players (FinTech) are gradually entering traditional banking territories and offer innovative financial solutions. Additionally, the PSD2 Directive (Payment Services Directive 2) as of November 2015 will abolish banks’ monopoly in the market for payment services (the deadline for EU members to adjust local regulations is 2 years).

mBank Group in the financial services market

At the end of 2016, mBank was among the largest Polish banks across all relevant market segments.

Most of the Group subsidiaries also rank high in their respective market segments. The table below presents the market share and the position of mBank and of selected subsidiaries at the end of 2016 compared to 2015 and 2014:

Business category	Market position in 2016*	Market share		
		2014	2015	2016
Corporate Banking				
Corporate loans		6.3%	6.3%	6.1%
Corporate deposits		8.8%	9.8%	10.1%
Leasing	3	7.4%	7.6%	6.9%
Factoring	8	7.9%	7.8%	7.3%
Retail Banking in Poland				
Total loans		6.3%	6.5%	6.5%
of which mortgage loans		7.4%	7.7%	7.5%
Non-mortgage loans		4.6%	4.7%	5.0%
Deposits		5.3%	5.7%	6.1%
Retail Banking in the Czech Republic				
Total loans		1.2%	1.4%	1.4%
Of which mortgage loans		1.6%	1.8%	1.8%
Non-mortgage loans		0.5%	0.6%	0.7%
Deposits		1.3%	1.4%	1.6%
Retail Banking in Slovakia				
Total loans		0,7%	0.8%	0.7%
Of which mortgage loans		0,8%	1.0%	0.8%
Non-mortgage loans		0,3%	0.4%	0.4%
Deposits		1,5%	1.4%	1.6%

Investment Banking				
Financial markets				
Treasury bills and bonds		14.8%	12.8%	16.2%
IRS/FRA		27.3%	15.4%	11.5%
FX spot and forward		10.9%	12.1%	16.1%
Non-Treasury securities (wartość zadłużenia)				
Short-term debt securities	4	8.1%	6.8%	9.8%
Corporate bonds	4	12.9%	12.4%	11.5%
Bank debt securities**	1	34.3%	36.4%	34.6%
Brokerage				
Equities trading	10	3.9%	5.0%	4.4%
Futures	2	18.0%	16.1%	12.3%
Options	4	17.9%	12.8%	9.7%

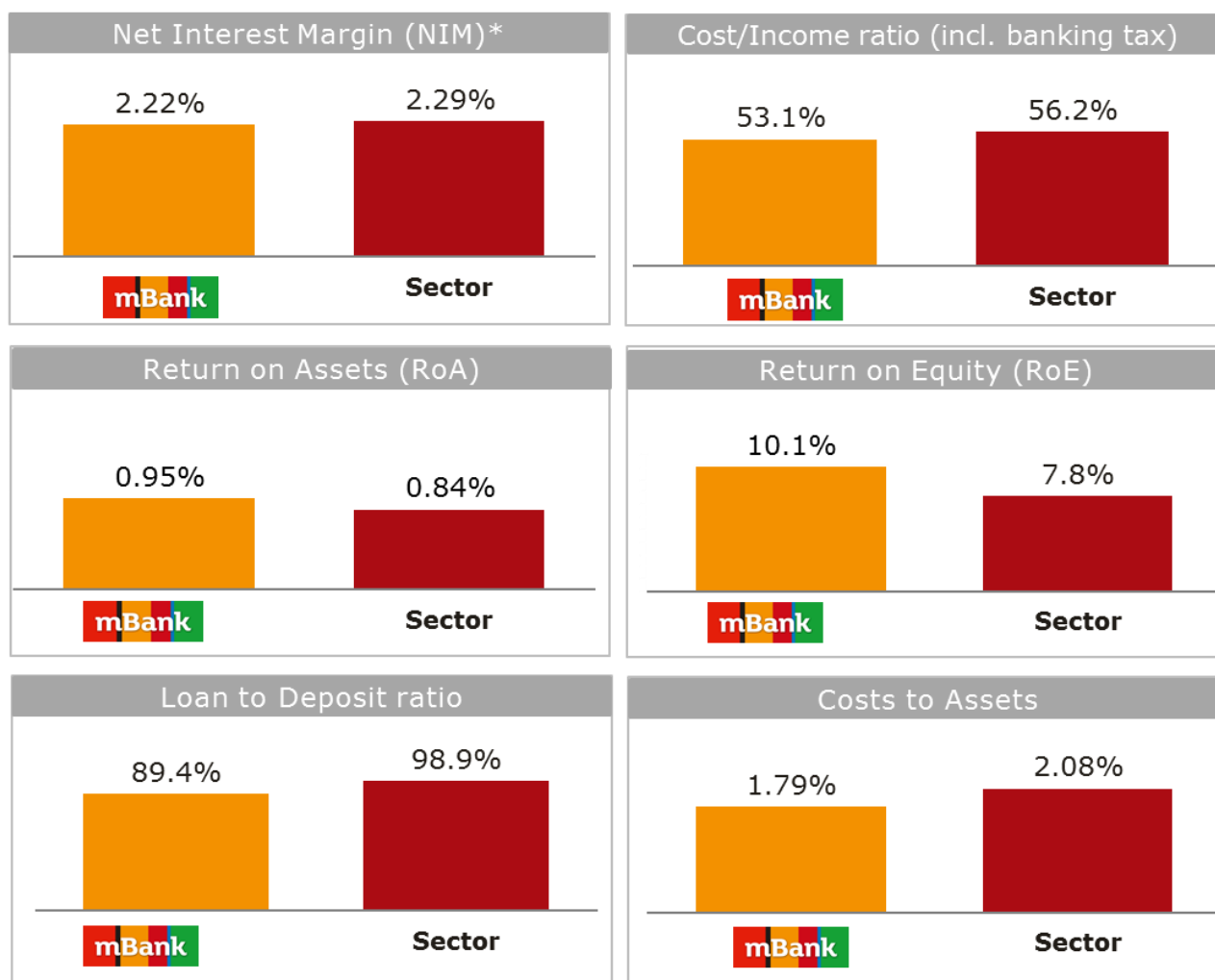
Source: Own calculations based on data from mBank, NBP, WSE, CNB, NBS, Fitch Polska, Polish Factors Association, Polish Leasing Association, press reports.

* Where determinable.

** Excluding "road bonds" issued by Bank Gospodarstwa Krajowego (BGK).

mBank Group and the Polish banking sector performance in 2016

mBank's performance relative to the overall banking sector in 2016 was very strong, as presented in the comparisons of key efficiency and profitability ratios in the following graphs:



Source: Own calculations, based on statistics published by the Polish Financial Supervision Authority (data as of December 31, 2016).

* To the average assets.

2.4. Outlook for the banking sector and mBank Group for 2017
What will 2017 bring for the Polish economy?

Economic indicators	2015	2016	2017P
GDP growth (YoY)	3.9%	2.8%	3.4%
Domestic demand (YoY)	3.4%	2.8%	4.5%
Private consumption (YoY)	3.2%	3.6%	3.9%
Investment (YoY)	6.6%	-5.5%	5.3%
Inflation (eop)	-0.5%	0.8%	1.5%
MPC rate (eop)	1.50	1.50	1.50
CHF/PLN (eop)	3.92	4.11	3.89
EUR/PLN (eop)	4.26	4.40	4.20

Source: mBank's estimates as of 02.02.2017.

In 2017 the Polish economy will accelerate again. mBank estimates the growth rate to go up to 3.4% from 2.8% in 2016. The growth structure will be better-balanced - the contribution of consumption will not change significantly, while investment will stop falling and will take over as one of the main growth drivers (starting from Q2 in the most probable scenario).

Private consumption will be rising by over 3% YoY throughout 2017 (with the average annual rate hitting 3.9%). It will be helped, on the one hand, by continued excellent consumer mood and, on the other, by consumption smoothing, an economic concept according to which the reaction to the expected lower growth of real household incomes (end of the statistical effects of the 500+ programme and return of inflation to the NBP's target range) will be limited.

As regards investment, the rebound in investment demand will be supported primarily by growing public investment. Apart from purely statistical effects (linear infrastructure), the developments in this area will be determined by the implementation of ambitious investment plans by local governments and railway companies. Looking at the capacity utilization in companies and moderately optimistic results of surveys covering firms' investment plans, private investment should be growing as well. New contracts and spending from the EU budget will lead to a major rebound in investment - mBank expects investment to rise by 5.3% YoY.

At the same time, the (average annual) inflation rate should go up to 2.2% with the biggest part of the increase taking place in early months of the year. Driven by base effects, a weakening zloty and a slow increase in core inflation, the inflation rate is expected to hit 2-2.5% at the turn of Q1 and Q2. In the following months the impact of growing fuel prices will be decreasing gradually. Whether inflation goes up further (or rather stays high) in the second half of the year will depend on the prices of consumer goods and services included in the core part of the basket.

Zloty and Polish bonds

mBank expects the zloty to strengthen slightly in 2017 on better sentiment towards emerging markets, faster economic growth around the world with Poland being one of its beneficiaries, and a gradual improvement in domestic risk perception. These trends will also support the Polish capital market, which lagged behind many emerging markets in 2016. In the market for Treasury securities, improved sentiment towards Poland and falling risk premium will result in a flattening yield curve, a lower spread to German and US bonds and a narrowing spread between the yields on bonds and IRS rates. At the same time, there is no escape from the close relation between bond yields and inflation. This is why 2017 will not be the "year of bonds".

The market for Treasury securities was shaped and stabilised by a growing role of domestic banks in financing public debt. The gradual increase in the value of Treasury bonds in banks' portfolios (in particular those with maturities of up to 2 years) reflects the considerably higher growth in deposits compared with loans and was supported by the tax incentives created by the new bank levy introduced in early 2016. The Bank estimates the difference between the growth rates of deposits and loans to stay unchanged in 2017. At the same time, the capacity of domestic banks to absorb the additional supply of bonds will still be substantial.

Banking sector and monetary aggregates

Banking sector – monetary aggregates (YoY)	2015	2016	2017P
Corporate loans	8.2%	5.0%	7.1%
Mortgage loans	7.0%	4.8%	0.8%
Non-mortgage loans	6.2%	5.9%	6.5%
Corporate deposits	10.3%	7.9%	7.7%
Retail deposits	9.8%	9.7%	6.4%





Source: mBank's estimates as of 02.02.2017.

As a result of increasing interest (increase in credit margins in 2016), stricter requirements concerning the LtV ratio and relatively low attractiveness of mortgage loans caused by additional burdens imposed on banks, the growth in mortgage loans will remain low. This will be offset by faster growth in consumer loans

(driven, among others, by the positive impact of the government's 500+ programme on creditworthiness) as well as solid growth in corporate loans (in particular, in investment loans), where the bank tax should trigger certain restructuring and consolidation.

Although a significant decrease in the interest on deposits is expected (another effect of the bank tax and the restructuring of balance sheet size), it should not have a major impact on the growth in household deposits. At present, investment alternatives are unattractive, while a higher increase in nominal incomes (driven by both higher wages and social benefits) will translate into more deposits flowing into the banking sector. The end of the statistical effects of the 500+ programme (first payments were made in May 2016) will be the only factor reducing the growth in deposits in 2017.

Outlook for mBank Group

Net interest income & NIM	(slightly positive)	
<ul style="list-style-type: none"> ■ Continued gradual increase of margin driven by changing structure of loan portfolio. ■ More limited room for reduction of funding costs. 		
Net Fee & Commission income	(slightly positive)	
<ul style="list-style-type: none"> ■ Constantly rising client transactionality and strong acquisition in both retail and corporate segment. 		
Total costs	(slightly negative)	
<ul style="list-style-type: none"> ■ Business-driven costs to remain well-contained. ■ Higher contribution to the BFG under new deposit guarantee scheme. ■ Rising amortisation due to ongoing investments in IT. 		
Loan Loss Provisions	(neutral)	
<ul style="list-style-type: none"> ■ Resilient asset quality supported by good macroeconomic situation and low unemployment. ■ Small downside risk due to changing loan book mix. 		

3. mBank Group Strategy

3.1. Implementation of mBank Group Strategy for 2012-2016

The underlying principles of the Bank's "One Bank" Strategy, which was adopted in July 2012, were to improve the long-term profits and income generating capacity of the Group supported by a sound balance sheet and by providing clients with a high level of technological support and simultaneously a stronger internal integration – strengthened by brand and network unification.

The Group achieved a great majority of its strategic goals. The structure of balance sheet has been improved in terms of funding diversification, including strengthening of client deposits' role and loan to deposit ratio decline from 125.1% in 2011 to 89.4% in 2016. Additionally, long-term liquidity has been kept high and the capital position has been organically strengthened. Despite a turbulent environment, which challenged some of the profitability assumptions, the Bank is positioned above the market in terms of profitability, revenue growth and remains one of the best banks in Poland in terms of cost efficiency. At the same time, the Bank kept its focus on internal integration of its business model (including the unification of brands, integration of traditional corporate banking services with investment banking offer, migration of former MultiBank customers to the new mBank platform, consolidation of brokerage business and Private Banking under the umbrella of mBank).

The table below presents financial objectives set under Strategy for 2012-2016.

Strategy for 2012-2016		
Financial objectives	Target values	As at the end of 2016
Loan-to-deposit ratio	approximately 115% by 2016	89.4%
Net Stable Funding Ratio (NFSR)	minimum 110%	114%
Core Tier 1 ratio	approximately 11%	17.3%*
Cost-to-income (C/I) ratio	maximum 48%	45.7%
Gross ROE	minimum 15%	13.6%
Net ROA	minimum 1.4%	1.0%

* Common equity Tier 1 Capital ratio calculated in line with Basel III rules.

3.2. Current and future trends in banking and mBank's positioning

Currently, the banking sector operates in a fast changing environment and is affected by a number of factors, which impact its activities and determining future targets. The wide-spread technological solutions and demographic processes change clients' behavior. A huge amount of information, reaching from a number of channels require the choice of the necessary and elimination of the useless ones. Non-financial sector players are gradually entering traditional banking territories (the trend is more pronounced outside of Poland) putting additional pressure on banks' earnings and their own ability to innovate and compete with a much wider group of market players. Growing regulatory requirements and less attractive market environment blurs the existing advantage of Polish banks over the Western competitors. The previous market reality, including (higher nominal interest rates and the level of transactional fees, relatively reasonable prudential and regulatory fees, lack of fiscal discrimination of the banks, ensured a relatively higher return on capital and higher efficiency in comparison to banks operating in other countries. The current and future challenges require re-visiting of long-established beliefs.

While creating our „mobile Bank” Strategy, we focused on three trends, which in our opinion dominate in the current market environment and determine our future activities. These are: client era, mobility era and efficiency era.

Client era



The time of focusing solely on creating and improving products has come to an end. Clients are at the centre of attention and banking, following the steps of other sectors, has also entered the era of the customer. Agile market disruptors (today e.g. Uber, Airbnb) are obsessively focused on meeting the needs and solving of the most significant issues of the consumers, who increasingly expect to be treated in the same way by mBank. The offering should be constructed in a way that it fulfils real client need and understanding of the offer and making the right

decisions takes minimal amount of time. Only products and functionalities that are used and appreciated by clients should be developed.

In our opinion, every interaction between us and the client should fulfil three critical criteria:

- realization of the need - authentic need of the client will be realized;
- ease - in a simple and friendly manner, almost unnoticeable;
- customer experience in line with mBank brand - creating positive emotions in line with our brand.

In order to get to know better and understand the preferences of the retail clients mBank will improve the Net Promoter Score (NPS), i.e. the organized process of measuring clients' satisfaction, already ingrained in the corporate and investment banking area. In terms of change of a shift in mBank's marketing philosophy – satisfied clients shall partially replace costly marketing activities - our goal as an organization is to have as many satisfied customers, brand ambassadors, as possible. The NPS numbers will not be the value in itself. The key value of the NPS system will be to deliver the precious knowledge for the organization, the system will be treated as a managing tool, indicating the critical areas of relations with the clients requiring an improvement on the our side.

Mobility era



Smartphone, currently perceived as a first truly personal computer, will become a management centre of client's lives. The average user spends almost 3 hours a day with a smartphone and "Millennials" do not part with their device for the entire day. The majority admit that the first thing they do after waking up is reaching for a phone. The observed high dynamics of the increasing popularity of mobile solutions does not mean however that the market has already reached its peak. On the contrary - in mBank we expect that in the next few

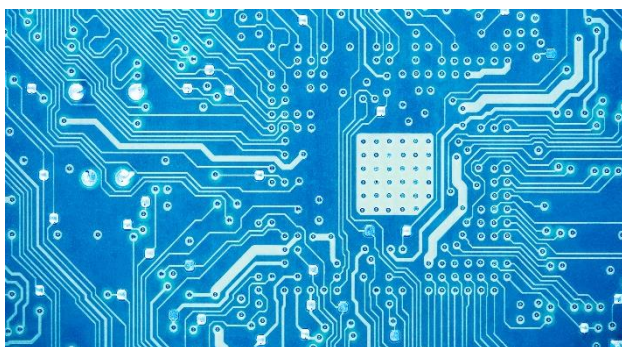
years a real smartphone revolution will take place. Mobile solutions will enter almost every aspect of life - mobility (mobile solutions) will be incorporated as a way of life.

Lean market disruptors, revolutionizing the existing force system on different markets (e.g. transport, travel, entertainment) offer the best applications, providing really mobile end-to-end customer experience and ultimate convenience (e.g. Uber, Airbnb, Spotify, Netflix).

Our three main advantages that position mBank to make a quantum leap in mobility are:

- unique brand – "m" easily associated with mobility;
- customers – younger and relatively more tech-savvy, hence more open for new banking possibilities;
- digital processes mastered, as a consequence of Internet DNA of the retail division.

Efficiency era



Polish banks have until recently been functioning in a market reality allowing significant advantage over the western counterparts in terms of return on equity (ROE) and efficiency (C/I). Since the beginning of 2015 that advantage has diminished significantly due to the growing regulatory requirements, new banking tax, other additional levies (including BFG contribution for covering the losses of cooperative bank and SKOK earlier). Less favourable market environment exerts pressure on net interest income (interest rates on historically lowest level) and fees

and commissions income (interchange fees on one of the lowest levels in Europe). The capital requirements are growing and the banking operations are limited by new liquidity indicators. The banking paradigms are changing, nevertheless return on investors' capital remains the most basic measure for efficiency of an organisation, key from shareholders' perspective.

mBank has a good starting position thanks to its effective multichannel business model, in particular digital channels and a limited branch network. The bank does not have a structural cost problem, which necessitates cost adjustments in a scale observed in many other banks in Poland and abroad as well as an effective, predictable risk management.

3.3. Mobile Bank – Strategy for 2016–2020

mBank Group's Strategy until 2020, titled mobile Bank, was accepted by mBank's Supervisory Board on June 10, 2016. The strategy sets the framework for most important strategic activity directions of the Group. It rests on three pillars creating a canvas for implementing specific business actions to be undertaken by mBank over the next years. There are: client centricity, leveraging on mobility and continued improvement of efficiency. The „mobile Bank” Strategy also defines the foundations for the strategy implementation, including engagement of mBank employees, principles of the organization development as well as a framework for the bank's technological agility.

Mission: „To help. Not to annoy. To delight... Anywhere.”

mBank's mission reflects the emergence of the client and mobility eras, which are the two most critical factors about to shape the business models at financial institutions.

„mobile Bank” Strategy pillars:

- 1. Empathy for the client** – all mBank's actions will be driven by clients and their individual needs, preferences and behaviours. mBank's ultimate goal is to make sure that clients want to choose it permanently and are keen to recommend it, having been highly satisfied with its services. The goals of the Empathy pillar defined in the new mission are the following:
 - To help. To offer what clients really need and when they need it. To construct the offer in such way that it fulfils actual needs of the clients. To simplify so that understanding of the offer and making the right decisions takes minimal amount of time.
 - Not to annoy the clients, facilitating the cooperation with the bank and to minimize the hassle and effort for the customers. To deal efficiently with customers' difficulties during the first contact between a client and the bank, regardless of the contact channel.
 - To delight the clients by making them feel special and appreciated thus creating the most valuable brand ambassadors at mBank. Satisfied employees are also the natural ambassadors of mBank's services, therefore mBank will strongly promote among them the use of its offer, mobile solutions in particular.
- 2. Mobility** – it is mBank's ambition to be the synonym of mobile banking, focusing on the following priorities: convenience, usability and simplicity from customer's point of view. Consequently the development of new application functionalities will be concentrated on three main areas:
 - *Mobile Hub*: gate in a multichannel strategy in contacting the client - Regardless of the starting of a transaction – each distribution channel will be a click away on the client's tablet or smartphone. At the same time mBank expects, that most contacts in the 2020 perspective will commence on a smartphone which will be a “gate” for the client to seamlessly switch between channels;
 - *Reinforcing the role of mobile banking as a contact channel*: minimizing the functionality gap between mobile and internet - mBank will ensure bigger independence of the mobile channel and will limit its functionality gap compared to other distribution channels;
 - *Customer engagement* through use of innovative, unique functionalities engaging the client - mBank will create and reinforce the habit of using its mobile application, which will consequently generate additional opportunities to approach customers with an adequate product offering.
- 3. Efficiency** - focus on efficiency supports mBank's profitability in times when returns from core banking products in Poland are under significant pressure. Business development in terms of asset classes, maturities, sources of financing and concentration of the business activity (groups of products and client segments, presence on foreign markets) will be carried out in full compliance with the rules for optimal cost efficiency and process digitalization, efficient capital allocation and stable funding.

Strategy enablers

Implementation of specific, strategic initiatives will require strong engagement of employees of the entire Group, as well as targeted, agile IT strategy. As such, the foundations for the strategy implementation are:

- **Engaged people:** mBank will create conditions for full engagement of employees in building a friendly working environment allowing them to achieve their ambitions. The priority of HR strategy is attracting and retaining the best and motivated specialists and managers in the sector.
- **Technological advantage:** mBank will skilfully build world class IT organization and its agile, client-driven IT will become a source of the bank's competitive advantage.

mBank Group financial targets

In a rapidly evolving business, regulatory and technological environment, a reliable formulation of financial targets in a 5 year horizon becomes a significant challenge. mBank, leveraging on its key strengths has in the past been able to outperform most of its competitors in terms of financial results. It remains mBank's strategic goal to be positioned among the leading banks in Poland in terms of key financial measures.

Determining financial targets for the years 2016-2020 has been based on mBank's ambitious assumptions regarding mainly cost effectiveness as well as returns on equity and assets. Moreover, mBank's intention is to pay dividend of at least 50% of profits, subject to regulatory (Polish Financial Authority's) consent, as well as to further strengthen its funding base.

The table below presents mBank Group's financial aspirations:

Financial measure	Target point
Cost efficiency, Cost-to-Income (C/I)	Top 3 in Poland, each year i.e. to be one of three most effective listed banks in Poland
Return on capital, RoE net	Top 3 in Poland, each year i.e. to be among the three most profitable listed banks in Poland from the RoE standpoint adjusted for dividend distribution
Assets profitability, RoA net	Top 3 in Poland, in 2020 i.e. to be one of three listed banks in Poland with highest return on assets
Capital position, capital adequacy in terms of core capital CET1	Maintain the ability of dividend pay-out in terms of CET1 ratio, annually - maintain the ratio minimum 1.5 p.p. above capital requirement for mBank
Financial stability, Loans/Deposits ratio (L/D)	Maintain the L/D ratio at most not significantly higher than 100%, each year

3.4. The pillars of the “mobile Bank” Strategy in mBank’s activities

The pillars of mBank Group’s strategy for 2016-2020 have been developed in response to the most important challenges faced by banks in terms of running business activities. According to mBank, these pillars include the client era, the mobility era and the efficiency era. At present, mBank focuses on these three pillars which are also to set the directions for the Bank’s future operations. Below you can find our activities within the three most important trends in banking which, at the same time, constitute the pillars of our strategy.

Client-centric approach

The new “Mobile Bank” Strategy is our response to the challenges posed by the era of clients who serve as the starting point for all our decisions. The Bank’s mission and the desired clients’ experience of the relation with the Bank have been defined in the strategic document. We concentrate on a consistent building of a fresh, dynamic brand attracting new generations of consumers and entrepreneurs whose aim is to develop themselves, act, and fulfil both their plans and dreams. We emphasised the need for acting on three levels: satisfying clients’ needs (both the needs clients are aware of and “the needs of tomorrow”); in a simple and client-friendly manner, in the way characteristic of a modern institution being the icon of innovation; evoking positive associations and, at the same time, being completely different from other brands. Mobility at the level incomparable to the one offered by our competition should be the element distinguishing us from others.

We ran a number of activities in 2016 which broadened our knowledge about clients’ needs and expectations and enabled us to assess the Bank’s operations from their perspective. We apply all methods for acquiring this knowledge: market research, both quantitative and qualitative; ethnography; customer journey map; in-depth NPS survey. Additionally, we are guided by the analysis of data from our systems which is conducted with the use of available cutting edge technology.

We have considerably improved the analytics arising out of clients’ complaints. This allows us to remove the reasons for complaints and, consequently, to increase the quality of services rendered to our clients. Thanks to these actions, the number of complaints has dropped despite the significant growth in the number of clients and the volumes of transactions.

Cultural and communication activities run every day at the Bank bring clients and their needs nearer to all mBank’s employees. We believe that successful relations with clients do not depend on front office employees only, but also on the work of those who have no contact with clients on a daily basis, which means that they have no opportunity to develop sensitivity to clients’ problems based on their personal experience.

In order to get closer to our clients and understand each other better, we have worked on communication language addressed to clients using not only conventional methods (training sessions with language experts) but also modern ones (algorithm to evaluate if documents are clear and correct). Agreements offered to our clients are written with the use of a revolutionary simple and “nonlegal” language as their clarity is one of our characteristic that distinguishes us from others.

We have implemented a wide range of technological innovations for our clients (i.e. a very popular mobile payment assistant) and we are still working on new innovations (mobile phone payments).

The strategy has provided for a new function in mBank Group – position for customer centricity culture and client relations, Management Board Plenipotentiary. The centralisation and high position of this function aim at, in an exact sense, – the coordination and standardisation of activities influencing clients’ experience, and in a symbolic sense – stressing the significance which the Management Board attaches to these issues.

Mobility

The mobile application, launched in February 2014, has won a large group of new users over the last three years, and based on a survey of actual needs of the clients, has been enriched with a number of new features. Mobile banking services are used systematically by over 1.1 million clients, an average user does banking via mobile devices 18 times a month. The “mBank PL” application offers a wide range of convenient and unique solutions, e.g. the “loan in 30 seconds” which now accounts for 18% of overall cash loan sales.

Following the positive reception of the new features introduced in 2015, such as the payment of invoices using QR code scanning, NFC payments for Android system (available to Orange subscribers), and the option to change the authorisation limits on payment cards, mBank decided to pursue further development.

In 2016 we introduced a number of new features and improvements into the application, including:

- "mLine in a click" service, which allows clients to connect with mLine consultants directly from the application, without the need to use one's ID and telecode;
- option to change card transaction limits;
- possibility of logging into the application with a fingerprint;
- express transfers using telephone numbers within the BLIK system;
- possibility of purchasing travel insurance (at present, 15% of travel insurance policies are bought via the application);
- "Payment Assistant" service which reminds clients of all regular payments, suggesting the amount due and the payment date and allowing them to quickly settle invoices;
- mobile Authorisation - a service allowing users to authorise transactions made in the transaction system via the mobile application. Instead of typing passwords received in a text message, all that the client needs to do is to log into the application and accept (or reject) a given transaction with one click.

In February 2016 the mobile application was ranked the best banking application in the Mobile Trends Awards competition, and in September it won the "Newsweek Friendly Bank" ranking in the "Mobile Banking" category. For more information about the awards granted to mBank Group, see chapter 6.1. Key projects and innovations of mBank Group in 2016.

Efficiency

One of the signs of efficiency improvement at mBank Group was the implementation of the Lean approach in mCentrum Operacji.

The object of the operating activity of mCentrum Operacji (mCO) is to support the settlement of processes at mBank, in terms of both retail and corporate banking. The effective handling of processes constitutes an important element supporting the Bank in the achievement of the market success. The most significant factor in the operational area is increasing the efficiency of activities with a simultaneous maintenance of high quality of products offered to clients. This thesis was brought into focus when the decision about implementing the Lean approach was made in H2 2012.

The Lean approach was implemented in operations "from the bottom". This means that few small optimisation projects were launched at the very beginning. Operational employees were involved for this purpose and their creativity and knowledge about what does not work properly in the processes were used. First successes encouraged us to develop a culture of small changes in other areas. On that basis, it was decided to build and develop a culture of a continuous improvement in the whole operational area. Currently, depending on needs, various tools are applied from the wide range of those available under Lean Management. The most popular tools include whiteboards, mainly because of their usefulness and wide application range. The most significant indicators of process measurement, which are discussed at short, daytime meetings, are visualised with the use of the whiteboards. Thanks to that, it is possible to monitor processes on an ongoing basis and response swiftly to emerging threats, i.e. a rapid growth of the volume and, consequently, a risk of failure to meet the deadline contracted with a client. These changes could be successfully implemented due to the commitment of the company's management that conducts weekly "economic visits" in particular operational divisions emphasising the significance of and need for the changes.

Today one can say without hesitation that the cultural change has taken place. Operations, where, at the same time, the biggest increase in commitment among employees was reported in 2016, constitute a continuously developing area of the Bank.

All these activities generate measurable effects:

- 54% is the total result of optimisation calculated per FTE from the beginning of work on the improvement of the processes in operations;
- 85% is the increase in the employees' commitment measured according to a survey conducted by Aon Hewitt.

During the process of operational transformation, we completed several initiatives, necessary to achieve the aim. One of the most important initiatives was the implementation of the comprehensive project measurement system, known as OPOS. It is a tool supporting the management of processes and the employees' effectiveness.

A second part of improvements, i.e. the digitalisation of the carried out processes, has been implemented parallel to the introduction of the Lean approach. With the use of IT solutions including "The Correspondence Circulation System" (SOK) and ECM, i.e. a repository to store and browse electronic versions of documents, we completed initiatives, thanks to which:

- from June 2015, over 80% of operational processes have been conducted paperless and employees have been using only the application and two monitors to handle them;
- 25 thousand pages of printouts were eliminated monthly in 2016. In order to further develop the operation area, a continuous improvement of the processes is planned, taking into consideration:
 - opportunities brought by new technologies, e.g. robotisation;
 - process automation;
 - further digitalisation of processes, including in particular the elimination of paper from banking product lifecycle and, consequently, the growth of mobility;
 - further development of Lean Management, with the focus on employees.

3.5. CSR Strategy

[G4-34] At the end of 2015, the Management Board of the Bank adopted a strategy defining directions, goals and measures as regards CSR. "Strategy for corporate sustainability and responsibility of mBank S.A." is a result of group work involving key managers responsible for particular functional areas of the Bank. 2016 was the first year of the strategy implementation. In this report, our aim is to assess the actions taken by us.

The approach to social responsibility management adopted at the strategy building stage is based on the PN-ISO26000 standard. The provisions of the Global Reporting Initiative (GRI) G4 reporting guidelines and of the sector supplement relevant for the industry have been applied as well. In accordance with the guidelines set out in PN-ISO 26000, the work on the strategy was underpinned by meeting two fundamental conditions of corporate social responsibility, i.e. (a) identifying and mapping key stakeholder groups, (b) acknowledging the Bank's responsibility by defining and indicating key areas of corporate social responsibility. The workshop held at the end of May 2015, attended by key managers of the Bank responsible for areas potentially significant from the point of view of the Bank's corporate social responsibility helped identify the scope of responsibility and map the stakeholders.

The effects of the workshop and later in-depth interviews with selected managers made it possible to define the following goals and indicators (the main goals are supplemented by lower category targets and measures. Together, they form a comprehensive strategy).

Measure (KPI)	Milestone (MS) / Measure (M)	2016	2017	2018	2019	2020
Goal 1: We want to understand, respect and share our clients' values. We want to be open. We want to think and feel like they do.						
NPS for a business client (for particular major events)	M	>100% from the previous period	>100% from the previous period	>100% from the previous period	>100% from the previous period	>100% from the previous period
NPS for a retail client (for particular major events)	M	>100% from the previous period	>100% from the previous period	>100% from the previous period	>100% from the previous period	>100% from the previous period
Goal 2: We want to be a responsible lender.						
Number of major social or environmental conflicts in which mBank, being a financial institution, participates indirectly	M	0	0	0	0	0
Goal 3: We want to build an exceptional team, competence and skills. We want to share what's best about us with others. We want to be unique.						
results of the Employee Engagement Survey (assessment of workplace satisfaction)	M	>100% from the previous period	>100% from the previous period	>100% from the previous period	>100% from the previous period	>100% from the previous period
Goal 4: We want to reduce our environmental footprint.						
Reducing bank's environmental footprint with respect to: - CO2 emission / revenue - water consumption / revenue - paper consumption / revenue	M	✓	✓	✓	✓	✓
Goal 5: We want to improve our management approach.						
position in the Ranking of Responsible Companies (guaranteeing a high position among institutions from the financial sector)	M	minimum 8th (among financial institutions)	minimum 5th (among financial institutions)	minimum 4th (among financial institutions)	minimum 4th (among financial institutions)	minimum 3rd (among financial institutions)
listed in the RESPECT Index	M		✓	✓	✓	✓

In June 2016, the Management Board adopted the "Code of Conduct", which once again clearly indicates the key areas of mBank's corporate responsibility and expected behaviours of employees (see the chapter 7. Responsible company, "Prevention of unethical behaviours", the frame "Code of Conduct").

4. Risk management

4.1. Risk management foundations

mBank Group manages risk on the basis of regulatory requirements and best market practice by developing risk management strategies, policies and guidelines.

Risk management roles and responsibilities in mBank Group are organised around **the three lines of defence scheme**:

- The first line of defence is **Business** (business lines), whose task is to take risk and capital aspects into consideration when making all business decisions, within the risk appetite set for the Group.
- The second line of defence, mainly **Risk** (risk management area), **IT, Security and Compliance function**, is responsible for determining framework and guidelines concerning managing individual risks, supporting Business in their implementation as well as supervising the control functions and risk exposure.
- The third line of defence is **Internal Audit**, ensuring independent assessment of the first and the second line of defence.

In the risk management process, the Bank attaches high importance to the communication between the first and the second lines of defence. An important role in this regard is played by the **Business and Risk Forum of mBank Group** which is a formal decision and communication platform dedicated for finding solutions ensuring the optimal relation between profits and risk taking, in accordance with the risk appetite approved by the Management Board. The Forum is constituted by the following bodies dedicated to individual business lines:

- Retail Banking Risk Committee (KRD);
- Corporate and Investment Banking Risk Committee (KRK);
- Financial Markets Risk Committee (KRF).

The Committees are composed of the representatives of business lines and respective risk management area departments. Each Committee is responsible for all types of risk generated by business activity of the given business line.

Structure and tasks of the risk management area

The management function at the strategic level and the function of control of credit, market, liquidity and operational risks and risk of models used to quantify the aforesaid risk types are performed in the risk management area supervised by the Vice-President of the Management Board, Chief Risk Officer.

Individual units have specific roles in the process of identifying, measuring, monitoring and controlling risk. Within the scope of their powers, the units develop methodologies and systems supporting the aforesaid areas. Furthermore, the risk control units report the risk and support the major authorities of the Bank.

The risk management area is functioning within the following organizational structure:

Vice-President of the Management Board, Chief Risk Officer	
Corporate Risk Processes Department	<ul style="list-style-type: none"> ■ Developing and implementation of corporate credit process and supervision over its effectiveness. ■ Preparing corporate credit risk management strategy of mBank Group as well as credit policies including policies regarding industrial risk appetite. ■ Preparing portfolio analysis and reports for the purpose of management of corporate credit risk. ■ Developing and monitoring the quality of rating models for retail and corporate clients and financial institutions (credit risk modelling). ■ Settlement and accounting of structured finance and mezzanine transactions and collection operations. ■ Verification of value, liquidity and attractiveness of real estate and movables provided for collateral of loans, and analysis of investments financed by the Bank.
Corporate Risk Assessment Department	<ul style="list-style-type: none"> ■ Implementation of the Bank's credit policy regarding corporate customers, countries and financial institutions. ■ Credit risk management in the Bank and the Group subsidiaries in the abovementioned areas.
Credit Processes and Retail Risk Assessment Department	<ul style="list-style-type: none"> ■ Making credit decisions concerning retail banking products. ■ Monitoring credit agreements and performing administrative activities. ■ Developing and effectively using anti-fraud systems and tools. ■ Preventing credit fraud and exercising control over operational risk in the credit process for retail and corporate banking products, as well as developing the methodology of these processes. ■ Identifying gaps in processes, products and systems that impact an increase in fraud exposure and applying measures to eliminate such gaps.
Retail Risk Management Department	<ul style="list-style-type: none"> ■ Development of risk management principles and processes. ■ Acceptance of retail banking products, including the impact on the different types of risk and capital requirements. ■ Development of reports for monitoring of risk management policies. ■ Development and management of systems supporting the risk assessment and decision-making process.
Retail Debt Restructuring and Collection Department	<ul style="list-style-type: none"> ■ Handling the processes of debt restructuring and collection of receivables arising from retail loans granted on the Polish market. ■ Debt sale transaction of NPL for receivables arising from retail loans granted on the Polish market.
Financial Markets Risk Department	<ul style="list-style-type: none"> ■ Identifying, measuring controlling and monitoring of market risk, interest rate risk of the banking book, liquidity risk and counterparty risk. ■ Developing methods for measuring market risk, interest rate risk of the banking book, liquidity risk and counterparty risk. ■ Developing methods for valuations of financial instruments. ■ Valuation and control of transactions and analysis of P&L of front-office units. ■ Content management of front-office systems and risk measure system. ■ Controlling of Bank's contributions to WIBID/WIBOR fixing.

Integrated Risk and Capital Management Department	<ul style="list-style-type: none"> ■ Integration of risk and capital management within the ICAAP. ■ Control of capital adequacy and risk bearing capacity as well as planning and limiting risk capital. ■ Formulation of risk appetite and coordination of the process of determining strategic risk limits. ■ Integration of risk valuation (economic capital, reserves, stress tests). ■ Integration of control of non-financial risks (including operational risk) and Internal Control System Self-assessment (ICS). ■ Integration of model management and validation of quantitative models.
Projects and Risk Architecture Management Department	<ul style="list-style-type: none"> ■ Risk Projects Portfolio Management. ■ Performing the function of competence centre in the area of process management. ■ Development and optimization of the architecture of IT processes and applications of Risk. ■ Management of the IT applications of Risk (maintenance and development). ■ Risk data management and cooperation with the Finance Division within the scope of centralized management information system.
Foreign Branches Risk Department	<ul style="list-style-type: none"> ■ Supporting the credit risk assessment process and taking part in the decision making process regarding credits in the Bank's foreign branches. ■ Credits managing/settling in the Bank's foreign branches. ■ Handling the vindication process in the Bank's foreign branches.

Organizational units outside the risk management area are in charge of the management and control of other risks (business risk, capital risk, reputational risk, legal risk, IT systems risk, personnel and organisational risk, security risk and compliance risk).

Vision of the Risk Management Area

In connection with the approval by the Management Board and the Supervisory Board of the Bank of the mBank Group Strategy 2016-2020 "mobile **Bank**" and having regard to the progressive changes in the use of new technologies, significant demographic changes and increase in restrictiveness of the regulatory environment the risk management area redefined its vision which is now as follows:

Vision of the Risk Management Area
<p>We take advantage of the opportunities in a dynamically changing environment, using innovative methods of risk management.</p> <p>Bearing in mind the bank's efficiency and safety, we create value for the customer in a partner dialogue with the business.</p>

The risk management area is actively involved in the implementation of initiatives and actions undertaken while realization of the new strategy of the Group, building its objectives for the coming years around the pillars of the new strategy which are: (1) Empathy to customers, (2) Mobility, (3) Efficiency: Productivity. Capital. Financing, (4) Engaged employees, (5) Technological advantages.

4.2. Key changes in the risk management area in 2016

mBank Group is continuously improving risk control and management process with a focus on a streamlining integrated risk management from the perspective of concentration on a customer.

Selected projects realized in 2016 are described below:

- **Adaptation works to the requirements of Recommendation W** concerning model risk management in banks (published in July 2015 by the Polish Financial Supervision Authority) were completed. The abovementioned works resulted, among others, in the update of Model Management Policy, which was supplemented with provisions addressing requirements of the Recommendation W. The model risk tolerance level was also defined. In addition, Model Risk Committee responsible for supervising model risk management process was appointed. The Committee performs information, discussion, decision and legislative functions. In particular, the Committee:
 - approves the new and redesigned models, as well as amendments thereto, deciding also about the resignation from the application of the model;
 - takes decisions on the scope of application of the group and external models, including central models, in banking processes;
 - recommends the tolerance level for model risk and submits its findings to the decision of the Management Board and the Supervisory Board;
 - takes the final decision regarding approval of the significance assigned to a given model;
 - approves preventive and remedial measures indicated within the results of monitoring;
 - accepts the schedule for validation of models and the results of each model validation.
- **Implementation of the Internal Control System Self-assessment was completed** in mBank Group subsidiaries. In the Bank, the Self-assessment was implemented in 2015. Thus, the process covers the whole activity of the Group. Self-assessment process is carried out on an annual basis and it aims at a comprehensive assessment of operational risk.
- **"Credit policy of financing residential developers projects by mBank Group" was adopted.** A framework for the risk appetite and development of acquisition in this market was determined, the definition of residential developer's project was developed, risks were identified and their mitigants were introduced, and the limit for the portfolio of residential developers' projects was implemented.
- Continuation of the program – launched in 2015 - of continuous increase of effectiveness of work in the risk management area based on the principles of **Lean Management** with an emphasis on implementing a culture of responsibility and mechanisms for continuous improvement of processes. The aim of the program is to enable the absorption of the increasing number of tasks resulting from the business development and increasing regulatory requirements, without necessity to enlarge significantly the available resources.
- The Bank carried out **IFRS 9 implementation project**, including, among others, analytical work in assessing the impact of IFRS 9 on the methodology for calculation of provisions in the Group; implementation of the necessary changes was also started. IFRS 9 changes the requirements for classification and evaluation of financial assets and implements the impairment model based on the expected losses calculated for certain instruments over the lifetime of the asset. IFRS 9 will take effect starting from January 2018.

4.3. Main risks in the mBank Group's business

The Management Board of mBank takes measures necessary to ensure that the Bank manages all material risks arising from the implementation of the adopted strategy of mBank Group, in particular, through approving strategies and processes for managing material risks in the Group.

The following risks were recognized as material in the operations of the Group as of the end-2016:

Credit risk	<ul style="list-style-type: none"> • Counterparty/default risk: risk of losses resulting from counterparty's failure to perform their obligations and the risk of reduction in the economic value of the credit exposure as a result of deterioration in the counterparty's ability to serve the liability. • Concentration risk: risk of a high concentration of credit losses resulting from high exposures. • Residual risk: risk resulting from the defective nature of collateral accepted and, hence, ineffectiveness of applied techniques of credit risk mitigation. • Reserve risk: risk of an underestimation of loan loss provisions for exposures in default status. • Participation investment risk: risk of decrease in economic value of participation exposure not traded on a regulated capital market as a result of worsening economic and financial situation of the issuer.
Market risk	Risk resulting from unfavourable change of the current valuation of financial instruments in the Bank's portfolios due to changes of the market risk factors, in particular interest rates, foreign exchange rates, stock share prices and indices, implied volatilities of relevant options and credit spreads.
Operational risk	Risk of loss resulting from a mismatch or unreliability of internal processes, people or systems or external events. Operational risk includes, in particular, the following sub-categories: legal risk, IT systems risk, personnel and organizational risk, security risk, compliance risk.
Business risk	Risk of losses resulting from deviations between actual net operating result of the mBank Group and the planned level.
Liquidity risk	Risk of failure to fund assets and meet payment obligations arising from balance sheet and off-balance sheet items owed by the Bank in a timely manner and at a market price.
Reputational risk	Risk resulting from a negative perception of the image of the bank or other member of the group among their stakeholders.
Model risk	Risk of negative consequences connected with the decisions made on the basis of the output data of models which have been improperly constructed or are improperly administered.
Capital risk	Risk resulting from the lack of sufficient capital to absorb unexpected losses.

mBank monitors all the aforementioned risks. The following section presents the rules of monitoring credit, market, liquidity and operational risk in mBank Group using risk measures applied by mBank and taking into account differences in the profile and scale of business of the Group.

The detailed information on managing the abovementioned risks as well as information concerning the management of other types of risk, that is business risk, reputational risk, model risk and capital risk are included in the Consolidated Financial Statement of mBank Group in the chapter 3. Risk Management.

Credit risk

The Bank organises credit risk management processes in line with the principles and requirements set out in the resolutions and recommendations of the Polish Financial Supervision Authority (in particular Recommendation S and T) and CRR/CRDIV, which address issues related to credit risk management.

Tools and measures

Credit risk inherent in financing of mBank Group clients is assessed based on shared statistical models developed for the AIRB (Advanced Internal Rating-Based) approach and uniform tools, and is based on common definitions of terms and parameters used in the credit risk management and rating process. The Bank ensures their cohesion at the Group level.

The Group uses different models for particular client segments. The rules governing clear assignment of clients to a system are defined in the Bank and Group subsidiaries internal regulations.

The Bank and Group subsidiaries in their credit risk management process use the core risk measures defined under the AIRB approach:

- PD – Probability of Default (%),
- LGD – Loss Given Default (%),
- EAD – Exposure at Default (amount),
- EL – Expected Loss (amount), as well as related measures including:
- RD – Risk Density, which is defined as EL to EAD (%),
- LAD – Loss at Default (amount of LGD).

In the decision-making process, for reporting and communication with business units, PD and EL are expressed in the language of rating classes whose definitions (Masterscale) are uniform across the Commerzbank Group.

In its credit risk management process, the Bank also attaches great importance to the assessment of unexpected loss risk. Capital required to cover unexpected loss is estimated at a confidence level of 99.91%. For this purpose, the Bank uses the following measure:

- RWA – Risk Weighted Assets used under the AIRB approach to calculate regulatory capital required to cover credit risk (unexpected loss).

In managing mortgage-secured credit exposures for different types of real estate and also for different products, the Group uses the LtV ratio (Loan to Value), i.e., the value of the loan to the market value (or mortgage banking calculated value) of the real estate which secures the loan.

Thanks to its simplicity, this measure is broadly used in communication with clients and in the construction of price matrices for credit products.

Stress testing is an additional tool of credit risk assessment which supplements CVaR (Credit Value at Risk) measurement of unexpected loss. Stress testing of the economic capital required to cover credit risk is measured quarterly.

Stress tests of credit risk are two-dimensional, analysed separately and jointly:

- The analysis of sensitivity of ECVaR model indications to assumptions concerning credit exposures (e.g., correlation) – i.e., parametric tests.
- The analysis of extreme credit losses on the assumption of an unfavourable macroeconomic situation – i.e., macroeconomic tests in which an econometrical model forecasts values of input parameters for the economic capital model (PD, LGD) based on assumptions of the Chief Economist about macro parameters in the case of the negative economic scenario. The risk parameters developed according to the above scenario form the basis for calculating economic capital both before and after the assumptions of parametric tests are taken into account.

In addition to the tools listed above, which are applied both in corporate and in retail credit risk measurement, the Group uses tools specific to these areas.

For corporate credit risk, the Group defines maximum exposure to a client/group of related clients using the following credit risk mitigating measures:

- MBPZO (Maximum Safe Total Exposure), which defines the maximum level of financial debt of an entity from financial institutions calculated under the Bank's methodology, approved by the Bank's competent decision-making body.
- LG (General Limit), which defines the level of credit risk financial exposure to a client/group of related clients acceptable to the Group, approved by the Bank's competent decision-making body. LG includes a structured limit and products granted outside the structured limit.

To minimise credit risk, the Group uses a broad range of collateral for credit products, also necessary to actively manage the capital requirement. In their assessment of the quality of risk products, mBank

and mLeasing use the MRV ratio (Most Realistic Value), which reflects the worst-case scenario of debt enforcement through forced sale of collateral.

In addition, the decision-making process and the assessment of profitability per client in the CRM system use the RORAC ratio (Return on Risk Adjusted Capital), or return on the capital invested in risk products.

Retail credit risk measures are constructed to reflect the characteristics of this customer segment and, in the case of portfolio measures, the high granularity of the loan portfolio:

- DtI (Debt-to-Income) - i.e. monthly credit payments to the net income of a household (used for individual customers).
- DPD (Days-Past-Due) - a family of portfolio risk measures based on the number of days past due date (e.g. share of contracts which are from 31 to 90 days past due date in the total portfolio by number or by value).
- Vintage ratios, which represent the quality of cohorts of loans at a different phase of their lifetime taking into account disbursement time (e.g. each quarter), clients' characteristics etc., based on DPD.
- RC LLP (Risk Cost LLP) - cost of risk for a loan portfolio (segment), i.e. increment in loan loss provisions to the performing loan portfolio balance.
- Roll-rates, which measure the migration of contracts between days-past-due brackets (1-30, 31-60, 61-90 DPD, etc.).

Strategy

Corporate and Investment Banking

In accordance with the Corporate Credit Risk Management Strategy in mBank Group, the main goal in the corporate credit risk management is defining a safe level of risk appetite in sales of risk-bearing products to the Group clients and use synergies by integrating the offer of the Bank and Group subsidiaries. The strategy is realised by policies of the credit risk area, limits reducing the risk (limit book) and the principles of risk assessment of business entities applying for financing. The Bank manages credit risk both at the single entity level and the consolidated level. Implementation of uniform risk measures and risk controlling processes at the Group level takes into account the specificities of the Group entities. In 2016 the update of the strategy implemented further unification of corporate credit risk management parameters applied in mBank and Commerzbank which is reflected in extending High Attention Part of Steering Matrix used to on-going management of concentration risk.

In H1 2016 "The credit policy of the financing developers by mBank Group" was drafted and approved. A uniform approach to credit risk assessment of developers was adopted in mBank and mBank Group subsidiaries. A framework was set up to safely build a developers finance exposures portfolio by defining the preferred acquisition market and outlining the recommended terms of financing.

To complement Food & Agribusiness (F&A) clients finance policy approved in May 2015 by KRK, at the beginning of 2016 the process of servicing F&A clients was finally implemented, including individual farmers serviced in corporate area of mBank.

The diversified approach to corporate clients is tied to the client's risk level as measured by PD and credit risk concentration measured with LAD of a client or group of related clients, taking into account the exposure of the Group subsidiaries.

The credit decision-making system is consistent with the Corporate Credit Risk Management Strategy and the approved principles of the Credit Risk Policy. The competent decision-making levels are defined in a decision-making matrix. On that basis, depending on the EL-rating and the aggregate exposure for a client or group of related clients, the appropriate decision-making level responsible for the credit decision is assigned.

mBank follows a simplified credit decision-making procedure for a defined group of clients and transactions, in particular transactions under fast credit procedures (FCP), which enhances effectiveness while ensuring compliance with all legal and supervisory requirements and good practice of credit risk management.

The restructuring of the process also includes phased implementation of anti-fraud mechanism. The new strategy has enabled not only the development of a new workflow platform but also in accordance with the

spirit of 'Client centric' simplified documentation, required and delivered to client, and its digitisation in credit process. The Group actively manages credit risk aiming to optimise profitability taking into account return on risk. Analyses of the Group's risks are performed on an on-going basis. Risk management is supported by analyses of the Group's credit portfolio structure and the resulting formal limits, guidelines and recommendations on the Group's exposure to selected companies, sectors and geographic markets. In its current credit risk management and determination of concentration risk, the Bank performs quarterly portfolio analyses using a Steering Matrix which incorporates PD rating and LAD.

In order to mitigate the risk of lending and guarantees, the Bank classifies and monitors credit risk products. The Group uses write-offs and provisions under the International Financial Reporting Standards (IFRS). The Bank also monitors credit portfolio on a quarterly basis including an analysis of the dynamics of change in size and (sector) segmentation of the credit portfolio, client risk (analysis of PD rating), quality of collateral against credit exposures, the scale of change in EL, Risk Density, and default exposures.

In the corporate banking, the Group avoids concentration in industries and sectors whose credit risk is considered excessively high. The acceptable risk level is defined taking into account market segmentation and sector concentration limits. In compliance with Recommendation S of the Polish Financial Supervision Authority, the Bank has identified a mortgage-secured credit exposure portfolio, not only in retail banking but also in corporate banking. The Bank manages the mortgage-secured credit exposure portfolio risk with a focus on defining an optimised portfolio structure in terms of quality (rating), currencies, country regions, tenors, and types of properties. The main principles of mortgage-secured credit exposure risk management in corporate and investment banking, the risk profile, division of responsibilities, rules of determining internal limits, and rules of reporting are set out in the mBank Mortgage-Secured Credit Exposure Risk Management Policy.

mBank Group strives to unlock synergies with Commerzbank more broadly in syndicated finance of selected Group clients. For international companies, non-banking financial institutions and biggest corporate clients, mBank Group promotes innovative products which are low in capital consumption, in particular products of investment banking (ECM, DCM, M&A), transactional banking and financial markets, as well as arrangement of syndicated finance for selected big ticket clients to ensure satisfactory profitability and mitigate the risk of high concentration of individual clients/groups of related companies.

mBank promotes financing alternative to banking loans by arranging public and private programmes and club deals for bonds issued by clients with a stable financial position.

Retail Banking

Lending in retail banking is a key segment of the Group's business model, both in terms of the share in total assets and the contribution to its profits.

The Bank's retail credit offer covers a broad range of products financing the needs of individual customers (OF) and micro-companies (MF). The offered credit products in combination with the state-of-the-art transactional platform, savings and insurance products address all financial needs of clients within the Group.

Apart from the Polish market, the Retail Banking credit products are offered through the foreign branches (OZ) of the Bank in the Czech Republic and Slovakia in an online banking model similar to that operating in Poland. The share of the foreign branches' exposure portfolio was around 10% of the aggregate retail portfolio at the end of 2016 (by value). The Bank ensures the coherence of the credit risk management policy on all markets; any differences in specific rules or parameter values derive from the specificities of local markets or different goals of business strategies and are at each time subject to approval by the Retail Banking Risk Committee.

As credit exposures are highly granular (more than 2 million active loans), the retail banking credit risk management process is based on a portfolio approach. This is reflected in the statistical profile of risk rating models including the models which fulfil the regulatory requirements of the Advanced Internal Ratings-Based approach (AIRB). The AIRB parameters (PD, LGD and EL) are used widely in order to estimate credit requirements, to determine acceptance criteria and terms of transactions, and to report risks.

Furthermore, the Retail Banking credit risk management has the following characteristics:

- high standardisation and automation of the credit process, including decision-making, both in acquisition, post-sale services, and debt collection;
- little (as compared to Corporate Banking) discretionary competences in the decision-making process (e.g. no discretionary adjustment of clients' ratings);
- extensive risk reporting system based on portfolio analysis of credit exposure quality, including vintage analysis and roll-rates analysis.

Under the portfolio approach, exposures are classified (separately for each market) as ML (mortgage-secured products) or NML (unsecured products or products with non-mortgage collateral). Furthermore, the segmentation includes products for individuals (ML OF, NML OF) and products for business clients (ML MF, NML MF).

The main point of reference in the retail banking credit risk management process is risk appetite defined in correlation with the strategy of the Bank which provides for:

- optimisation of the balance-sheet structure in terms of profitability and financing by reducing the growth rate of credit portfolios with long tenors (and low margins) while supporting growth of short-term loans (with high margins),
- developing long-term financing of the Group's lending with mortgage bonds issued against retail mortgage loans.

Taking into account the above assumptions, the general principle underlying the lending strategy of the Group is to address the offer to clients who have an established relationship with the Bank or to address it to new clients for whom the loan is a product initiating a long-term relationship of highly transactional nature. Consequently, the Bank continues to focus its NML policies on lending to existing clients with a high creditworthiness while systematically growing the acquisition of external clients.

These initiatives include lending to clients under a joint project of mBank and one of the biggest telecom operators (Orange Finance Project). Furthermore, the Bank increasingly provides financing to clients doing shopping online. To reduce operational risks of accepting new clients, the Bank develops its credit policy using, among others, credit testing and is actively developing its fraud prevention system.

mBank decided to stop acquisition of mortgage products for private individuals commencing July 1, 2016. In mBank Group, the sale of loans for financing residential real estate has been transferred to mBank Hipoteczny. The new acquisition is restricted to products which may be financed with issue of mortgage bonds - non-purpose mortgage loans and loans to finance cooperative ownership right to premises are withdrawn from the offer. Only mortgage loans for Private Banking clients remain in the offer of mBank's retail banking area. The conservative policy of assessing borrowers' reliability and creditworthiness is maintained; taking into account, inter alia, current, historically lowest, levels of interest rates, the Group attaches special attention to the application of long-term estimates of interest rate while assessing creditworthiness.

Additionally, in order to mitigate the risk associated with a decrease in the value of mortgage collateral in relation to the value of credit exposure, the Group's credit offer is (and will be) directed mainly to clients who buy properties within large urban areas.

Quality of the mBank Group loan portfolio

As of December 31, 2016, the share of impaired exposures in the total (gross) amount of loans and advances granted to clients decreased to 5.4% from 5.7% at the end of 2015.

Provision for loans and advances to customers decreased from PLN 2,975.9 million at the end of 2015 to PLN 2,817.5 million at the end of 2016. The IBNI (Incurred But Not Identified) loss provision decreased from PLN 247.2 million to PLN 226.4 million in that period.

The ratio of provisions to non-performing loans decreased by 2 pp. to 57%.

In 2016, the Bank issued no enforcement orders for corporate clients compared to 110 a year earlier. Demands for payment in 2016 stood at 7 compared to 3 a year earlier.

In terms of Retail Banking segment, the Bank issued 9,582 enforcement orders for non-mortgage loans (compared with 12,283 a year earlier). The number of enforcement orders for mortgage loans decreased to 88 in 2016 (249 a year earlier).

To assess impairment, the Bank applies credit risk parameters based on those derived from the A-IRB methodology.

The manner of identifying evidence of default is based on all available credit data of a given client and encompasses all of the client's liabilities towards the Bank.

At the end of 2016, the loans and advances (net) to customers rose by almost 4.2%, where the increase was driven mainly by the rising loans to individuals.

In the corporate portfolio, the growth of term loans and loans in current accounts was nearly offset by the decrease in reverse repo/buy sell back transactions and other receivables.

The table below presents the quality of mBank Group's loan portfolio as at the end of 2016 compared to the end of 2015.

Quality of the mBank Group loan portfolio	31.12.2016 (in thousand PLN)	31.12.2015 (in thousand PLN)
Loans and advances to individuals:	48,949,829	46,258,683
- current accounts	6,458,369	5,897,129
- term loans, including:	42,491,460	40,361,554
- housing and mortgage loans	35,369,113	34,184,208
- other	-	-
Loans and advances to corporate entities:	34,174,289	33,446,644
- current accounts	4,125,405	3,976,187
- term loans:	28,267,897	26,976,422
- large enterprises	5,037,182	5,825,318
- medium & small enterprises	23,230,715	21,151,104
- reverse repo/buy sell back	56,676	1,031,029
- other	1,724,311	1,463,006
Loans & advances to public sector	1,228,230	1,520,728
Other receivables	228,424	183,355
Total (gross) loans and advances to customers	84,580,772	81,409,410
Provision for loans and advances to customers (negative amount)	-2,817,495	-2,975,864
Total (net) loans and advances to customers	81,763,277	78,433,546
Short-term (up to 1 year)	26,909,693	26,169,938
Long-term (over 1 year)	54,853,584	52,263,608
Incurred but not identified (IBNI) losses		
Gross balance sheet exposure	80,043,614	76,777,938
IBNI loss provision for portfolio exposures	-226,430	-247,198
Net balance sheet exposure	79,817,184	76,530,740
Impaired exposures		
Gross balance sheet exposure	4,537,158	4,631,472
Provisions for impaired exposures	-2,591,065	-2,728,666
Net balance sheet exposure	1,946,093	1,902,806

Market risk

mBank organises market risk management processes in line with the requirements resulting from law and recommendations issued by regulators, in particular PFSA Recommendations (among others A, G and I) and EBA guidelines, concerning market risk management.

Tools and measures

In its business, mBank is exposed to market risk, i.e., the risk of unfavourable changes in the present value of financial instruments in the Bank's portfolios due to changes in market risk factors: interest rates, FX rates, stock share prices and indices, the implied volatility of options, and credit spreads. In terms of the banking book mBank identifies interest rate risk, which is defined as a risk of adverse change in both valuation of banking book positions and net interest income arising from adverse movements in interest rates.

The Bank identifies market risk related with positions of the trading book measured at fair value (using the direct measurement method or the model measurement method), which may materialise in the form of losses reflected in mBank's financial performance. Moreover, the Bank attributes market risk to the banking book positions, regardless of the methods for calculating earnings generated from those positions used for the purpose of accounting reporting. In particular, in order to measure the interest rate risk of Retail and Corporate Banking products without a fixed interest revaluation date or with rates administered by the Bank, the Bank uses replicating portfolio models. Since 2013, the Bank uses the capital modelling concept, which is reflected in market risk measurement at the level of the Bank's internal organisational structures. Market risk measures of the interest positions of the banking book are calculated with the use of net present value (NPV) models.

Market risk exposure is quantified by measurement of Value at Risk (VaR), measurement of Stressed Value at Risk (Stressed VaR), measurement of expected loss under condition that this loss exceeds Value at Risk (ES – Expected Shortfall) and by use of stress tests. Market risk, in particular interest rate risk of the banking book, is also quantified by measurement of Earnings at Risk (EaR) of the banking book.

The mBank limited risk appetite for interest rate risk in long term buckets by setting BPV (+1bp) limit for total interest rate mBank Group position for tenors above 20 years and above 30 years, as well as it established allowed risk appetite for credit spread risk by setting CS BPV (+1bp) limits in structure described by rating categories for all treasury, commercial and own receivables debt papers on mBank Group portfolio from 1 January 2016.

Strategy

The implementation of market risk management strategy involves managing the Bank's positions in a way enabling to maintain market risk profile within the risk appetite defined by the Bank. The Bank is focused on meeting customers' business needs, while reducing trade in derivatives in terms of currency, currency pairs, nominal values and tenors of transactions, as well as applying the principle of lack of commodity open positions. The Bank conducts trading activity on well-known markets using financial instruments the Bank has adequate expertise in and that have been approved for trading.

The market risk profile is derived from the strategic goals of business units, the policy of Committee (ALCO) in charge of shaping the structure of the Group's assets and liabilities and the limits on market risk exposure established by the Financial Markets Risk Committee (KRF) at the Bank level, and by the Management Board and Supervisory Board at the Group level. The system of limits reflects in a quantitative manner the defined risk appetite.

In accordance with the previously described general principles of risk management, market risk management is organized under so-called three lines of defence. The main principle of organisation of the market risk management process stipulates separation between the market risk monitoring and control function and the functions related with opening and maintaining open market risk positions.

In addition, the Bank applies the rule of organizational separation between managing banking book operations (including portfolios of Treasury Department, Debt Securities Issue Department and Structured and Mezzanine Finance Department) and trading book operations (including portfolios of Financial Markets Department and Own Transactions Department in Brokerage Bureau).

Measuring mBank's risk

Value at Risk

In 2016, the Bank's market risk exposure, measured by Value at Risk (VaR, for one day holding period, at 97.5% confidence level), was moderate in relation to the VaR limits. The VaR figures for the Bank's portfolio were driven mainly by portfolios of instruments sensitive to interest rates and to selected credit spread – T-bonds portfolios in the banking book and in the trading book including interest rate swap positions. The portfolios of instruments sensitive to changes in exchange rates, such as FX futures and options, and the exposure of the portfolios to equity price risk and the risk of implied volatility of options traded on the WSE had a relatively low impact on the Bank's risk profile. In H1 2016, mDom Maklerski was merged with mBank. As a result of merger of units carrying out its operations focusing on financial instruments traded on the stock exchanges, Own Transactions Division in Brokerage Bureau was established and replaced previous Brokerage Bureau. Increase of market risk measures caused by the merger was insignificant.

The table below presents VaR statistics of mBank's portfolio in 2016:

PLN thou.	2016				2015			
	31.12.16	average	max	min	31.12.15	average	max	min
VaR IR	12,903	13,721	18,454	11,042	13,688	16,085	23,329	12,739
VaR FX	772	547	816	351	496	685	1,096	453
VaR EQ	199	214	791	62	79	5,170	6,588	67
VaR CS	21,249	27,172	30,150	19,856	26,320	23,916	26,345	20,426
VaR	28,037	35,306	40,726	27,124	29,943	27,877	34,881	21,266

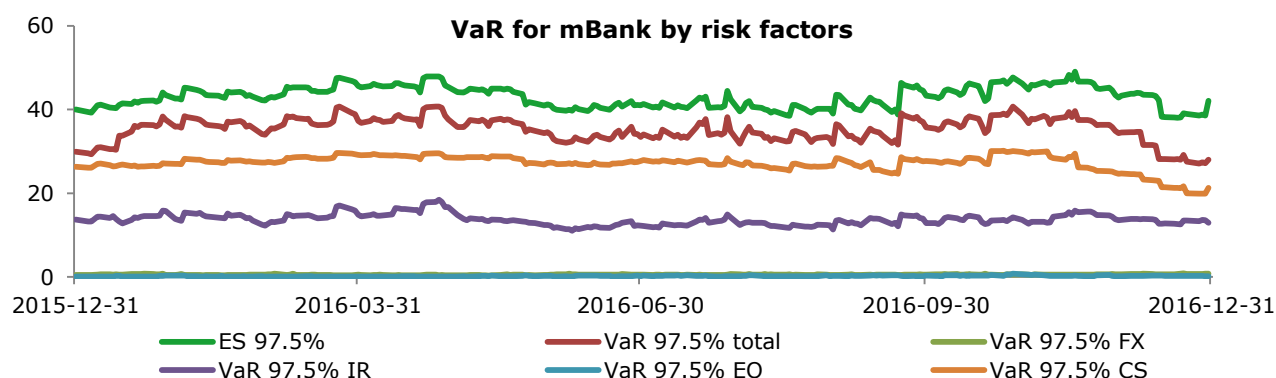
VaR IR – interest rate risk

VaR FX – FX risk

VaR EQ – stock price risk

VaR CS – credit spread risk

The graph below presents changes in VaR for mBank in 12 months to December 31, 2016 (PLN million):



VaR statistics in stress conditions

Since the beginning of September 2015 new VaR statistics in stress conditions have been introduced (it is a tracked measure). The table below presents VaR statistics in stress conditions in 2016 in comparison to statistics of this measure for Q4 2015:

PLN thou.	2016				Q4 2015			
	31.12.16	average	max	min	31.12.15	average	max	min
Stressed VaR IR	45,288	43,671	50,339	36,293	37,742	35,742	39,293	31,053
Stressed VaR FX	2,339	1,363	2,655	576	1,338	1,376	2,933	516
Stressed VaR EQ	422	342	1,495	2	4	8,721	13,074	4
Stressed VaR CS	87,930	87,516	96,278	74,731	73,992	75,255	77,899	73,530
Stressed VaR	124,833	119,771	130,662	105,462	103,060	111,038	116,945	102,035

Stress testing

The utilisation of stress tests for mBank in 2016 is presented in the table below:

PLN M	2016				2015			
	31.12.16	average	max	min	31.12.15	average	max	min
Base stress test	97	82	120	20	74	107	134	68
CS stress test	752	695	782	623	640	689	770	611
Total stress test	849	777	892	656	714	796	900	699

Base stress test – standard stress test.

CS stress test – stress test with scenarios including credit spread changes.

Total stress test – total stress test (sum of the standard stress test and the stress test with scenarios including credit spread changes).

In 2016, the average utilisation of the stress test limits for mBank without capital modelling was 60% (PLN 776.6 million). The main part of the presented stress test results is the value of stress tests for change of the credit spread of T-bond portfolios because the stress test scenarios assume on average a 100 bps increase of credit spreads.

Interest rate risk of the banking book

In 2016 the interest rate risk of the banking book as measured by EaR, i.e. potential decrease of interest income within 12 months assuming an unfavourable 100 bps change of market interest rates (parallel shift of the curve by 100 basis points) and based on a stable value of the portfolio over the period, was as presented in the table below:

PLN M	2016				2015			
	31.12.16	average	maximum	minimum	31.12.15	average	maximum	minimum
PLN	171.8	78.3	180.0	34.7	99.4	55.4	122.2	8.4
USD	9.3	7.5	13.8	1.2	3.7	2.4	7.5	0.7
EUR	64.9	70.6	142.3	50.2	52.5	37.3	63.1	0.0
CHF	0.0	4.1	21.6	0.0	2.4	8.1	38.8	0.0
CZK	3.1	4.1	7.5	2.4	2.7	2.3	4.8	1.3

Measuring mBank Group's market risk

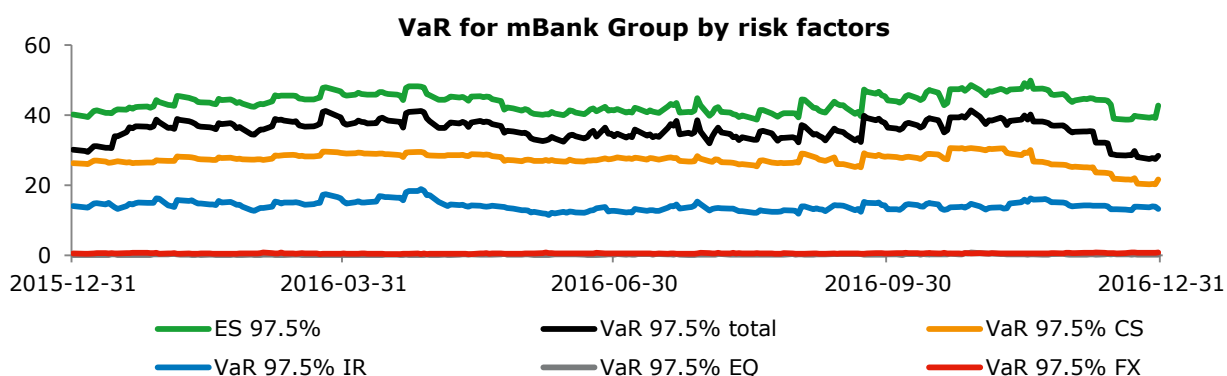
The main sources of market risk of the Group are mBank's positions. The table below shows VaR statistics (VaR at a 97.5% confidence level for a one-day holding period) for mBank Group in 2016 for individual members of the Group in which market risk positions were identified (i.e., portfolios of mBank, mBank Hipoteczny, mLeasing) and their decomposition to the VaR corresponding to the main risk factor types – interest rate risk (VaR IR), foreign exchange risk (VaR FX), stock prices/index value risk (VaR EQ), and credit spread risk (VaR CS).

The table below presents VaR statistics in 2016:

PLN thou.	mBank Group	mBank	mBH	mLeasing
VaR IR average	14,143	13,721	187	278
VaR FX average	558	547	29	17
VaR EQ average	224	214	0	0
VaR CS average	27,352	27,172	197	0
VaR average	35,879	35,306	330	273
VaR max	41,393	40,726	770	339
VaR min	27,515	27,124	100	192
VaR 31.12.2016	28,438	28,037	459	212

For comparison, at the end of 2015, VaR for mBank Group was PLN 30,158 thousand, including VaR of mBank at PLN 29,943 thousand, mBank Hipoteczny – PLN 99 thousand and mLeasing – PLN 273 thousand.

The graph below presents changes in VaR for mBank Group in 2016 (PLN million):



Stress testing

The utilisation of stress tests for mBank Group in 2016 is presented in the table below:

PLN M	2016				2015			
	31.12.16	average	max	min	31.12.15	average	max	min
Base stress test	102	87	125	26	78	111	139	72
CS stress test	767	710	798	639	647	691	772	613
Total stress test	869	797	914	679	725	802	905	705

Base stress test – standard stress test.

CS stress test – stress test with scenarios including credit spread changes.

Total stress test – total stress test (sum of the standard stress test and the stress test with scenarios including credit spread changes).

In 2016, the average utilisation of the stress test limits for mBank Group without capital modelling was 59% (PLN 797.2 million) and with capital modelling was 58% (PLN 788.1 million).

Liquidity risk

mBank organises liquidity risk management processes in line with the requirements resulting from law and recommendations issued by regulators in particular PFSA Recommendations (among others P, H and S) as well as EBA guidelines concerning liquidity risk management.

Tools and measures

In its operations, mBank is exposed to liquidity risk, i.e., the risk of being unable to honour its payment obligations, arising from the Bank's balance-sheet and off-balance-sheet positions, on terms favourable to the Bank and at a reasonable price.

In terms of its sources, liquidity risk may result from internal factors (reputation risk resulting for instance in excessive withdrawal of cash by Bank clients, materialisation of credit risk) and external factors (turbulences and crises in the financial markets, country risk, turbulences in the operation of clearing systems).

For this purpose, the Bank has defined a set of liquidity risk measures and a system of limits and warning thresholds which protect the Bank's liquidity in the event of unfavourable internal or external conditions. Independent measurement, monitoring and controlling of liquidity risk is performed daily by the Financial Markets Risk Department. The main measures used in liquidity risk management of the Bank include ANL (Available Net Liquidity) measures, the regulatory measures (M1, M2, M3, M4) and LCR, and NSFR for analysis only. ANL measures reflect the projected future cash flow gap of assets, liabilities and off-balance-sheet commitments of the Bank, which represents potential risk of being unable to meet liabilities within a specific time horizon and under a certain scenario. ANL scenarios include base scenario (ANL Base), and three liquidity stress test scenarios: internal (ANL Stress), systemic (ANL Stress Market) and a combination of both (ANL Stress Combined). Cash flow projections used in these measures are based on crisis scenarios, which include excessive withdrawal of cash by the Bank's clients and being unable to liquidate some assets due to an external crisis occurring to various extent dependent on assumed scenario. Moreover the Bank has a process of reporting and monitoring of intraday liquidity position including crisis scenario for intraday liquidity. The reverse stress scenario is the complement of the liquidity stress testing system.

In order to support the process of liquidity risk management, the Bank has a system of early warnings indicators (EWI). It is composed of indicators monitoring the level of regulatory and internal limits and additionally, indicators monitoring significant changes of market factors, as well as changes in the Bank's balance sheet. Exceedance of thresholds by defined indicators may be a trigger for the launch of the Contingency Plan or the Recovery Plan.

Since September 2016 the Bank reports LCR measure according to the standard compliant with Commission Delegated Regulation (EU) No. 2015/61 of October 10, 2014.

In terms of NSFR the Bank reports to NBP according to standards set by EBA in 2014, as well as to the PFSA in a form of a dedicated questionnaire.

Strategy

The liquidity strategy is pursued by active management of the balance sheet structure and future cash flows as well as maintenance of liquidity reserves adequate to liquidity needs depending on the activity of the Bank and the current market situation as well as funding needs of the Group subsidiaries.

The Bank manages liquidity risk at two levels: strategic (within committees of the Bank) and operational (Treasury Department).

Liquidity risk limiting covers supervisory and internal measures.

The first category includes four liquidity measures determined by the Polish Financial Supervision Authority: M1, M2, M3, M4 and LCR measure, which is additionally reported to the NBP. NSFR measure (Net Stable Funding Ratio) is monitored.

The liquidity risk internal limit system is based mainly on defining acceptable level of gaps in defined tenors for ANL measures in stress conditions in specific time horizons and for different liquidity risk profiles (for all currencies in aggregate converted to PLN) and for specific foreign currencies.

The Bank has a centralised approach to the Group's funding management in order to increase the efficiency of liquidity resources used. Financing of subsidiaries is done from mBank via the Treasury Department, with the exception of mBank Hipoteczny and mLeasing. mBank Hipoteczny raises funding in the market by issuance of covered bonds, short-term debt securities and from mBank, mLeasing raises funding by issuance of short-term debt securities and from mBank, while other subsidiaries raise all of their funding from mBank.

The Contingency Plan in case of the threat of losing financial liquidity is in place in the Bank, that sets the strategy and procedures in the event of a situation related to the threat of loss of liquidity by the Group of mBank to neutralize this. The regulation defines the division of responsibility for monitoring, identifying threats and actions during the emergency. The Contingency Plan is tested at least annually.

The Recovery Plan of mBank Group was created parallelly to the Contingency Plan and covers situations for which a broader set of actions is required than those defined in the Contingency Plan.

The Bank limits the volume and term concentration of foreign currency funding of mBank with FX-swaps and CIRS. The limit is set in order to determine the relevant risk appetite accepted by the Bank in this respect. In addition, the limit is decomposed into individual limits for CIRS and FX-swaps as well as limits for funding in EUR and CHF. The limit structure reflects the Bank's preference for currency funding with long tenors.

Measuring mBank's liquidity risk

The liquidity of mBank remained safe in 2016, as reflected in the high surplus of liquid assets over short-term liabilities in ANL measures and in regulatory measures. Since May 21, 2016, the data includes Dom Maklerski mBanku, which was merged with mBank S.A. on that day.

The table below presents the ANL gaps for tenors up to 1M and 1Y in 2016 as well as the regulatory measures M1, M2, M3, M4 and LCR:

Measure*	2016			
	31.12.2016	mean	maximum	minimum
ANL Base 1M**	20,428	16,767	21,088	12,252
ANL Base 1Y**	18,694	16,597	20,837	12,392
ANL Stress 1M**	17,579	14,473	18,903	10,377
ANL Stress 1Y**	15,845	14,303	18,473	10,109
ANL Market 1M**	17,436	13,310	18,405	9,650
ANL Combined 1M**	16,411	12,437	17,404	8,706
M1	15,117	13,570	17,974	7,681
M2	1.42	1.40	1.54	1.26
M3	4.79	4.82	5.20	4.03
M4	1.41	1.34	1.41	1.28
LCR	200%	154%	200%	126%

* ANL Base, ANL Stress, ANL Stress Market, ANL Stress Combined and M1 are shown in PLN million, M2 is a relative measure presented as a decimal, ANL Stress is limited up to 1Y, ANL Stress Market and ANL Stress Combined are limited up to 1M.

** Means, maximums and minimums are calculated for period starting from February 1, 2016.

Measuring the Group's liquidity risk

The Group's liquidity risk measurement includes mBank Hipoteczny, mLeasing, and until May 20, 2016 ,Dom Maklerski mBanku, which was merged with mBank S.A. on May 21, 2016. mBank monitors liquidity risk of the subsidiaries in the ANL Stress tenors so as to protect liquidity also at Group level in the event of adverse events (crises).

The Group's liquidity was safe in 2016, as reflected in the high surplus of liquid assets over short-term liabilities in the ANL Stress tenors and LCR measure calculated at Group level.

The table below presents the ANL Stress gap for tenors up to 1M and 1Y and LCR measure at mBank Group level:

Measure*	2016			
	31.12.2016	mean	maximum	minimum
ANL Stress 1M**	19,153	15,798	19,905	12,214
ANL Stress 1Y**	17,170	15,642	19,608	11,952
LCR Group***	181%	179%	187%	173%

* ANL Stress is shown in PLN million.

** Means, maximums and minimums are calculated for period starting from February 1, 2016.

*** Mean, maximum and minimum are calculated for period starting from September 30, 2016.

Operational risk

mBank organises the operational risk management process taking into account the rules and requirements set out in the Regulation (EU) No 575/2013 of the European Parliament and of the Council of June 26, 2013 as well as in recommendations of the Polish Financial Supervision Authority (including Recommendations M, H and D, in particular), which constitute a starting point for developing the framework of the operational risk control and management system in mBank Group.

Tools and measures

The Bank understands operational risk as the possibility of incurring a loss arising from inadequate or defective internal processes, systems, errors or actions taken by the Bank's employee or from external events. In particular, operational risk includes legal risk.

Operational risk accompanies all processes at banks (inadequate or defective internal processes, systems, human errors or external events) and its consequences can be often very harmful. It is characterized by an asymmetric distribution of losses; overwhelmingly, these are small value losses. Large losses are rare but the size of such a loss may exceed the sum of all the remaining operational losses in a given reporting period.

In order to effectively manage operational risk (identification, monitoring, measurement, assessment, reporting as well as reduction, avoidance, transfer or acceptance of operational risk), the bank applies quantitative and qualitative methods and tools. The tools applied by the Bank intend to cause-oriented operational risk management.

The basic qualitative tool is the internal control system self-assessment carried out once a year by the Bank's organizational units. The aim of the process is to increase the awareness of operations risk, create a platform for communication about the necessity of changes and improvements in control processes, and thus a more active approach to operational risk management. The end result of the self-assessment is to identify and assess key risks and control mechanisms as well as to create recovery plans aimed at changing the structure or the optimization of the control mechanisms in order to improve the adequacy and effectiveness of internal control system. The implementation of the self-assessment process was completed in the Bank in September 2015. The process replaced formerly existing functional control and Business Environment Assessment Surveys. The implementation of the self-assessment process in mBank Group subsidiaries and foreign branches was completed in H1 2016.

The Bank prepares also scenario analyses describing risks associated with rare operational risk events with potentially very serious consequences.

The key risk indicators (KRI) are another tool. Ongoing monitoring of risk factors recognized as key at the given moment will allow for prediction of an increased level of operational risk and adequate response by the organizational units in order to avoid the occurrence of operational events and losses.

In accordance with the requirements of Recommendation M, the Bank has a process for identifying threats associated with operational risk in all relevant areas of the Bank's operations and for creating new and modifying existing products, processes and systems, as well as for changes in the organizational structure.

Quantitative tools of the operational risk methodology include mainly collection of data on operational events and effects. With the use of the database available at the mBank Group, data on operational risk losses are recorded with an emphasis on the cause. Recorded data are analysed by the Integrated Risk and Capital Management Department and at organizational units, which allows organizational units to carry out ongoing monitoring of their current risk profile. mBank has an access to external operational loss databases and applies them to analyse operational risk and potential threats, that institutions operating in the financial sector are exposed to.

Strategy

The operational risk control and management system, forms an organisational basis in order to enable effective control and management of operational risk at every level of mBank's organisational hierarchy. The structure of operational risk control and management covers in particular the role of the Management Board of the Bank, the Business and Risk Forum, the Chief Risk Officer, the Integrated Risk and Capital Management Department, and the tasks assigned to persons managing operational risk in particular organisational units and business areas of the Bank. The operational risk control and management process at mBank is developed and co-ordinated by the central operational risk control function while operational risk management takes place in every organisational unit of the Bank and in every subsidiary of mBank Group. It consists in identifying and monitoring operational risk and taking actions aimed to avoid, mitigate or transfer operational risk.

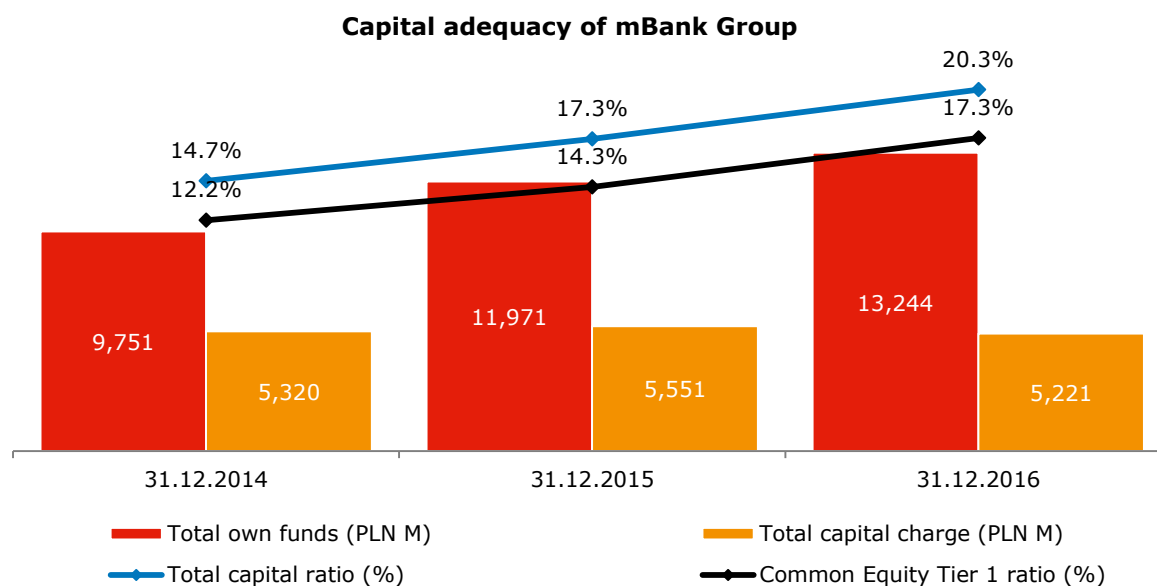
The entire operational risk control process is supervised by the Supervisory Board of the Bank through its Risk Committee.

4.4. Capital adequacy

Maintaining an adequate level of capital is one of the main tasks of the Bank. The Management Board of mBank ensures consistency of the capital and risk management process by means of a system of strategies, policies, procedures and limits for the management of particular risks which constitute the ICAAP architecture. Furthermore, in line with the Capital Management Policy applicable at mBank, the Bank maintains an optimum level and structure of own funds, guaranteeing maintenance of the total capital ratio at a level higher than the supervisory requirement, at the same time covering all significant risks identified in the Bank's operations and key risk concentrations resulting from applied business strategy. The assessment process comprises determination of the appropriate capital surplus required to cover potential losses resulting from materialization of particular risk factors related to the existing portfolios and planned activity. New regulatory requirements as well as possible adverse macroeconomic changes are also taken into account in the capital management process.

The Capital Management Policy at mBank is based on two main pillars:

- maintenance of an optimal level and structure of own funds, with the use of available methods and means (retained net profit, issue of shares, subordinated bonds, etc.);
- effective use of the existing capital among others by applying a system of capital utilisation measures resulting in reduction of the activity that is not generating the expected return and development of products with lower capital absorption.



The capital ratios of mBank Group in 2016 were driven by the following factors:

- inclusion in Common Equity Tier 1 capital the remaining part of the net profit of mBank Group for the year 2015, not included in Common Equity Tier 1 capital on the basis of the PFSA decision obtained in 2015;
- inclusion in Common Equity Tier 1 capital the verified net profit of the mBank Group for the first, second and third quarters of the year 2016, net of expected charges and dividends, on the basis of the PFSA decisions from June 21, 2016, September 7, 2016 and December 14, 2016 respectively;
- classification of capital instruments issued within incentive programs in the period from January 1, 2016 till July 31, 2016 as instruments in Common Equity Tier 1 capital;
- change of calculation methodology for the additional value adjustments deducted from Common Equity Tier 1 capital;
- change of the limit for unrealized gains measured at the fair value included in the own funds calculation from 40% in 2015 to 60% in 2016;
- change of the limit for grandfathered subordinated instruments included in the own funds;
- adjustment of the application of the regulatory floor to the requirements of article 500 of the CRR Regulation, also complying with the provisions of the ITS Regulation. The adjustment was implemented to ensure a full comparability, transparency and compliance of the Bank's capital position presented in the financial statement and regulatory reporting with the approach used by the EU parent institution (Commerzbank AG) and observed in other EU member states. The method used by the Bank in the past followed the local authorities' approach to the issue at hand. The PFSA within correspondence conducted by the Bank on the subject of the abovementioned adjustment, stated that it is not coherent with the local regulatory approach to own funds assessment which has been used so far and is still expected to be used;
- extensions of the AIRB approach and the changes of the AIRB models:
 - the implementation of the material change to the internal corporate LGD model (having satisfied the suspensive conditions) for which the Bank obtained the joint consent of the European Central Bank and of the PFSA on September 15, 2016;
 - the receipt on July 26, 2016 of an official confirmation from the European Central Bank and the PFSA regarding the Bank's fulfilment of the high significance conditions stipulated in the conditional consent to apply the internal rating based approach to the calculation of the capital charge for credit risk for the credit exposures of the subsidiary mLeasing;

- expansion of the mBank Group business activity;
- depreciation of the Polish currency against the foreign currencies.

From 2016 banks are obliged to maintain additional own funds to cover the capital buffers implemented as a result of the Act on Macro-prudential Supervision over the Financial System and Crisis Management in the Financial System that entered into force in 2015 and transposed the CRD IV provisions to the Polish prudential regulations. As of December 31, 2016, Bank was obliged to ensure adequate own funds to meet conservation capital buffer of 1.25% of the total risk exposure amount.

As of the end of 2016 the countercyclical capital buffer rate set for relevant exposures in Poland according with the article 83 of the Act amounted to 0%. mBank Group specific countercyclical capital buffer calculated in accordance with the provisions of the Act as the weighted average of the countercyclical buffer rates that apply in the countries where the relevant credit exposures of the Group are located, amounted to 0% as of December 31, 2016.

In Q4 2016, the Bank received an administrative decision of the PFSA that identified mBank as other systemically important institutions (O-SII) and imposed a capital buffer of 0,5% of the total risk exposure amount, calculated in accordance with article 92(3) of the Regulation, to be maintained on individual and consolidated levels.

Consequently, the combined buffer requirement set for the mBank Group as of the end of 2016 amounted to 1.75% (of the total risk exposure amount).

Additionally, as a result of risk assessment carried out by the Polish Financial Supervision Authority within the supervisory review and evaluation process, in particular with regard to the evaluation of risk related to the portfolio of foreign exchange retail mortgage loans, mBank Group received an individual recommendation to maintain own funds on the consolidated level to cover additional capital requirement of 3.25% in order to mitigate the risk and 2.44% for Tier 1 capital (on individual basis: 3.81% at the level of own funds and 2.86% at the level of Tier 1 capital)

High level of additional capital requirement in Pillar II was due to the fact that the Polish Financial Supervision Authority applied one methodology to all banks in Poland. This failed to take into account the results of internal models applied by mBank to the calculation of capital requirements for credit risk. According to this methodology, the calculation of the additional capital requirement for each and every bank uses the risk weight under the standardised approach (100%) as a starting point. Consequently, more than half of the additional capital requirement calculated by the PFSA for mBank Group comes from "aligning" the capital requirement to the requirement calculated under the standardised approach. The second important component with effect on an additional capital requirement within Pillar II was related to the BION score quantifying the risk of foreign exchange retail mortgage loans portfolio, taking into account the specific nature of the Group portfolio, the following factors were taken into account:

- the share of loans with LTV >100% in total FX lending portfolio;
- the level of margin realised in the Group on FX lending portfolio;
- sensitivity of total capital ratio to exchange rate and interest rate changes;
- Group's readiness to absorb losses of a potential portfolio currency conversion.

The level of the required capital ratios encompasses:

- the basic requirement of PFSA addressed to banks in Poland to maintain the total capital ratio of 12% and the Tier 1 ratio of 9%;
- the combined buffer requirement of additional 1.75%;
- the additional capital charge in Pillar II – 3.25% (consolidated level) and 3.81% (individual level).

At the end of 2016 mBank Group comfortably met the PFSA's required levels: its capital ratios on consolidated basis and individual basis were above the required values.

Capital ratios on individual level and consolidated Common Equity Tier 1 ratio together with Tier 1 ratio stayed above the required values during whole 2016. From the beginning of January 2016 consolidated

total capital ratio of mBank Group should amount to at least 16.97% according to requirements in force at that time. Until March 24, 2016, i.e. the day on which the Ordinary General Meeting of mBank approved consolidated financial statements of mBank Group and decided not to pay a dividend from 2015 profit, consolidated total capital ratio of mBank Group stayed slightly below the required value. From March 24, 2016 till the end of 2016 consolidated total capital ratio of mBank Group stayed above the required value.

With a considerable surplus of own funds mBank Group comfortably meets the additional own funds requirement related to Pillar II and the combined buffer requirement

Capital ratio	mBank Group		mBank	
	Required level	31.12.2016	Required level	31.12.2016
Total capital ratio (TCR)	17.00%	20.29%	17.56%	24.07%
Tier 1 ratio	13.19%	17.32%	13.61%	20.59%
Common Equity Tier 1 ratio	12.57%	17.32%	12.88%	20.59%

Without adjustment of the approach to the application of the regulatory floor to the requirements of article 500 of the CRR Regulation, capital ratios of mBank Group as of December 31, 2016 would amount to as follows: Total capital ratio – 18.35%, Common Equity Tier 1 ratio – 15.66%. Additionally, had the Group adjusted the approach to the application of the regulatory floor as of December 31, 2015 the capital ratios of mBank Group would not change.

Without adjustment of the approach to the application of the regulatory floor to the requirements of article 500 of the CRR Regulation, mBank capital ratios as of December 31, 2016, would amount to as follows: total capital ratio – 21.93%, Common Equity Tier 1 ratio – 18.76%. Additionally, had the Bank adjusted the approach to the application of the regulatory floor as of December 31, 2015 the mBank capital ratios would increase respectively: by 0.33% in case of total capital ratio and by 0.27% in case of Tier 1 ratio and Common Equity Tier 1 ratio.

The second component of the adequacy assessment of Group's capital base, alongside the calculation of capital ratios and their comparison with the required levels (taking account of the combined buffer requirement and the additional capital charged within Pillar II), is verification whether Group meets requirements resulting from article 500 of the CRR. To this end, own funds are compared to the value of the „regulatory floor“ accounting for 80% of the comparable standardised-driven total capital requirement. This parallel calculation is to ensure that the Group's own funds calculated under the internal rating based approach are sufficient and they do not fall below 80% of own funds that the Group would have to maintain under the standardised approach. mBank Group's own funds are well above the level determined by the regulatory floor.

The consolidated leverage ratio calculated in accordance with the provisions of CRR Regulation and Commission Delegated Regulation (EU) 2015/62 of October 10, 2014, amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the leverage ratio, including provisions regarding transitional period, amounted to 8.23%.

Stress tests

In order to ensure compliance with regulatory requirements under normal and stress conditions the Group and the Bank carry out sensitivity analyses for key concentration risks. These analysis are used among others for calculation of the capital surplus above the level of regulatory requirements.

Additionally integrated stress tests are conducted based on scenario of unfavourable economic conditions that may adversely affect the Bank's financial position in at least a full two-year time horizon (for liquidity risk - a one-year time horizon). The risk scenario, i.e. the most plausible (in at least a full two-year time horizon) scenario of negative deviations from the base scenario, expressed in terms of macroeconomic and financial ratios, is common for all risk types, applied at Group level and aligned with the corresponding scenario accepted by the consolidating entity.

Reverse stress tests are conducted in order to identify events that might potentially pose a risk to the functioning of the Group and the Bank.

The Group and the Bank take part in regulatory stress tests conducted by the Polish Financial Supervision Authority in order to determine the impact of assumed macroeconomic stress scenarios on the Group's balance sheet and P&L as well as on prudential norms.

5. mBank Group capital and funding

5.1. mBank Group capital base

Structure of own funds including CET 1 and Tier 2 capital

The amount of capital maintained by mBank Group and by mBank meets the regulatory requirements and allows for the planned business expansion at a defined risk appetite level. This is reflected in the Common Equity Tier 1 capital ratio (20.6% at the stand-alone level and 17.3% at the consolidated level at the end of 2016) and the total capital ratio (24.1% at the stand-alone level and 20.3% at the consolidated level at the end of 2016), which are above the levels recommended in 2016 by the Polish Financial Supervision Authority. According to the PFSA requirements, at the end of 2016, the Tier 1 ratio should not be below 13.61% for mBank and 13.19% for mBank Group. The required stand-alone total capital ratio stood at 17.56% for mBank and 17.00% for mBank Group.

The required level of capital ratios include capital buffers introduced in 2016 under the Act on Macroprudential Supervision over the Financial System and Crisis Management in the Financial System: the capital conservation buffer at 1.25 p.p. and the other systemically important institution buffer at 0.50 p.p., as well as an additional capital requirement securing the risk related to the foreign currency mortgage loans for households at 3.25 p.p. for the total capital ratio at the consolidated level, and at 3.81 p.p. at the stand-alone level. The additional capital requirement should consist in 75% of Tier 1 capital.

The capital ratios of the Group in 2016 were driven by the following factors:

- inclusion in Common Equity Tier 1 capital the remaining part of the net profit of mBank Group for the year 2015, not included in Common Equity Tier 1 capital on the basis of the PFSA decision obtained in 2015;
- inclusion in Common Equity Tier 1 capital the verified net profit of the mBank Group for the first, second and third quarters of the year 2016, net of expected charges and dividends, on the basis of the PFSA decisions from June 21, 2016, September 7, 2016 and December 14, 2016 respectively;
- classification of capital instruments issued within incentive programs in the period from January 1, 2016, till July 31, 2016, as instruments in Common Equity Tier 1 capital;
- change of calculation methodology for the additional value adjustments deducted from Common Equity Tier 1 capital;
- change of the limit for unrealized gains measured at the fair value included in the own funds calculation from 40% in 2015 to 60% in 2016;
- change of the limit for grandfathered subordinated instruments included in the own funds;
- adjustment of the application of the regulatory floor to the requirements of article 500 of the CRR Regulation, also complying with the provisions of the ITS Regulation. The adjustment was implemented to ensure a full comparability, transparency and compliance of the Bank's capital position presented in the financial statement and regulatory reporting with the approach used by the EU parent institution (Commerzbank AG) and observed in other EU member states. The method used by the Bank in the past followed the local authorities' approach to the issue at hand. The KNF within correspondence conducted by the Bank on the subject of the abovementioned adjustment, stated that it is not coherent with the local regulatory approach to own funds assessment which has been used so far and is still expected to be used;
- extensions of the AIRB approach and the changes of the AIRB models:
 - the implementation of the material change to the internal corporate LGD model (having satisfied the suspensive conditions) for which the Bank obtained the joint consent of the European Central Bank and of the PFSA on September 15, 2016;
 - the receipt on July 26, 2016 of an official confirmation from the European Central Bank and the PFSA regarding the Bank's fulfilment of the high significance conditions stipulated in the conditional consent to apply the internal rating based approach to the calculation of the capital charge for credit risk for the credit exposures of the subsidiary mLeasing;

- expansion of the mBank Group business activity;
- depreciation of the Polish currency against the foreign currencies.

mBank Group has a strong capital base, as reflected in its capital structure. Own funds stood at PLN 13.2 billion at the end of 2016, of which PLN 11.3 billion (85%) constituted CET 1 capital. The main components of CET 1 capital include: share premium, other reserve capital and undistributed profit from previous years. Tier 1 capital is strengthened mainly through retained earnings.

Tier 2 capital stood at PLN 1.9 billion at the end of 2016, which represents a decrease by PLN 115 million year on year. The decrease in Tier 2 capital was driven by a regulatory change of the limit for subordinated loans with indeterminate maturity dates, included in Tier 2 capital in accordance with the principles of acquired rights (a decrease from 70% in 2015 to 60% in 2016).

The table below presents the balances of mBank Group's subordinated debt as at December 31, 2016.

Type	Nominal Value	Currency	Maturity Date	Tier 2 Capital
Bond	400 M	CHF	08.03.2017	no
Bond	170 M	CHF	perpetual	partly
Bond	80 M	CHF	perpetual	partly
Bond	500 M	PLN	20.12.2023	yes
Bond	750 M	PLN	17.01.2025	yes

Subordinated debt with a fixed maturity included in own funds is subject to amortisation on a daily basis over five years prior to final maturity. In addition, subordinated debt without a fixed maturity in the table above is being gradually withdrawn and is included in own funds using the principles of acquired rights and the limits set by the Polish Financial Supervision Authority in respect of the principles of acquired rights in the transitional period from January 1, 2014, to December 31, 2021. The current structure of the Bank's capital base derives from prior decisions regarding retained earnings and additional capital increases. Between 2002 and 2011 mBank retained all of its earnings by decision of the General Shareholders' Meeting, while the 2012 dividend constituted 35% of mBank's net profit followed by a 67% dividend payment in 2013. The profit for 2014 and 2015 was included in whole in the Bank's own funds. More information on capital adequacy can be found in Note 49 to the Financial Statements of mBank S.A. Group under the International Financial Reporting Standards for 2016.

Capital and liquidity norms under Basel III and EU regulations

The recommendations of the Basel Committee put forward in the new capital accord Basel III form the basis for strengthening the capital base, tightening liquidity requirements, and maintaining the acceptable level of leverage in financial institutions. The primary objective of Basel III is to ensure such levels of own funds as are necessary to effectively manage an institution, even in financial distress, without the need for a bailout with taxpayers' money.

The recommendations of Basel III have been introduced into the European Union legislation in the CRD IV / CRR package, which took effect on January 1, 2014, subject to respective transitional periods. Moreover, the European Banking Authority (EBA) gradually issues technical standards for CRD IV and CRR, i.e. detailed descriptions of procedures, instruments, indicators, rules, and their calibration, making it possible for financial institutions to fully implement the requirements imposed on their capital, liquidity, as well as corporate governance and management standards. CRR has a direct effect in the EU member states without the need to implement legislative amendments in their jurisdictions. CRD IV was transposed into the Polish law in 2015 by the Act on Macro-prudential Supervision of the Financial System and Crisis Management in the Financial System, whereby the regulations applicable so far were amended accordingly. The experience regarding Basel III implementation gathered over the last few years and ongoing market and economic changes have forced regulators to review the existing approach. The proposed amendments refer to, among

others, capital requirements calculation, reporting, the minimum leverage ratio, and the net stable funding ratio. The CRD / CRR package is also likely to be extended by the provisions on recovery and resolution (including BRRD) by taking account of the requirements for bail-inable liabilities (TLAC, MREL).

One of the most important practical elements of how the requirements under CRD IV / CRR, transposed into the Polish law by the Act on Macro-prudential Supervision, impact on banks in Poland is the imposition of capital buffers on Polish lenders. These include:

- capital conservation buffer - designed to ensure that banks build up capital buffers outside periods of stress to cover potential losses in the period of financial distress. The target for this buffer has been set at the level of 1.25% of total risk exposure amount (TREA) since January 1, 2016, and will rise to 1.875% from 2018 to finally reach the CRD IV level of 2.5% from 2019;
- buffer for Globally Systemically Important Institutions (G-SII) or Other Systemically Important Institutions (O-SII) – maintained by institutions characterized by a major scale of activities and significant contribution to systemic risk. The maximum level of O-SII buffer is 2.0%, while the upper limit for G-SII is set at the level of 3.5%. In October 2016, the PFSA considered mBank an O-SII and imposed a buffer of 0.5%;
- systemic risk buffer - set in order to prevent and limit long-term non-cyclical systemic risk. The Ministry of Finance can set a maximum buffer of 5% of TREA. A proposal to impose the buffer was for the first time put forward by the Financial Stability Committee (KSF) in January 2017. As of the date of this report, the final level and effective date of the buffer are unknown;
- countercyclical buffer - maintained to counteract the adverse effects of the economic cycle on banks' lending activity. It aims at making the supply of credit less volatile. The maximum level of this buffer is 2.5%. The currently applicable buffer set by the KSF is 0%.

Dividend

In 2012, after ten years, mBank resumed the payment of the dividend to its shareholders. The ability to pay out dividends is provided for in the Mobile Bank Strategy of mBank Group for 2016-2020. However, in its decision recommending the dividend payment to the Supervisory Board, the Management Board of mBank mainly considers current recommendations of the Polish Financial Supervision Authority concerning dividend payments by banks. In 2016, the PFSA issued the recommendation that a dividend could be paid only by banks meeting the criteria below:

- the bank is not subject to a restructuring programme;
- the bank performed well in the Supervisory Review and Evaluation Process – final BION score not worse than 2.5 (master scale – score 1 or 2);
- with financial leverage (LR) level higher than 5%;
- when Tier 1 ratio is higher than the minimum value set for this ratio increased by security capital, i.e.:
 - for OSII banks – banks with Tier 1 ratio exceeding $13.25\% + 0.75\% \times \text{add-on} + \text{OSII buffer}$;
 - for other commercial banks – banks with Tier 1 ratio exceeding $11.25\% + 0.75\% \times \text{add-on}$;
- banks with a Total Capital Ratio exceeding $13.25\% + \text{add-on} + \text{OSII buffer}$.

It is recommended that banks which meet all the above criteria can pay out up to 50% of the generated profit.

It is also recommended that up to 100% of the generated profit can be paid out by banks which meet the supervisory expectations as regards the minimum level of the Total Capital Ratio (TCR), taking into account the security capital, i.e.:

- OSII banks – with the Total Capital Ratio (TCR) exceeding $16.25\% + \text{add-on} + \text{OSII buffer}$;
- other commercial banks – with the Total Capital Ratio (TCR) exceeding $14.25\% + \text{add-on}$.

Moreover, banks with significant exposures to FX housing loans for households (i.e. banks in which the share of FX housing loans for households in the portfolio of receivables from the non-financial sector exceeds 5%) adjust the dividend rate based on two additional criteria:

Criterion 1 (C1) – based on the share of FX housing loans for households in the whole portfolio of receivables from the non-financial sector.

Criterion 2 (C2) – based on the share of FX housing loans granted in 2007 and 2008 (loans determining the amount of banks' losses in the case of implementation of any statutory solutions) in the portfolio of FX housing loans for households.

Relevant adjustments are made depending on the value of a bank's portfolio:

Criterion 1

- banks with the share exceeding 10% – dividend rate adjustment by 20%;
- banks with the share exceeding 20% – dividend rate adjustment by 30%;
- banks with the share exceeding 30% – dividend rate adjustment by 50%;

Criterion 2

- banks with the share exceeding 20% – dividend rate adjustment by 30%;
- banks with the share exceeding 50% – dividend rate adjustment by 50%.

Whenever a bank with undistributed profit from previous years intends to pay out dividend, it is obliged to report this plan to the Polish Financial Supervision Authority which will assess it on an individual basis. Only banks which meet the criteria for paying out dividends may apply for such consent.

The table below presents information on mBank's dividend payments since 2012.

Year	Dividend per share	Total dividend volume PLN M	Dividend as a % of net profit*
2012	10.0	421.4	35.0
2013	17.0	717.0	67.0
2014	-	-	-
2015	-	-	-

* The ratio of the total amount of dividends paid to mBank's net profit in the financial year.

MREL and TLAC and their potential impact on mBank

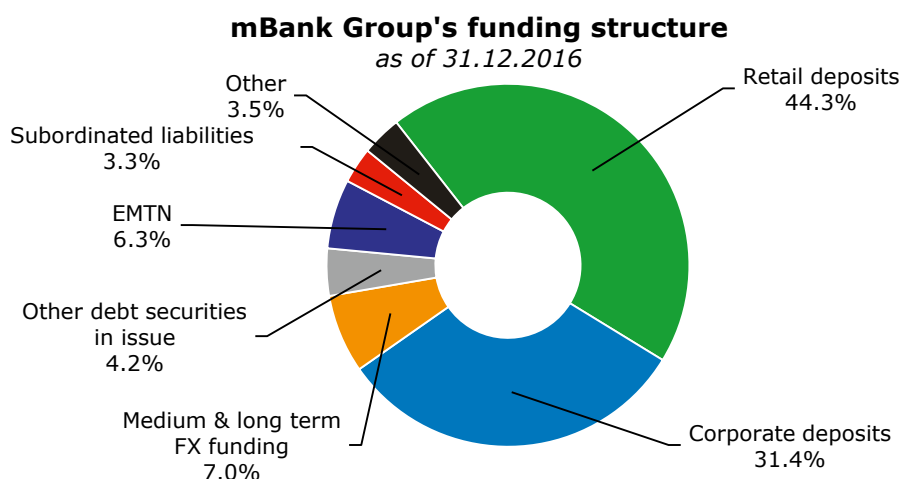
Apart from the capital base requirements, financial institutions will soon be required to comply with regulations concerning loss-absorbing liabilities: MREL (the minimum requirement for own funds and eligible liabilities) and TLAC (the Total Loss Absorbing Capacity). Both of these ratios address the need to ensure adequate level of funding, which can be converted into capital in case of financial distress, and consequently enable resolution without use of taxpayers' money.

The minimum requirement for own funds and eligible liabilities (MREL) is stipulated in BRRD. MREL constitutes a regulatory tool aiming at structuring an institution's liabilities in a way allowing effective bail-in of a sufficient amount of liabilities, avoiding contagion or a bank run. It will be set for each institution on a case-by-case basis by a resolution authority (in Poland BFG), taking into account both common criteria stipulated in regulations and the resolution authority's assessment. MREL-eligible liabilities will be limited to issued and fully paid-up instruments, which are not secured or guaranteed by the institution itself, with maturity of at least one year. Covered deposits are excluded from the ratio calculation. MREL applies to all banks in the EU and, according to current regulations, refers to the total balance sheet volume. MREL has been implemented into the Polish law by the Act on the Bank Guarantee Fund, Deposit Guarantee Scheme and Resolution ("BFG Act"). The date of MREL imposition and a potential transitional period will depend on the Bank Guarantee Fund's decisions made in the course of devising resolution plans for individual institutions.

5.2. mBank Group funding

The "One Bank" Strategy for 2012-2016 provided for optimisation of the Bank's balance sheet in terms of its profitability and structure by increasing the share of client deposits in funding, further diversification of the funding base, and a bigger share of high-yield assets. The "Mobile Bank" Strategy provides for the strengthening of the funding profile due to the increasing volume of covered bonds and transaction deposits and maintaining the loan-to-deposit ratio on the level of slightly above 100% every year.

The graph below presents the structure of mBank Group's sources of funding at the end of 2016.



Bond issued under the EMTN Programme

After the successful first eurobond issue in October 2012 and issue of CHF bonds in October 2013, mBank Group completed further issues under the EUR 3 billion EMTN Programme in 2014. In 2015, there were no issues under the EMTN Programme, whereas on October 12, 2015, bonds worth EUR 500 million were repaid. On September 21, 2016, mBank, through its foreign subsidiary mFinance France, completed the sixth issue of bonds with a nominal value of EUR 500 million, maturing in 2020.

The following table presents a summary of outstanding tranches:

Date of issue	Nominal value	Maturity date	Coupon
05.09.2013	CHF 200 M	08.10.2018	2.500%
06.12.2013	CZK 500 M	06.12.2018	2.320%
24.03.2014	EUR 500 M	01.04.2019	2.375%
20.11.2014	EUR 500 M	26.11.2021	2.000%
26.09.2016	EUR 500 M	26.09.2020	1.398%

mBank continues its efforts aimed to diversify the sources of funding and to ensure stable refinancing on attractive terms.

Activity on the covered bond market

mBank Hipoteczny (mBH) is one of three mortgage banks operating on the Polish market (the other two are Pekao Bank Hipoteczny and PKO Bank Hipoteczny) and the largest issuer of covered bonds with a 50.2% market share at the end of 2016.

Covered bond issues conducted by mBank Hipoteczny constitute an important part of mBank Group's funding strategy. The scale of mBH's issuing activity in 2016 and the parameters of individual issues mark a significant change in the policy of the Bank, whose main function is to raise funding and refinance long-term mortgage loans through covered bond issues. The main focus is on narrowing the maturity gap between assets and liabilities, reducing the currency gap, and cutting the cost of new funding.

mBank Hipoteczny placed eight issues of mortgage covered bonds in the total nominal amount of approximately PLN 1.6 billion as of December 31, 2016, including two private placements in the amount of approximately PLN 710 million.

The four issues denominated in the Polish currency were worth PLN 850 million. What is important in this context is that two out of the four issues in PLN were the first fixed interest transactions in the modern history of Polish mortgage banking. The four issues conducted in EUR were worth EUR 168 million, out of which two series (HPE14 and HPE15) had maturities of 10 years.

The total value of the mortgage covered bonds of the Bank that can be publicly traded stood at approximately PLN 4.6 billion at the end of 2016, which (according to the Bank's estimates) accounts for 50.2% of the Polish mortgage covered bond market.

At the end of 2016, the Bank had no liabilities on account of public covered bonds. It does not plan to conduct any issues of such instruments either. Covered bonds issued by mBank Hipoteczny are characterised by low investment risk, which is a result of the statutory obligation to apply complex security mechanisms while issuing and trading in such instruments. This has been proven by the ratings of the Bank's mortgage covered bonds assigned by Fitch Ratings Ltd. On July 1, 2016, the rating of mortgage covered bonds was upgraded from BBB+ to A.

A summary of mBH activity in 2016 is presented in the following table.

Volume	Currency	Date of issue	Maturity	Tenor (in years)	Coupon
300 M	PLN	09.03.2016	05.03.2021	5.0	WIBOR 3M + 120 bps
50 M	EUR	23.03.2016	21.06.2021	5.2	EURIBOR 3M + 87 bps
50 M	PLN	28.04.2016	28.04.2020	4.0	fixed (2.91%)
100 M	PLN	11.05.2016	28.04.2020	4.0	fixed (2.91%)
70 M*	EUR	19.08.2016	28.08.2019	3.0	WIBOR 3M + 77 bps
13 M	EUR	28.09.2016	20.09.2026	10.0	fixed (1.18%)
35 M	EUR	26.10.2016	20.09.2026	9.9	fixed (1.183%)
400 M*	PLN	15.12.2016	25.07.2018	1.6	EURIBOR 3M + 136 bps

* Private placement.

Legislative changes concerning covered bonds and mortgage banks

The amended Act on Covered Bonds and Mortgage Banks and Certain Other Acts entered into force on January 1, 2016. The new law aims at improving the security of investments in covered bonds and the protection offered to covered bond holders, as well as increasing the market demand and supply.

The amendment outlines the bankruptcy process of mortgage banks and sets out detailed rules of satisfying claims under covered bonds and using assets entered into the collateral register. In accordance with the amended act, each covered bond creditor will have the same rights to a separate pool of bankruptcy assets. Moreover, the legislator envisaged also a *soft bullet* mechanism (the maturity of all outstanding covered bonds is extended by twelve months, provided that coupon payments are continued on a regular basis) and a *conditional pass through* mechanism (partial repayments of covered bonds are made in relation to

inflows from the cover assets) triggered by a shortage of collateral in the register. The clarification of the rules of satisfying creditors' claims under covered bonds issued by a bankrupt bank will largely increase the safety of investors and the certainty of trading.

Under the new law mortgage banks are subject to the requirement to hold statutory over-collateralisation of covered bonds equal to at least 10% of the value of issue and to hold a liquidity buffer necessary to cover interest on covered bonds for a period of 6 months. In accordance with the amended regulations, the value of issued covered bonds will be increased to 80% of the mortgage lending value of property for retail mortgage loans, up from the previous cap of 60% (which remains in force for commercial mortgage loans), which will allow banks to increase the value of their mortgage bond issues.

In addition, covered bonds became more attractive to investors, in particular foreign investors, thanks to the amended tax regulations under which interest on covered bonds is exempted from taxation at source. In turn, the amendments to the Act on Organisation and Operation of Pension Funds and the Act on Co-operative Savings and Loan Associations will expand the opportunities for open-end pension funds and co-operative savings and loan associations to invest in covered bonds.

The amendments improved ratings of covered bonds, which resulted in upgrading the rating of covered bonds assigned by Fitch Ratings, which on July 1, 2016 upgraded the rating of mortgage covered bonds issued by mBank Hipoteczny from BBB+ to A, thus reducing the cost of refinancing mortgage banks' operations.

Regulation (EU) No 596/2014 of the European Parliament and of the Council on market abuse (market abuse regulation), imposing on issuers, including mortgage banks, additional requirements relating to disclosure of inside information, took effect on July 3, 2016.

Amendments to the Act on the Bank Guarantee Fund came into force on October 8. The amended Act introduces the Bank Recovery and Resolution Directive (BRRD) and the Deposit Guarantee Schemes Directive (DGSD) to the Polish legal framework. Under the amended Act, mortgage banks are not allowed to receive deposits and other guaranteed funds. In accordance with the Act, covered bonds and maintenance of eligible liabilities are excluded from the scope of the bail-in tool. BFG is working on the final assumptions of the resolution procedures relating to mortgage banks.

6. Business activity in 2016

6.1. Key projects and innovations of mBank Group in 2016

Cooperation with Orange

[G4-4] It has already been two years since the joint-venture of mBank and Orange, Poland's leading landline telephone, mobile, Internet and data transfer provider, called Orange Finanse, was launched.



Orange Finanse
produkty bankowe dostarcza mBank

At the end of 2016, the number of Orange Finanse accounts reached 330 thousand, including approximately 100 thousand opened in 2016 alone. Orange Finanse became one of mBank's key acquisition channels.

2016 was a period of changes in the product offer supported by marketing campaigns promoting the Orange Finanse brand among the existing and prospective clients of Orange. The key component of the new offer is the option for active users of the Bank's services to lower their monthly phone bills in a period of up to 24 months and to open a free account (under no extra conditions) with a payment card, bank transfers and withdrawals from all ATMs free of charge in Poland. The offer is addressed to Orange subscribers, and since November 2016 it has also been available to those who buy Orange prepaid top-ups.

In 2016, Orange Finanse was enhanced with new interesting functionalities in the mobile application and online banking. A dedicated version of Orange Finanse for Windows Phone was released. iOS users can now log into the application with a fingerprint. By clicking a dedicated button in the mobile application, the users of all platforms can now quickly get in touch with the Bank's contact centre, a one-of-a-kind solution on the market. It is also worth mentioning that new deposits for new funds and the option to pay bills using the Direct Debit in on-line banking were introduced. Orange Finanse clients were also given the opportunity to apply for child benefits under the Family 500+ Programme and to make transfers using telephone numbers within the BLIK system. The offer was also expanded with the Payment Assistant, which is a unique solution on the Polish market, sending text messages reminding clients of upcoming transfers, and with 3D secure, a service ensuring security of online payments. Moreover, the website www.orangefinans.pl now offers account comparison tools, which allow visitors to compare accounts offered by various banks, and a calculator of exact costs of a cash loan in Orange Finanse.

A new, more comprehensive credit offer was introduced in 2016, as well. The existing clients of Orange Finanse can now take out cash loans of up to PLN 150 thousand in all Orange stores. In addition, the loans are also available to clients who do not want to open personal accounts. In June, a new special offer was launched in Orange stores. New clients were given the option to buy holiday gadgets for PLN 1 with contactless payments or BLIK.

H2 2016 was marked with further efforts to enhance selling competences of Orange stores' employees. Tests of new selling scenarios and client communication methods were conducted and a series of training sessions was implemented to broaden the knowledge on Orange Finanse products. In order to optimise campaigns addressed to new and existing clients of Orange Finanse, a number of measures were taken in 2016, i.e. new educational campaigns on online banking and mobile application were implemented, a regular e-mail newsletter was launched and effectiveness of acquisition activities was increased.

Plans for the future aim at developing the deposit and credit offer. This includes addressing the Orange Finanse offer to clients of Orange fixed-line services. Moreover, constant efforts are taken to make the latest technology of mobile payments based on Android Pay available to clients. Further measures aimed at improving selling competences of Orange Polska stores' employees are to be taken as well.

In September, Orange Finanse ranked second in the mobile banking category of the Newsweek's Friendly Bank ranking (mBank ranked first). This means advantage over competition in terms of easy navigation in mobile application, effective channels of communication with the Bank and services and functionalities available in the application.

Program ALM (Asset and Liability Management)

At the beginning of February 2015, the Bank launched the ALM Project. Its aim is to consolidate the systems of interest rate risk, market risk and liquidity risk, the funds transfer pricing system and the Bank's Treasury

system into an integrated ALM System. As a result, the Bank will improve the quality and effectiveness of balance sheet and net interest income management processes. Through working on the implementation of the ALM System, the Bank strives to eliminate redundant systems and processes for collecting and processing data, reporting processes and analytical tools, which will translate into the improvement of the Bank's cost-efficiency. In addition to the above objectives, the system is meant to automate the processes of management of Treasury and Risk areas, assets and liabilities, controlling and finance by collecting and storing complete input data processed by a complex calculation engine. It will make it possible to create consistent simulations, analyses and reports to be distributed to various stakeholders.

In 2016, an integrated data layer together with a module supporting the liquidity risk management process was made available within the project. The following project priorities are planned for the next year: construction of further modules, including the FTP module and a module supporting the interest rate management process.

Integration of Dom Maklerski mBanku and mWealth Management within the Group's structure

[G4-13] In Q4 2015, the management boards of mBank and Dom Maklerski mBanku and mWealth Management signed the division plans marking the first stage of the planned integration of the companies within the Group's structure.

In May 2016 the integration of the brokerage operations into an expanded brokerage bureau of mBank was completed. For the purpose of the integration process, the subsidiaries mDM and mWM were divided.



The division of mDM was effected under Article 529 para.1 item 1 of the Code of Commercial Partnerships and Companies and included a transfer of the organised part of mDM's enterprise connected with the provision of brokerage services to mBank and a transfer of the organised part of mDM's enterprise connected with servicing and rendering of human resources and payroll services to mCentrum Operacji Sp. z o.o. The division of mWM was effected under Article 529 para.1 item 1 of the Code of Commercial Partnerships and Companies and included a transfer of the organised part of mWM's enterprise connected with the provision of brokerage services and the remaining operations not constituting the operations of the Real Estate Market and Alternative Investments Bureau to mBank and a transfer of the organised part of mWM's enterprise connected with advisory and agency services in the scope of purchasing and investing in real estate and other alternative investments for the benefit of natural persons and real estate market analyses to BRE Property Partner Sp. z o.o. (non-consolidated subsidiary). On May 20, 2016 mDM and mWM were struck off the National Court Register.

The division ultimately resulted in integration of the brokerage operations of mBank, Dom Maklerski mBanku and mWealth Management in an expanded brokerage bureau of mBank. By bringing the brokerage operations under one roof, mBank Group is able to offer an optimum portfolio of brokerage services to all its client groups, both individuals and institutions. Integration will allow the Bank to better use its resources and potential, thus giving the brokerage services of mBank Group a greater competitive advantage.

Changes in the Group's funding structure

Issue of covered bonds

mBank in cooperation with mBank Hipoteczny pursues a strategy designed to issue covered bonds secured with liabilities backed by mortgage loans, allowing for the narrowing of the maturity gap between assets and liabilities and cutting the cost of new funding.

In 2016 mBank Hipoteczny issued covered bonds worth in total PLN 850 million and EUR 168 million, with maturities ranging from 4 to 10 years. The issues in zloty placed in April and May 2016 were the first issues of covered bonds bearing interest at a fixed rate in Poland.

The following table presents the issues in 2016.

Volume	Currency	Date of issue	Maturity	Tenor (in years)	Coupon
300 M	PLN	09.03.2016	05.03.2021	5.0	WIBOR 3M + 120 bps
50 M	EUR	23.03.2016	21.06.2021	5.2	EURIBOR 3M + 87 bps
50 M	PLN	28.04.2016	28.04.2020	4.0	fixed (2.91%)
100 M	PLN	11.05.2016	28.04.2020	4.0	fixed (2.91%)
70 M*	EUR	19.08.2016	28.08.2019	3.0	WIBOR 3M + 77 bps
13 M	EUR	28.09.2016	20.09.2026	10.0	fixed (1.18%)
35 M	EUR	26.10.2016	20.09.2026	9.9	fixed (1.183%)
400 M*	PLN	15.12.2016	25.07.2018	1.6	EURIBOR 3M + 136 bps

* Private placement.

Bonds issued under the EMTN Programme

In Q1 2016 mBank updated the Prospectus for EUR 3 billion Euro Medium Notes programme (EMTN). On March 23, 2016 the updated Prospectus was approved by Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg. The programme aims at issuing debt securities by mFinance France, a subsidiary of mBank, in many tranches and currencies, with diversified interest structure. In Q3 2016, mBank via its foreign unit mFinance France issued a sixth tranche of Eurobonds with a nominal value of EUR 500 million, maturing in 2020. This 4-year transaction was priced at 1.398% per annum.

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

The following table presents a summary of outstanding tranches.

Currency	Amount	Date of issue	Maturity date	Tenor (years)	Coupon
CHF	200 M	05.09.2013	08.10.2018	5.0	2.500%
CZK	500 M *	22.11.2013	06.12.2018	5.0	2.320%
EUR	500 M	24.03.2014	01.04.2019	5.0	2.375%
EUR	500 M	20.11.2014	26.11.2021	7.0	2.000%
EUR	500 M	21.09.2016	26.09.2020	4.0	1.398%

* Private placement.

Funding from European Investment Bank (EIB)

In June 2016, mBank obtained additional funding from the European Investment Bank - a loan of EUR 100 million with a maturity of 8 years. The total debt of mBank towards EIB in euros stood at EUR 946 million and in American dollars at USD 3,387 million on December 31, 2016.

Credit lines from EIB are intended to finance projects implemented by micro, small and medium-sized enterprises with less than 250 employees and to finance projects implemented by companies employing at least 250 FTE, but not exceeding 3 000 employees (i.e. mid-caps).

Bilateral agreement with Industrial and Commercial Bank of China

In May 2016, mBank signed an agreement with Industrial and Commercial Bank of China (Europe) under which ICBC granted mBank a 3-year loan in the amount of EUR 130 million. It is the first loan that has been granted by ICBC to a Polish bank.

Innovations at mBank Group and plans for 2017

In 2016 most of the capital expenditures were spent for technological development. It allowed extension of mBank's offer supplying clients with highly innovative and convenient transactional solutions.

Corporate Banking:

We delivered a brand new interface for corporate internet banking system (CompanyNet), redesigning customer process flow and allowing migration to electronic documentation. Thanks to simplified processes from customer end, transaction number growth is expected. Next quantifiable result of the project will be additional revenue stream from electronic banking fees. The ultimate benefit is creation of coherent internet and mobile ecosystem designed for corporate customer.

New CRM - the project aimed to simplify processes, optimize the ergonomics and redesign the GUI (Graphical User Interface) to be cross-platform compatible. These changes enable end-users (relationship managers and branch managers) to exchange information in a more efficient and mobile way. The goal was to deliver a brand new user interface for corporate CRM system to enable mobile sales management. Ultimately this will lead to sales increase and speed up internal sales processes.

Retail Banking:

Further development of mBank's mobile banking application: the aim of this project was to move transactional features from Internet Banking to mobile scenarios (i.e. transactions planned, periodic payments, CRM features, card management). Moreover it delivered new features (i.e. push notifications, inbox, CVC mobile) and refreshed mobile apps by re-building their navigation, information architecture and look & feel as well as provided new tools for sales and communication within the app.

CRM 3.0 - project implemented the new CRM in WEB version enabled centralisation of applications used in sales activities. It resulted in extending client-content information supporting sales in Call Centre.

New Application System aiming at implementation of a new motion system. The system is a platform for customers, which supports sales campaigns for the whole Bank.

Other areas:

Other investments focused on improvement of the IT security, enhancement of the IT infrastructure, integrating brokerage services within mBank Group and assets & liability management. Moreover, the One Network project has been continued, enabling all customers groups to take advantage of an integrated branch network. 2 new Advisory Centers and 8 Light Branches were open during the year, 5 and 11, respectively, are scheduled for the next year.

As a result of investments spent in 2016 mBank is perceived as a financial institution which sets standards of modern banking. The main focus was not only the acquisition of new customers but also further expansion of cross-selling activities.

2017 Plan

In 2017 mBank is going to maintain its organic business growth as well as further develop its specific business model (mobile, direct focus) – differentiating the bank from the competition.

mBank will seek to leverage on its proven ability to incubate high potential financial services and projects. Investments planned for 2017 will strengthen our outstanding digital competences and allow to attract a "digital company" valuation premium.

At the same time we are going to set the pace for the mobile banking revolution. Capital expenditures budgeted for 2017 should develop the "mobile (banking) first" approach within customer-friendly, omni-channel access to the bank. The ultimate goal is the intuitive, simple, hassle-free, friendly banking. e.g. enhancement of navigation, add-on tools to support financial analysis for the customer and extended on-line communication with the customer.

Spreading technological solutions and demographic processes change customers' behaviours. They are increasingly eager to use non-branch banking as their primary source of contact. The proper understanding of client's behaviors and preferences, mainly concerning the young generation of customers plays a key role in their acquisition and retention. Investments focused on this goal will allow responsible offering of solutions based on knowledge about clients and adjusting the right offer to the right client. Furthermore it will strengthen mBank's client acquisition capabilities, especially targeted at the young customers.

Efficiency should support mBank's profitability in times when returns from core banking products are under growing pressure. This will be supported by digitization and standardization of customer oriented as well as internal processes. mBank's efficiency will grow due to capital expenditures allowing rational resources management, including operational costs, capital and financing.

As a result of investments aiming at extension of mBank Group's offer we will supply our clients with highly innovative and most convenient transactional solutions and further improve mobile banking offer also for corporate customers.

And last but not least project planned for 2017 aims at building the new headquarter in Łódź. It was launched at the end of 2016, but the main expenditures are scheduled for 2017. The brand new headoffice will support and foster mBank's innovative culture by providing motivating environment for staff in order to remain standard setter in modern banking. The new office standard in accordance with modern trends will stimulate motivation and engagement in the team.

Awards and distinctions

Product offer and customer service quality

- In the Golden Banker ranking, mBank ranked second in the "Golden Bank" main category for the highest quality of service and won in the "Advertising Spot" and "Socially Responsible Bank" categories. Moreover, mBank received the "Best Practices in System Security" special prize.
- mBank won the Service Quality Star 2016 in the "Banks" category for the most recommended personal account in 2016. The Bank also received "The Best Bank for Companies" title by Forbes monthly magazine.
- During the Polish Card Gala, which took place in December, the MasterCard Me credit card won two awards in the following categories: the most innovative Polish card of 2016 and the best advertisement for a card product in Polish media in 2016.
- mKsięgowość, a unique service which combines accounting with a bank account and allows clients to keep accounting books smoothly, almost automatically and independently, was awarded in the international Innovation Awards contest organised by Efma together with Accenture. Victory in the competition is determined by votes of financiers from 88 Efma countries.
- mBank in the Czech Republic received three awards, one golden and two silver, in the prestigious "Zlatá koruna" competition and voting. mKonto Business won in the entrepreneurs category (first prize), mKonto in the audience category (second prize) and the transaction service in the on-line application category (second prize).

Mobile banking

- In the fifteenth edition of the "Newsweek's Friendly Bank" ranking, mBank ranked top in the mobile banking category. The mobile application "Orange Finanse", a project implemented by mBank in cooperation with its strategic partner, Orange Polska, ranked second in the mobile banking category.
- In the Mobile Trends Awards competition, mBank's mobile application won the first prize in two categories: the Mobile Banking category (jury's verdict) and the Mobile Trends Awards special prize category (votes cast by Internet users). Mobile mTransfer also won two awards and was ranked first in the company supporting popularisation of mobile techniques and technologies category (jury's verdict) and second in the Mobile Trends Awards special prize category (votes cast by Internet users).

Private banking

- For the eight time, Private Banking of mBank was hailed as the best in Poland by Euromoney Magazine, a British financial magazine. mBank was also appreciated in six competition sub-categories, among others, for the best specialist services for the most affluent clients, asset management and intergenerational wealth transfer.

■ For the fifth time in a row, Private Banking of mBank received the highest, Five-Star distinction awarded every year by Forbes magazine. The authors of the ranking appreciated the bank for setting the standards of private banking in Poland, as well as for its broad, customized offer and development of mobile banking.

■ mBank's private banking has yet again been recognised as the best in Poland by the prestigious magazines *PWM* and *The Banker*.

Brokerage activity

■ In May 2016, active participants of the capital market were granted the awards of the WSE, BondSpot and KDPW for 2015. Dom Maklerski mBanku won awards for the highest total value of IPOs on the WSE organised in 2015 and the highest value of trading in non-treasury bonds on all markets listed on Catalyst and the highest share of the market maker in trading in shares on the main floor. Furthermore, mBank was awarded by the WSE Catalyst in the "highest value of non-treasury debt instruments listed on Catalyst in 2015" category and received KDPW's award for the largest volume and highest value of OTC transactions cleared at KDPW in 2015 and the highest share of the market maker in trading in shares on the main floor.

Other awards

■ mBank was named the Best Trade Finance Bank in Poland by Global Finance. The following areas were assessed: trade finance volumes, comprehensiveness and innovativeness of the product offer, transaction competence and experience, as well as the scale of pursued business activity.

■ Trade & Forfaiting Review (TFR), the leading industry information service uniting world's biggest banks which offer Trade Finance products, hailed mBank as the best bank in Poland operating in this area.

■ mBank also won the "Diamonds of Private Equity" prize in the Bank of the Year category (Diamonds were awarded by Executive Club).

■ mBank triumphed in the innovation category in the Banking Stars competition organised by *Dziennik Gazeta Prawna* daily and partnered by PwC. Furthermore, mBank also took the second place for overall performance in the same competition.

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

■ Factors Chain International, the biggest industry organisation, hailed mFactoring as the best company in terms of the customer service quality in import factoring.

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

6.2. Financial position of mBank Group in 2016

Profit and loss account of mBank Group

[G4-9] mBank Group reported a profit before tax of PLN 1,637.7 million in 2016, compared with PLN 1,617.9 million in 2015 (+PLN 19.8 million, i.e., +1.2%). Net profit attributable to the shareholders of mBank reached PLN 1,219.3 million, compared with PLN 1,301.2 million year on year (- PLN 81.9 million, i.e. -6.3%). Income tax expense amounted to PLN 415.5 million in 2016 compared to PLN 313.7 million in the previous year (+32.4%).

Summary of financial results of mBank Group is presented below.

PLN M	2015	2016	Change in PLN M	Change in %
Total income	4,093.4	4,295.4	202.0	4.9%
Net impairment losses on loans and advances	-421.2	-365.4	55.8	-13.2%
Overhead costs and amortization	-2,050.6	-1,963.3	87.3	-4.3%
Profit before income tax	1,617.9	1,637.7	19.8	1.2%
Net profit attributable to:	1,301.2	1,219.3	-81.9	-6.3%
ROA net	1.04%	0.95%		
ROE gross	14.7%	13.6%		
ROE net	11.8%	10.1%		
Cost / Income ratio	50.1%	45.7%		
Net interest margin	2.1%	2.3%		
Common Equity Tier 1 ratio	14.3%	17.3%		
Total capital ratio	17.3%	20.3%		
Leverage ratio	7.7%	8.2%		

The main drivers of the financial results of mBank Group in 2016 included:

- **Increase in total income** which stood at PLN 4,295.4 million. The improvement was recorded in net interest income and net fee and commission income. In 2016, mBank Group booked gains on the takeover of Visa Europe Limited by Visa Inc., whereas the income in 2015 was increased by the profit on the sale of BRE Ubezpieczenia TUiR and signing of agreements accompanying the sale with AXA Group companies and the profit on the sale of shares of PZU S.A.
- **Decrease in operating expenses** (including amortisation) to PLN 1,963.3 million compared with 2015. In 2016, contributions and transfer to the Bank Guarantee Fund were lower - in 2015, mBank Group reported one-off costs related to payments of guaranteed funds to the deposit holders of Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin. Additionally, mBank made contributions to the Borrowers Support Fund in 2015.
- **Increase in efficiency** measured by the cost / income ratio which stood at 45.7% in 2016, compared with 50.1% in 2015.
- **Lower cost of risk** at 46 bps, compared with 54 bps in 2015.
- **Continued organic growth and business expansion** as demonstrated by:

- Increase in the individual client base in Poland, the Czech Republic and Slovakia, and clients of Orange Finance, to 5,348 thousand (+400.5 thousand clients compared with the end of 2015).
- Increase in the number of corporate clients to 20,940 clients (+1,378 clients, compared with the end of 2015).

Net loans and advances went up by 4.2%, compared with the end of 2015, while deposits grew by 12.7%. Consequently, the loan-to-deposit ratio decreased from 96.7% at 2015 year-end to 89.4%.

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

- Gross ROE of 13.6% (14.7% in 2015).
- Net ROE of 10.1% (11.8% in 2015).

mBank Group's capital ratios increased year on year. Total capital ratio stood at 20.3% at the end of December 2016, compared with 17.3% in the previous year. Common Equity Tier 1 capital ratio reached 17.3%, compared with 14.3% at the end of 2015. Leverage ratio amounted to 8.2% at the end of December 2016, compared with 7.7% in 2015.

Income of mBank Group

Total income generated by mBank Group was PLN 4,295.4 million in 2016, compared with PLN 4,093.3 million in 2015, which represents an increase of PLN 202.0 million, i.e. 4.9%. The increase was mainly driven by improved net interest income and net fee and commission income.

PLN M	2015	2016	Change in PLN M	Change in %
Interest income	3,660.5	3,872.9	212.4	5.8%
Interest expense	-1,149.1	-1,040.0	109.1	-9.5%
Net interest income	2,511.4	2,832.9	321.5	12.8%
Fee and commission income	1,433.9	1,550.8	116.9	8.2%
Fee and commission expense	-536.8	-644.4	-107.6	20.1%
Net fee and commission income	897.2	906.4	9.3	1.0%
Dividend income	17.5	3.3	-14.2	-81.0%
Net trading income	292.9	244.6	-48.3	-16.5%
Gains less losses from investment securities, investments in subsidiaries and associates	314.4	261.3	-53.1	-16.9%
The share in the profits (losses) of joint ventures	-0.1	-0.1	0.0	-24.1%
Other operating income	245.8	243.8	-2.1	-0.9%
Other operating expenses	-185.8	-196.8	-11.0	5.9%
Total income	4,093.3	4,295.4	202.0	4.9%

Similar to 2015, the net interest income remained mBank Group's largest income source in 2016 (66.0%). It reached PLN 2,832.9 million, compared with PLN 2,511.4 million in 2015 (+12.8%). High net interest income was mainly driven by an increase in interest income combined with a simultaneous cost reduction.

Net interest margin, calculated as a relation between net interest income and average interest-earning assets, stood at 2.3%, compared with 2.1% in 2015.

Average interest rate (mBank)										
		Retail Banking (Poland and foreign branches)			Corporate and Investment Banking			mBank total		
		2014	2015	2016	2014	2015	2016	2014	2015	2016
Deposits	PLN	1.60%	1.10%	0.93%	1.90%	1.30%	1.00%	1.70%	1.20%	0.95%
	FX	0.50%	0.30%	0.24%	0.20%	0.10%	0.11%	0.40%	0.20%	0.19%
Total loans	PLN	8.10%	6.60%	6.47%	3.90%	3.30%	3.13%	5.80%	5.00%	4.89%
	FX	2.10%	1.40%	1.42%	2.30%	2.40%	2.17%	2.10%	1.60%	1.56%
Mortgage loans	PLN	4.30%	3.60%	3.60%						
	FX	1.90%	1.30%	1.26%						

Interest income grew by PLN 212.4 million, i.e. 5.8% year on year, and amounted to PLN 3,872.9 million. Similar to 2015, loans and advances remained the main source of the Group's interest income (71.1%). Interest income from loans and advances increased by PLN 168.6 million, i.e. 6.5% year on year, and reached PLN 2,753.2 million. The growth resulted mainly from the change in the structure of the retail loans portfolio – increasing share of high margin products, with a simultaneous decrease in the share of mortgage loans in foreign currencies characterised by lower margin. In 2016, interest income from investment securities fell by PLN 42.7 million, i.e. 5.7% due to lower average yields on T-bonds in 2016. Interest income from debt securities held for trading increased by PLN 25.9 million, i.e. 50.6%, driven by a considerable (almost seven-fold) increase in the volume of these securities in 2016. Interest income on derivatives classified into banking book amounted to PLN 196.7 million, i.e., rose by 24.9% compared with 2015, due to increased volumes of such transactions. At the same time, there was an increase in interest income concluded under the cash flow hedge accounting (+ PLN 13.3 million, i.e. +28.6%) and from cash and short-term deposits (+PLN 7.4 million, i.e., +14.9%).

PLN M	2015	2016	Change in PLN M	Change in %
Loans and advances including the unwind of the impairment provision discount	2,584.5	2,753.2	168.6	6.5%
Investment securities	750.7	708.0	-42.7	-5.7%
Cash and short-term placements	49.9	57.3	7.4	14.9%
Trading debt securities	51.1	77.0	25.9	50.6%
Interest income on derivatives classified into banking book	157.5	196.7	39.3	24.9%
Interest income on derivatives concluded under the fair value hedge	46.6	59.9	13.3	28.6%
Interest income on derivatives concluded under the cash flow hedge	14.2	15.9	1.7	12.3%
Other	6.0	4.9	-1.1	-18.2%
Total interest income	3,660.5	3,872.9	212.4	5.8%

Decrease in interest expenses in 2016 resulted mainly from lower interest expense arising from amounts due to customers (a decrease by PLN 57.4 million, i.e. 8.2%) due to lower interest rates on deposits and a considerable inflow of cash into current accounts of clients. Interest expense arising from amounts due to banks decreased by PLN 20.2 million, i.e., 21.2%, mainly due to the repayment of loans granted by Commerzbank Group totalling CHF 800 million. 2016 saw a decrease in interest expense arising from issue of debt securities by PLN 19.4 million, i.e. 7.3% as a result of decrease in the cost of the EMTN programme (EMTN tranche in the amount of EUR 500 million was redeemed in October 2015) and costs of debt issuance

on the Polish market. At the same time, interest expense arising from subordinated debt also decreased (by PLN 10.3 million, i.e., 13%) due to repayment of the loan in the amount of CHF 200 million in June 2015.

Net fee and commission income, accounting for 21.1% of mBank Group's total income, increased slightly year on year. It reached PLN 906.4 million in the analysed period, representing an increase of PLN 9.3 million, i.e., 1.0%.

PLN M	2015	2016	Change in PLN M	Change in %
Payment cards-related fees	342.3	361.9	19.6	5.7%
Credit-related fees and commissions	287.3	308.5	21.2	7.4%
Commissions for agency service regarding sale of insurance products of external financial entities	149.8	166.8	17.0	11.4%
Fees from brokerage activity and debt securities issue	123.0	142.0	19.1	15.5%
Commissions from bank accounts	165.7	170.1	4.4	2.6%
Commissions from money transfers	102.8	110.6	7.7	7.5%
Commissions due to guarantees granted and trade finance commissions	49.0	58.8	9.8	20.1%
Commissions for agency service regarding sale of products of external financial entities	113.5	115.4	1.9	1.7%
Commissions on trust and fiduciary activities	22.3	25.0	2.7	12.0%
Fees from portfolio management services and other management-related fees	14.9	13.5	-1.4	-9.3%
Fees from cash services	39.7	51.1	11.4	28.7%
Other	23.6	27.1	3.5	14.7%
Total fee and commission income	1,433.9	1,550.8	116.9	8.2%

Commission income went up by PLN 116.9 million, i.e., 8.2% year on year. Payment cards-related fees rose by PLN 19.6 million, i.e. 5.7% year on year. The increase was stimulated by a higher number of clients and issued payment cards as well as by the number and volume of transactions (value of non-cash transactions grew in 2016 by 21.2% year on year and the number of transactions rose by 27.8%). Credit-related fees and commissions surged by PLN 21.2 million, i.e., 7.4% due to the increased sales of non-mortgage loans. Commissions for agency service regarding sale of insurance products of external financial entities were by 11.4% higher in 2016, compared with 2015 (+PLN 17.0 million). Fees from brokerage activity and debt securities issues grew by 15.5%. Commissions from bank accounts rose (by PLN 4.4 million, i.e. 2.6%) as a result of a growing client base. The growth in transactional banking and a higher number of transactions translated into an increase in commissions from money transfers (+7.5%). Similarly, income from fees for cash services reported an increase (+28.7%).

Fee and commission expense grew in 2016 by PLN 107.6 million, i.e. 20.1%. The highest growth was recorded in the payment cards-related fees and commissions paid to external entities for agency service regarding the sale of the Bank's products.

Dividend income amounted to PLN 3.3 million in 2016, compared with PLN 17.5 million in 2015. The decrease resulted from the payment of a dividend amounting to PLN 14.2 million by PZU S.A. in 2015, whereas the Bank did not hold any shares in this company in 2016.

Net trading income stood at PLN 244.6 million in 2016 and was lower by PLN 48.3 million (16.5%) year on year. The decrease in the net trading income was mainly driven by a negative other net trading income and result on hedge accounting (- PLN 25.8 million, compared with PLN 4.2 million year on year)

predominantly due to the valuation of interest rate derivatives. The foreign exchange result decreased by PLN 18.3 million (-6.3%) owing to the negative valuation of currency interest rate swaps (CIRS)

Gains less losses on investment securities in 2016 stood at PLN 261.3 million in 2016, compared with PLN 314.4 million in 2015. The settlement of Visa Europe Limited takeover by Visa Inc. amounting to PLN 251.7 million was posted in 2016. In 2015, mBank Group reported gains on the sale of BRE Ubezpieczenia TUiR and signing of agreements accompanying the sale with AXA Group companies amounting to PLN 194.3 million and on the sale of PZU S.A. shares totalling PLN 125.0 million.

Net other operating income (other operating income net of other operating expenses) amounted to PLN 46.9 million in 2016, which represented a decrease of PLN 13.1 million, i.e., 21.8% year on year. Net income from sale or liquidation of tangible assets, intangible assets, assets for sale and inventories generated primarily by mLocum increased by PLN 3.2 million (for more details on the results of mLocum see Chapter 6.6. "Subsidiaries of mBank Group"). In 2016, net income from insurance activities was not recorded following the sale of BRE Ubezpieczenia TUiR in 2015, while net income from insurance activities in 2015 included income generated in Q1 2015 amounting to PLN 23.9 million.

Costs of mBank Group operations

Total overhead costs of mBank Group (including amortisation) stood at PLN 1,963.3 million, representing a decrease by 4.3% year on year. The decrease was driven predominantly by one-off costs incurred in 2015.

PLN M	2015	2016	Change in PLN M	Change in %
Staff-related expenses	-854.8	-876.7	-21.9	2.6%
Material costs	-633.9	-671.3	-37.5	5.9%
Taxes and fees	-24.7	-22.8	1.9	-7.5%
Contributions and transfers to the Bank Guarantee Fund	-278.2	-161.7	116.4	-41.8%
Contributions to the Borrowers Support Fund	-52.1	0.0	52.1	-100.0%
Contributions to the Social Benefits Fund	-7.3	-7.1	0.3	-4.3%
Amortization	-199.6	-223.7	-24.0	12.0%
Total overhead costs and amortization	-2,050.6	-1,963.3	87.3	-4.3%
Cost / Income ratio	50.1%	45.7%	-	-
Employment (FTE)	6,540	6,528	-12 FTEs	-0.2%

In 2016 staff-related expenses went up by PLN 21.9 million, i.e. 2.6%. The change was driven by higher remuneration costs. The number of FTEs decreased from 6,540 at the end of 2015 to 6,528 FTEs at the end of 2016.

Material costs increased in the reported period by PLN 37.5 million, i.e. by 5.9%. mBank Group reported higher material costs in the IT area in 2016, among others due to the implementation of innovative mobile banking solutions.

The contribution to the Bank Guarantee Fund (BFG) paid by mBank Group decreased by PLN 116.4 million, compared with 2015. The reduction in the amount of charges to the BGF was driven predominantly by one-off costs incurred in 2015, which were related to a PLN 141.7 million payment of guaranteed funds to the deposit holders of Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin. In 2016, a PLN 10.9 million transfer was made to the Bank Guarantee Fund due to the bankruptcy of Bank Spółdzielczy w Nadarzynie (Cooperative Bank in Nadarzyn). In 2015 mBank also made a contribution to the Borrowers Support Fund in the amount of PLN 52.1 million.

Amortisation charges increased in 2016 due to higher amortisation of intangible assets.

Changes to the income and costs of mBank Group contributed to a decrease in the cost / income ratio which stood at 45.7% in 2016, compared with 50.1% in 2015.

Net impairment losses on loans and advances

Net impairment losses on loans and advances in mBank Group amounted to PLN 365.4 million in 2016, compared with PLN 421.2 million in 2015, which represents a decrease by PLN 55.8 million, i.e. 13.3%. The cost of risk stood at 46 bps in 2016, compared with 54 bps in 2015.

PLN M	2015	2016	Change in PLN M	Change in %
Retail Banking	224.3	284.9	-60.7	27.0%
Corporates and Financial Markets	178.5	78.2	-100.3	-56.2%
Other	18.4	2.3	-16.2	-87.7%
Total net impairment losses on loans and advances	421.2	365.4	-55.8	-13.3%

Net impairment losses on loans and advances in the Retail Banking amounted to PLN 284.9 million in 2016, compared with PLN 224.3 million in 2015. The increase was caused by the changing structure of the loan portfolio with the growing share of non-mortgage loans (unsecured loans) as well as depreciation of Polish zloty against Swiss franc and euro.

Net impairment losses on loans and advances in Corporates and Financial Markets stood at PLN 78.2 million in 2016, compared with PLN 178.5 million in 2015. The drop in provisions reported in 2016 was caused by a release of credit risk provisions related to the sale of non-performing receivables and payment of the loan insurance by KUKE (Export Credit Insurance Corporation).

Contribution of business lines and segments to the financial results

Data based on the internal management information of mBank Group.

Financial results of mBank Group's business lines

PLN M	2015	2016	Change in PLN m	Change in %	Share in profit before tax
Retail Banking	1,060.7	1,023.9	-36.8	-3.5%	62.5%
Corporate and Investment Banking	537.4	498.6	-38.8	-7.2%	30.4%
Financial Markets	80.2	90.9	10.7	13.3%	5.6%
Other	-60.4	24.3	84.8	-140.4%	1.5%
Profit before tax of mBank Group	1,617.9	1,637.7	19.9	1.2%	100.0%

The Retail Banking segment made the biggest contribution (62.5%) to the profit before tax of mBank Group. The contribution of Corporates and Financial Markets constituted 36.0% of the Group's profit before tax, including Corporate and Investment Banking (30.4%) and Financial Markets (5.6%).

6.3. Changes in the consolidated statement of financial position

Changes in assets of mBank Group

[G4-9] The assets of mBank Group increased by PLN 10,220.5 million, i.e. 8.3% in 2016. Total assets stood at PLN 133,743.5 million as at December 31, 2016.

The table below presents the change in the asset lines of mBank Group.

PLN M	2015	2016	Change in PLN M	Change in %
Cash and balances with Central Bank	5,938.1	9,164.3	3,226.1	54.3%
Loans and advances to banks	1,897.3	3,082.9	1,185.5	62.5%
Trading securities	557.5	3,800.6	3,243.1	581.7%
Derivative financial instruments	3,349.3	1,808.8	-1,540.5	-46.0%
Net loans and advances to customers	78,433.6	81,763.3	3,329.7	4.2%
Investment securities	30,737.0	31,393.4	656.4	2.1%
Intangible assets	519.1	582.7	63.6	12.3%
Tangible fixed assets	744.5	757.4	12.8	1.7%
Other assets	1,346.6	1,390.1	43.6	3.2%
Total assets	123,523.0	133,743.5	10,220.5	8.3%

Loans and advances to customers retained the largest share in the balance sheet of the Group at the end of 2016. The net volume of loans and advances to customers increased by PLN 3,329.7 million, i.e. 4.2% year on year. They represented 61.1% of the balance sheet total as at December 31, 2016, compared with 63.5% at the end of 2015.

PLN M	2015	2016	Change in PLN M	Change in %
Loans and advances to individuals	46,258.7	48,949.8	2,691.1	5.8%
Loans and advances to corporate entities	33,446.6	34,174.3	727.7	2.2%
Loans and advances to public sector	1,520.7	1,228.2	-292.5	-19.2%
Other receivables	183.4	228.5	45.1	24.6%
Total (gross) loans and advances to customers	81,409.4	84,580.8	3,171.4	3.9%
Provisions for loans and advances to customers (negative amount)	-2,975.9	-2,817.5	158.4	-5.3%
Total (net) loans and advances to customers	78,433.5	81,763.3	3,329.7	4.2%

Gross loans and advances to retail customers increased by PLN 2,691.1 million, i.e. 5.8%. The volume of mortgage and housing loans increased slightly by PLN 1,184.9 million, i.e. 2.7%, mainly due to depreciation of the zloty against the Swiss franc and systematic repayments of mortgage loans, while sales decreased by 36.1% and reached PLN 2,879.4 million in 2016 compared with 4,503.0 million in 2015. In addition, in 2016, the Group granted PLN 6,128.9 million worth of non-mortgage loans, representing a 25.9% increase in sales year on year. Net of the FX effect, loans and advances to retail customers grew by 3.3% in 2016.

Gross loans and advances to corporate customers increased by PLN 727.7 million, i.e. 2.2% compared with the end of 2015. Net of reverse repo/buy sell back transactions and the FX effect, loans and advances to corporate customers increased by 3.6% against the end of 2015.

The volume of gross loans and advances to the public sector decreased by PLN 292.5 million, i.e. 19.2%.

Investment securities constituted mBank Group's second largest asset category (23.5%). In 2016, their value increased by PLN 656.4 million, i.e. 2.1%. The government bond portfolio increased by 27.0% year on year, while the portfolio of debt instruments issued by the central bank decreased by 75.6%.

The balance of trading securities went up by PLN 3,243.1 million in 2016 primarily as a result of extending the treasury bonds portfolio.

Changes in liabilities and equity of mBank Group

The table below presents changes in liabilities and equity of the Group in 2016:

PLN M	2015	2016	Change in PLN M	Change in %
Amounts due to other banks	12,019.3	8,486.8	-3,532.6	-29.4%
Derivative financial instruments and other trading liabilities	3,173.6	1,599.3	-1,574.4	-49.6%
Amounts due to customers	81,140.9	91,418.0	10,277.1	12.7%
Debt securities in issue	8,946.2	12,660.4	3,714.2	41.5%
Subordinated liabilities	3,827.3	3,943.3	116.0	3.0%
Other liabilities	2,140.7	2,584.5	443.9	20.7%
Total Liabilities	111,248.0	120,692.3	9,444.3	8.5%
Total Equity	12,275.0	13,051.2	776.2	6.3%
Total Liabilities and Equity	123,523.0	133,743.5	10,220.5	8.3%

Amounts due to customers remained the dominant funding source of mBank Group. Their share in the Group's funding structure grows systematically. They accounted for 68.4% of the Group's liabilities and equity at the end of 2016, compared with 65.7% at the end of 2015.

PLN M	2015	2016	Change in PLN M	Change in %
Individual customers	46,117.1	53,494.9	7,377.9	16.0%
Corporate customers	34,423.9	37,383.5	2,959.6	8.6%
Public sector customers	599.9	539.6	-60.3	-10.1%
Total amounts due to customers	81,140.9	91,418.0	10,277.1	12.7%

Amounts due to customers increased by PLN 10,277.1 million, i.e. 12.7% to PLN 91,418.0 million in 2016.

The growth was driven by an increase of amounts due to retail clients which were higher by PLN 7,377.9 million, i.e. 16.0% compared with the end of 2015. Current accounts grew by 17.2%. Term deposits increased by 13.1%.

Throughout the year, amounts due to corporate customers increased by PLN 2,959.6 million, i.e. 8.6%. The growth was mainly driven by increased balances of current accounts (+31.3%), loans and advances received (+15.6%) and repo/sell buy back transactions (+46.3%). The volume of term deposits decreased

by 27.0% in the analysed period. Excluding repo transactions, amounts due to corporate clients rose by 7.4% compared with the end of 2015.

Amounts due to other banks decreased by PLN 3,532.6 million, i.e. 29.4% to PLN 8,486.8 million compared with the end of 2015. A significant decline was observed in loans and advances received. In 2016, mBank took out loans in EUR totalling EUR 230 million and repaid a loan of CHF 800 million. The value of deposits placed by other banks with mBank, term deposits and repo transactions also declined.

The share of debt securities in issue in mBank Group's financing structure increased from 7.2% at the end of 2015 to 9.5% at the end of 2016. Their value grew by PLN 3,714.2 million, i.e. 41.5% year on year. This change was driven mainly by the issue of covered bonds by mBank Hipoteczny worth PLN 850 million and EUR 168 million and depreciation of the zloty against the euro and the Swiss franc.

Subordinated liabilities rose by 3.0% in 2016, mainly due to changes in the Swiss franc/zloty exchange rate, as the subordinated liabilities to Commerzbank are denominated in the Swiss franc.

In 2016, equity grew by PLN 776.2 million, i.e. 6.3% as a result of an increase in retained profits, while its share in total liabilities and equity of mBank Group accounted for 9.8% at the end of 2016 (9.9% as at December 31, 2015.)

6.4. Retail Banking



[G4-4, G4-8, G4-9, FS6] mBank's Retail Banking segment serves 5,348 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 154* 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. In 2013, the Bank launched a modern, user-friendly online platform (New mBank) designed from scratch, which provides more than 200 new functionalities, solutions and improvements.

Key financial data (at the end of 2016):

Share in pre-tax profit	Pre-tax profit	Total income
62.5% ↓	PLN 1,023.9 M ↑	PLN 2,596.0 M ↑

Key business data:

(thousand)	2012	2013	2014	2015	2016
Customers	4,134	4,229	4,551	4,947	5,348
Distribution network (pcs.)	262	261	281	302	316
Loans to retail clients, incl.:	37,704	38,308	41,560	46,259	48,950
Mortgage loans	30,996	30,818	32,892	36,670	37,719
Non-mortgage loans	6,708	7,489	8,668	9,588	11,231
Deposits of retail clients	33,234	34,203	39,285	46,117	53,495

Key highlights

- Increase in the retail customer base by more than 400 thousand year on year.
- More than 1.3 million of mobile application's users, up by 21.9% year on year.
- Sales of PLN 6.1 billion worth of non-mortgage loans, up by 25.9% year on year.
- Increase of retail deposits by 16.0%, mainly driven by growing current accounts (+17.2% year on year).
- Increase of the value of payment card transactions carried out by mBank by 21.2%; increase in the number of card transactions by 27.8% year on year.
- Increase of core income to PLN 2,596.0 million, i.e. up by 9.7% year on year.

mBank's mobile application ranked first, mobile mTransfer ranked second.	mBank's mobile application ranked first in the "Newsweek's Friendly Bank" ranking.	mBank won the Service Quality Star 2016 in the "Banks" category for the most recommended personal account in 2016.

* Including 138 in Poland Polska and 16 in Czech Republic and Slovakia; excluding mFinanse (43) and mKiosks (119).

Summary of Retail Banking segment financial results

The Retail Banking segment generated a profit before tax of PLN 1,023.9 million in 2016, which represents a decrease by PLN 36.8 million, i.e. 3.5% year on year.

PLN M	2015	2016	Change in PLN M	Change in %
Net interest income	1,565.6	1,762.4	196.9	12.6%
Net fee and commission income	507.3	517.7	10.4	2.0%
Dividend income	0.1	0.0	-0.1	-93.5%
Net trading income	95.7	100.3	4.6	4.8%
Gains less losses from investment securities, investments in subsidiaries and associates	194.0	230.4	36.4	18.8%
Net other operating income	3.3	-14.8	-18.2	-542.7%
Total income	2,366.0	2,596.0	230.0	9.7%
Net impairment losses on loans and advances	-224.3	-285.0	-60.7	27.0%
Overhead costs and amortization	-1,077.4	-1,108.6	-31.2	2.9%
Taxes on Group's balance sheet items	-3.6	-178.5	-174.9	49.6x
Profit before tax of Retail Banking	1,060.7	1,023.9	-36.8	-3.5%

The profit before tax of Retail Banking in 2016 was driven by the following factors:

- **Increase in total income** by PLN 230.0 million, i.e. 9.7% year on year to PLN 2,596.0 million. Increased income from the core business: net interest income went up by PLN 196.9 million (due to the change in the structure of credit portfolio – increasing share of high margin products), and net fee and commission income was higher by PLN 10.4 million (rise in the number of payment cards issued, the number and volume of transactions as well as in lending and insurance commissions). Moreover, the increase in total income was stimulated by a rise in gains less losses from investment securities, investments in subsidiaries and associates by PLN 36.4 million, driven by the booking of the settlement of the takeover of Visa Europe Limited by Visa Inc. (in 2015 the profit was posted due to the sale of BRE Ubezpieczenia TUiR and the signing of agreements accompanying the sale with AXA Group companies).
- **Increase in operating expenses (including amortisation)** by PLN 31.2 million, i.e. 2.9% year on year, driven mainly by the 20.4% growth in amortisation.
- **Increase in net impairment losses on loans and advances** by PLN 60.7 million, i.e. 27.0% year on year caused by a change in the structure of the retail loans portfolio with the rising share of non-mortgage loans (unsecured loans) and weaker zloty against the Swiss franc and the euro.
- **Tax on the Group's balance sheet items** at PLN 178.5 million.

Activity of the Retail Banking area (Bank)

thousand	31.12.2014	31.12.2015	31.12.2016	YoY change
Number of retail clients, including:	4,551.5	4,947.3	5,347.9	8.1%
Poland	3,789.4	4,127.7	4,455.3	7.9%
Foreign branches	762.1	819.7	892.6	8.9%
The Czech Republic	534.2	573.1	628.9	9.7%
Slovakia	227.9	246.5	263.7	7.0%
PLN M				
Loans to retail clients, including:	41,444.0	46,168.7	48,926.1	6.0%
Poland	38,526.0	42,344.7	44,646.4	5.4%
mortgage loans	30,540.1	33,473.4	34,112.7	1.9%
non-mortgage loans	7,985.9	8,871.3	10,533.7	18.7%
Foreign branches	2,917.9	3,824.0	4,279.7	11.9%
The Czech Republic	2,250.5	2,899.6	3,310.9	14.2%
Slovakia	667.5	924.4	968.8	4.8%
Deposits of retail clients, including:	38,999.4	45,645.4	53,662.8	17.6%
Poland	33,381.0	39,273.6	45,727.6	16.4%
Foreign branches	5,618.5	6,371.8	7,935.2	24.5%
The Czech Republic	3,788.6	4,488.0	5,630.5	25.5%
Slovakia	1,829.8	1,883.7	2,304.7	22.3%
Investment funds (Poland)	5,252.1	5,736.2	5,792.3	1.0%
thousand				
Credit cards, including	327.4	332.4	340.3	2.4%
Poland	296.9	303.6	309.4	1.9%
Foreign branches	30.6	28.8	30.9	7.0%
Debit cards, including:	3,032.2	3,242.7	3,438.4	6.0%
Poland	2,445.3	2,701.0	2,876.0	6.5%
Foreign branches	586.8	541.8	562.4	3.8%
Distribution network				
Advisory Centres within "One Network" Project	1	4	6	
Light branches within "One Network" Project	2	9	17	
mBank (former Multibank)	130	123	115	
mKiosks (incl. Partner Kiosks)	67	83	98	
mFinanse Financial Centres	46	47	43	
Czech Republic & Slovakia	35	36	37	

Product mix, acquisition and marketing

In 2016, the number of retail banking clients of mBank rose by 400.5 thousand, mainly thanks to active acquisition, focused marketing efforts, product mix development and effective cross-selling.

In 2016, mBank considerably simplified the offer of personal accounts and withdrew the following products: eKonto, eKonto mobilne, eKonto mobilne plus and mKonto Multi. They were replaced with the eKonto account in two versions: eKonto with a standard tariff and eKonto with a plus tariff. Both accounts include a mechanism releasing the client from a debit card fee in a situation when the client makes at least five cash-less transactions a month using the card.

mBank continues its marketing campaign based on a slogan: "Follow what you borrow", stressing clear lending rules and repayment security. The main aim of the campaign is to build awareness that mBank has an attractive credit offer and create an image of the bank boasting the simplest lending conditions. Measures taken within the Responsible Lending initiative are an inherent part of the campaign and communication, and a comprehensive credit guide, the one of its kind on the market, addressed to mBank's clients, "Credit ABC", is a crowning achievement of that action.

Moreover, in June 2016 mBank launched the third edition of the promotion encouraging clients to actively use mBank's mobile application (Mobile Clients Have It Better - 3rd edition).

In 2016, mBank cooperated with a key player on e-commerce market - PayU - in the scope of granting instalment loans for online shopping, reaching high sales of this product (an increase by approx. 170% of the value of granted loans).

The development of the area of cash and instalment loans focused also on the range of cross-selling initiatives, offering clients i.a.:

- the fully remote process of consolidation of loans from other banks;
- a possibility to increase funding under a cash loan in a quick and simple way;
- an option to split payments debiting their current and savings accounts into instalments.

The Bank made it possible for its retail clients to apply for child benefits under the Family 500+ Programme.

In 2017, the retail banking will take up challenges based on the use of the new sources of information about clients, such as e-public administration or social media.

Offer for small and medium-sized enterprises

In the area of small and medium-sized enterprises (SME), one of the main achievements in 2016 was the launch of mAccounting developed in cooperation between mBank and SuperKsięgowa (Extor S.A.). Thanks to the exchange of basic data between banking and accounting systems, SMEs receive benefits which so far have only been available to corporate clients, including automatic monitoring of payments, quick invoicing, simplified invoice payment, analysis of business partners, electronic settlement of tax returns and up-to-date tax data.

With the aim to acquire new clients, mBank incorporated a new promotion "Good start with mBank" into the offer of company accounts. When opening a company account, the client may also order a stamp, a card holder and business cards for his/her new business. This offer is available in mBank's outlets, and since August 2016 it has been offered via direct channels - on the Internet and in the call centre.

Moreover, in an attempt to broaden its offer for small and medium-sized enterprises, the Bank and Akademickie Inkubatory Przedsiębiorczości (Academic Business Incubators, owner of Business Link, an office network) launched a new promotion "mBusiness account plus office". All clients who decide to open company accounts will be offered free access to Business Link infrastructure for a period of 6 months. Business Link operates 11 business development hubs available round the clock, which makes it the largest such network in Poland. The offices are located in 10 largest Polish cities. As part of the Partner's ecosystem, the clients will have an unlimited access to the office space in the largest Polish cities and will have the chance to meet with mentors/experienced entrepreneurs who can show them possible development opportunities and help them establish valuable business relations with other businessmen, while innovative companies may seek help in finding investors.

2016 was yet another period in which mBank confirmed its leading role in the e-Commerce and m-Commerce transaction area. The Mobile mTransfer solution, making the mTransfer service available in the mobile channel, was once again appreciated by the market in the "Debut of the Year" category at Ekomersy 2015 gala. In addition, Mobile mTransfer was recognised in the Mobile Trend Awards 2016 competition and won 1st award for "Company supporting the popularisation of mobile techniques and technologies" and a Special Award - 2nd place in a vote by Internet users. For more information about awards for mBank Group in 2016, go to section 6.1. Key projects and innovations of mBank Group.

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

In the area of financing of companies a new product was added to the product offer: an overdraft facility guaranteed by COSME (an EU programme aimed at the strengthening of competitiveness of companies), which combines higher credit amounts with attractive terms of financing. In the case of investment loans with de minimis guarantee and registered pledge, the collateral catalogue was expanded so that mortgage is no longer the main security for the loan.

In March 2016 mBank also obtained the consent of the Minister of Digital Affairs to establishing a centre of confirmation of ePUAP (electronic public administration services platform) trusted profiles, starting the process of integration of the Bank with electronic public administration services. At the same time, the Bank offered account maintenance services to limited partnerships, associations, schools and educational institutions.

Mobile application

The mobile application, launched in February 2014, has won a large group of new users over the last three years, and based on a survey of actual needs of the clients, has been enriched with a number of new features. Mobile banking services are used systematically by over 1.3 million clients, an average user does banking via mobile devices 18 times a month. The "mBank PL" application offers a wide range of convenient and unique solutions, e.g. the "loan in 30 seconds" which now accounts for 18% of overall cash loan sales.

Following the positive reception of the new features introduced in 2015, such as the payment of invoices using QR code scanning, NFC payments for Android system (available to Orange subscribers), and the option to change the authorisation limits on payment cards, mBank decided to pursue further development.

In 2016 we introduced a number of new features and improvements into the application, including:

- "mLine in a click" service, which allows clients to connect with mLine consultants directly from the application, without the need to use one's ID and telecode;
- option to change card transaction limits;
- possibility of logging into the application with a fingerprint;
- express transfers using telephone numbers within the BLIK system;
- possibility of purchasing travel insurance (at present, 15% of travel insurance policies are bought via the application);
- "Payment Assistant" service which reminds clients of all regular payments, suggesting the amount due and the payment date and allowing them to quickly settle invoices;
- mobile Authorisation - a service allowing users to authorise transactions made in the transaction system via the mobile application. Instead of typing passwords received in a text message, all that the client needs to do is to log into the application and accept (or reject) a given transaction with one click.

In February 2016, the mobile application was ranked the best banking application in the Mobile Trends Awards competition, and in September it won the "Newsweek Friendly Bank" ranking in the "Mobile

Banking” category. For more information about awards for mBank Group in 2016, go to section 6.1. Key projects and innovations of mBank Group.

Cooperation with AXA Group

In 2016 the cooperation with mBank’s strategic partner in the insurance sector, AXA Group, was continued. It started in 2015, along with the finalisation of the sale of shares in BRE Ubezpieczenia TUiR and conclusion of distribution agreements, governing long-term cooperation between mBank Group and AXA Group with regard to the distribution of insurance products.

Works are pending on intensifying cross-selling and stand-alone sales among the Bank’s clients.

In the insurance area, in 2016 the Bank made travel insurance available in the mobile channel and launched civil liability insurance (OC) and comprehensive motor insurance (AC) for small and medium-sized enterprises. Moreover, the Bank offered a new product, individual term life insurance, which is sold in the network of mBank and mFinanse.

mBank: get cancer off your chest (odetchnij pełną piersią)

The above slogan was used in mBank’s campaign supporting its clients in their decision on taking out insurance in case of developing malignant breast cancer. The activities were aimed at women who tend to forget about themselves in the daily hustle and bustle. The campaign lasted until the end of November 2016.

Breast cancer is the type of cancer most frequently diagnosed in women in Poland. According to some sources, over 16 thousand Polish women develop breast tumor yearly. What is worse, the majority of patients are diagnosed when the cancer is already at an advanced stage, whereas early detection gives patients the best chance of treating the tumor successfully. In Poland, as little as one in four women use the opportunity to undergo free mammography. This is why education and prevention are of major importance.

The campaign was related to breast cancer, but the insurance covers much more. The product is addressed to both women and men, and it covers a long list of malignant tumours. The insurance is available in three versions. The maximum amount to be paid to a client in the event of cancer diagnosis is PLN 100 thousand. The product was developed in co-operation with the insurance company AXA, which also co-organises all activities.

Cooperation with Orange

It has already been two years since the joint-venture of mBank and Orange, Poland’s leading landline telephone, mobile, Internet and data transfer provider, called Orange Finanse, was launched.

At the end of 2016, the number of Orange Finanse accounts reached over 330 thousand, including approximately 100 thousand opened in 2016 alone. Orange Finanse became one of mBank’s key acquisition channels.

2016 was a period of changes in the product offer supported by marketing campaigns promoting the Orange Finanse brand among the existing and prospective clients of Orange. The key component of the new offer is the option for active users of the Bank’s services to lower their monthly phone bills in a period of up to 24 months. A new, more comprehensive credit offer was introduced in June 2016. The existing clients of Orange Finanse can now take out cash loans of up to PLN 150 thousand in all Orange stores.

In 2016, Orange Finanse was enhanced with new interesting functionalities in the mobile application and online banking. For example, by clicking a dedicated button in the mobile application, the users of all platforms can now quickly get in touch with the Bank’s contact centre, a one-of-a-kind solution on the market. Another novelty is the Payment Assistant sending text messages reminding them of upcoming transfers.

H2 2016 was marked with further efforts to improve selling competences of Orange stores’ employees. Tests of new selling scenarios and client communication methods were conducted and a series of training sessions was implemented to broaden the knowledge on Orange Finanse products.

In September, Orange Finanse ranked second in the mobile banking category of the Newsweek’s Friendly Bank ranking (mBank ranked first). This means advantage over competition in terms of easy navigation in mobile application, effective channels of communication with the Bank and services and functionalities available in the application.

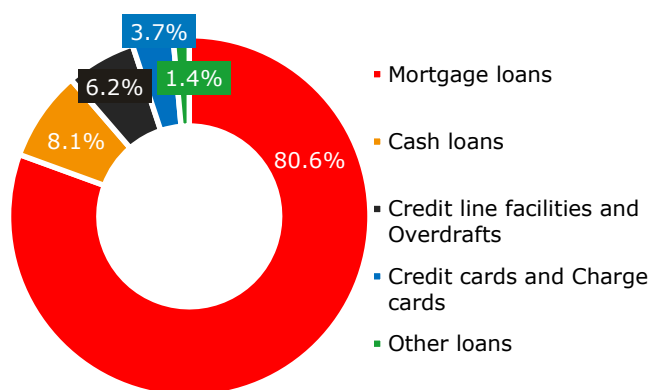
For more information about the strategic cooperation with Orange, go to chapter 6.1. Key projects and innovations of mBank Group.

Development of the retail banking offer in Poland

Loans

The graph below presents the structure of the Retail Banking loan portfolio in Poland at the end of 2016:

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



In 2016 new sales of non-mortgage loans amounted to PLN 5,639.5 million, up by 25.3% year on year. Sales of mortgage loans in 2016 stood at PLN 2,186.9 million (including sales of mBank Hipoteczny), which represents a decrease of 36.5% year on year. The drop in sales of mortgage loans, with non-mortgage loans increasing at the same time, was mainly driven by changes in the strategy and focus on sales of higher margin products.

2016 was another year when the portfolio of non-mortgage loans granted to households grew dynamically, by PLN 1,662.4 million, i.e., 18.7% year on year. The portfolio of mortgage loans stood at PLN 34,112.7 million, with an increase by PLN 639.3 million year on year.

The NPL ratio of the mortgage loan portfolio slightly dropped year on year, and stood at 3.7% at the end of 2016.

Deposits and investment funds

In 2016, the balance of savings products (term deposits and savings accounts) grew by PLN 6,453.9 million, which represents a 16.4% rise compared with the end of 2015. The strong sales results in the area of savings products were possible thanks to a number of initiatives taken, including:

- implementation of the effective process of term deposits retention, which aims at retaining the base of maturing term deposits and strengthening the long-term relations with the Bank's clients;
- special offers supporting cross-selling - promotional offer of Open-end Investment Funds combined with term deposits;
- introduction of the umbrella fund *Promising mFunds* (in Polish: mFundusze Dobrze Lokujące) comprising three strategies of investment funds, varying in terms of risk;
- implementation of subscriptions for investment certificates of Closed-end Investment Funds and structured certificates;
- enabling clients to invest in new subscriptions for structured deposits;
- introduction of public offering of corporate bonds for retail clients.

The balances of deposit products increased while the financial discipline was maintained.

The growth in retail clients' deposit base was accompanied by a slight rise in spending on investment products. Due to unfavourable situation on capital markets in H1 2016, the Bank offered its clients mainly solutions characterized by low or highly-limited investment risk (e.g. structured products, money market funds). In H2 2016, the Bank conducted a subscription of the umbrella fund *Promising mFunds* and a subscription of investment certificates of Closed-end Investment Funds. In December 2016, the Bank participated in the public offering of corporate bonds.

At the end of 2016, retail deposits in Poland amounted to PLN 45,727.6 million compared with PLN 39,273.6 million at the end of 2015.

Cards

Since 2016, young clients of mBank have been offered new credit cards of the MasterCard Me series. Thanks to these cards, they can express their individuality and satisfy their financial needs at the same time. mBank's card won the title of "the most innovative card in Poland", and its commercial was hailed "the best card product commercial in Polish media" at the 2016 Polish Card Gala. Moreover, clients voted mBank one of the top three providers of "the most beautiful Polish card of the year" in 2016 in an online voting. What is so innovative about the card is the possibility of designing its layout and placing one's own picture or a picture from the Bank's gallery on it, or alternatively choosing a transparent card.

In 2016, the value of payment card transactions made by mBank's retail clients exceeded PLN 26 billion, which represents a rise by 21.2% year on year. The number of transactions made by mBank clients grew by 27.8% year on year. mBank's credit cards are also characterised by a very high average number of transactions per client. The market share of transactions made with the use of mBank's cards stood at 12.6% at the end of September 2016.

Brokerage operations and asset management

In May 2016, the brokerage services rendered by Dom Maklerski mBanku and mWealth Management were subject to integration within the Bank, as a result of which all brokerage operations of mBank Group are currently offered through mBank Brokerage Bureau, which is an organisational unit of the Bank.

The operations of mWealth Management were taken over by mBank's Retail Banking segment. In 2016, the Bank developed its comprehensive wealth management services including investment advisory and asset management. The assets managed by Private Banking remained stable year on year and stood at PLN 5.2 billion at the end of 2016.

The year 2016 ended with a great success in respect of the strategies managed as part of asset management services dedicated to mBank's Private Banking clients. In the latest ranking of asset management by GG Parkiet for Q4 2016, mBank took the leading positions in almost all categories. Aggressive share strategy, sustainable growth model portfolio, stable growth model portfolio and conservative model portfolio ranked first in their categories. In acknowledgement of the top quality services, the Bank received the Euromoney award for the best private banking and wealth management offer in Poland for the eighth time.

The Brokerage Bureau of mBank (BM) provides a comprehensive offer of brokerage services to the largest Polish institutional investors (pension funds, investment funds, asset managers), foreign funds, and individual clients, i.e. retail and affluent clients. The Brokerage Bureau enables clients to trade on regulated markets in Poland and abroad as well as on the OTC (FOREX/CFD) market. As part of wealth management services, clients may use investment advisory and asset portfolio management services. The Bureau is an active player on the primary market – it prepares and conducts public offerings (IPO/SPO/ABB).

At the end of 2016, the Brokerage Bureau maintained 300.3 thousand brokerage accounts (including 5.4 thousand Forex/CFD-related accounts and 1.4 thousand accounts held by financial institutions), which represented an increase by 1.3 thousand year on year.

Retail Banking in the Czech Republic and Slovakia

In 2016, in the Czech Republic and Slovakia, mBank acquired 72.9 thousand clients (out of which 17.2 thousand clients in Slovakia, and 55.7 thousand clients on the Czech market).

The activity of mBank in the Czech Republic and Slovakia in 2016 was focused on intensifying its acquisition efforts, as well as continually building the position of a mobile bank of reference.

The offer was expanded with (as was the case in Poland) a new current and savings account for young clients, which develops alongside the client's needs in terms of pricing and functionalities.

The branch network modernisation is on track: two new "light branch" financial centres were opened in the Czech Republic and Slovakia. Also, 12 new outlets specialising in banking services were opened as a result of cooperation with Broker Consulting, a Czech agent on the financial services market. mBank is the main banking partner in this undertaking. The cooperation also led to the introduction of two new co-branded cards: a debit and a credit card.

In addition, mBank in the Czech Republic and Slovakia also extended its offer by adding four new debit cards to the offer: gold debit card, debit phone sticker, debit card for entrepreneurs and debit card for the young. Three new credit cards were also added to the offer.

The activity of mBank in the Czech Republic and Slovakia in 2016 won several awards. mBank's account for entrepreneurs was ranked first on the market, while mKonto account and online banking ranked second in the Zlata Koruna contest. Additionally, mBank's mortgage loan for refinancing real estate was ranked third in the weekly newspaper Trend. Apart from that, mBank's mobile application was yet again appreciated, this time with the Golden PCNews award, as one of the best on the Slovak market. mBank in the Czech Republic received the title of "Superbrand 2016", becoming one of the strongest brands on the local market.

Loans and deposits

At the end of 2016, the loan portfolio of mBank clients in the Czech Republic and Slovakia stood at PLN 4,279.7 million, which represents an increase by PLN 455.7 million, i.e. 11.9% compared with the end of 2015.

The Bank pursued targeted initiatives to grow sales of non-mortgage loans. In 2016 the sales of non-mortgage loans amounted to PLN 489.4 million, up by 25.3% year on year. Sales of non-mortgage loans in the Czech Republic amounted to PLN 361.2 million, up by 24.6% year on year. At the same time, sales of non-mortgage loans in Slovakia increased by 66.1% year on year and stood at PLN 128.2 million.

Sales of mortgage loans decreased by 34.6% year on year to PLN 692.5 million in 2016. Sales of mortgage loans in the Czech Republic totalled PLN 551.0 million compared with PLN 751.3 million in 2015 (i.e. - 26.7%), while in Slovakia it stood at PLN 141.6 million (down by 54.0% year on year). The drop was the consequence of sales efforts in the area of credit products with higher margin and the changes in pricing policy of mortgage loans.

The Bank's deposit base in the Czech Republic and Slovakia increased by PLN 1,563.5 million or 24.5% compared to the end of 2015.

6.5. Corporates and Financial Markets



[G4-4, G4-8, G4-9, FS6] The Corporates and Financial Markets segment serves 20,940 corporate clients including large enterprises (K1 - annual sales exceeding PLN 500 million), mid-sized enterprises (K2 - annual sales of PLN 30 – 500 million) and small enterprises (K3 - annual sales below PLN 30 million) through a network of dedicated 45 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 financial data (at the end of 2016):

Share in pre-tax profit	Pre-tax profit	Total income
36.0% ↓	PLN 589.4 M ↓	PLN 1,636 M ↑

Key business data:

(thousand)	2012	2013	2014	2015	2016
Clients	15.1	16.3	17.8	19.6	20.9
Branches (pcs)	48	47	48	51	45
Loans to corporate clients	28,405	29,475	32,841	33,447	34,174
Deposits of corporate clients	24,249	26,753	32,237	34,424	37,383

Key highlights

- Nearly 1.4 thousand of new corporate clients.
- Increase in corporate deposits by 8.6% year on year to PLN 2,959.6 million.
- The value of contracts executed by mLeasing at PLN 4.0 billion, compared to PLN 3.8 billion in 2015, i.e. up by 11.1% year on year.
- Increase in market shares of treasury bonds & bills to 16.2% (from 12.8% a year earlier) and of FX spot & forward to 16.1% (from 12.1% a year earlier).
- Offering investment and mortgage loans based on a fixed interest rate to small and medium enterprises.
- Increase of core income by 11.9% year on year.



mBank named the Best Trade Finance Bank in Poland.

mBank awarded for the best online treasury services.

mFactoring named the best company in terms of the customer service quality in import factoring.

Corporate and Investment Banking

Financial results

The Corporate and Investment Banking segment generated a profit before tax of PLN 498.6 million in 2016, which represents a drop by PLN 38.8 million, i.e. 7.2% year on year.

PLN M	2015	2016	Change in PLN M	Change in %
Net interest income	755.2	750.5	-4.7	-0.6%
Net fee and commission income	376.7	378.8	2.1	0.6%
Dividend income	14.2	0.0	-14.2	-100.0%
Net trading income	215.8	243.6	27.9	12.9%
Gains less losses from investment securities, investments in subsidiaries and associates	19.1	21.0	1.8	9.6%
Net other operating income	29.9	18.4	-11.6	-38.7%
Total income	1,410.9	1,412.3	1.3	0.1%
Net impairment losses on loans and advances	-177.8	-76.6	101.2	-56.9%
Overhead costs and amortization	-695.7	-717.0	-21.3	3.1%
Taxes on Group's balance sheet items	0.0	-120.1	-120.1	-
Profit before tax of Corporate and Investment Banking	537.4	498.6	-38.8	-7.2%

The profit before tax of Corporate and Investment Banking in 2016 was driven by the following factors:

- **Stable income** compared with the previous year (increase by PLN 1.3 million year on year). Increase was mainly observed in the net trading income (PLN +27.9 million, i.e. +12.9%), which was driven by higher volatility on financial markets.
- **Increase in operating costs (including amortisation)** by PLN 21.3 million, i.e. 3.1% in the reported period.
- **Decrease of net impairment losses on loans and advances** by PLN 101.2 million, i.e. 56.9% compared with 2015. The drop in provisions reported in 2016 was caused by a release of credit risk provisions related to the sale of non-performing receivables and payment of the loan insurance by KUKE (Export Credit Insurance Corporation).
- **Tax on the Group's balance sheet items** at PLN 120.1 million.

Activity of Corporate and Investment Banking segment in 2016 (Bank only)

	31.12.2014	31.12.2015	31.12.2016	YoY change
Number of corporate clients	17,787	19,562	20,940	7.0%
K1	1,838	1,983	2,123	7.1%
K2	5,144	5,748	6,067	5.5%
K3	10,805	11,831	12,750	7.8%
PLN M				
Loans to corporate clients, including	23,680	22,103	20,874	-5.6%
K1	6,379	6,163	5,000	-18.9%
K2	10,633	11,838	12,745	7.7%
K3	2,811	3,050	2,958	-3.0%
Reverse repo/buy sell back transactions	3,840	1,031	57	-94.5%
Other	17	22	115	423.4%
Deposits of corporate clients, including	29,556	31,297	33,304	6.4%
K1	12,111	14,019	12,659	-9.7%
K2	9,455	11,260	12,348	9.7%
K3	4,177	4,856	6,276	29.3%
Repo transactions	3,750	1,094	1,600	46.3%
Other	63	68	420	517.9%

2016 was the time of a slight slowdown in economic growth, which, however, did not translate into any major deterioration in business activity and financial results of large enterprises. Moreover, banks had to operate in an environment of record-low interest rates, reduced interchange fees, increased contributions to the Bank Guarantee Fund (BFG) and a newly introduced tax from financial institutions as well as uncertainty about the size of the potential financial burden arising from CHF loans.

Despite the difficult economic conditions, last year had a positive impact on the volume of corporate loans and deposits. The corporate loans market grew by 5.4% year on year and the corporate deposits market grew by 8.2%. In this context, mBank's loan volumes grew at a lower rate than the market, which was, however, offset by a significant rise in deposit volumes. This, in turn, translated into an increase in mBank's market shares in deposits to 10.1%.

In 2016, the Bank intensified its efforts to attract new corporate clients, which resulted in record-high acquisition of companies – the corporate client base increased by 1,378 companies year on year to 20,940 clients.

The acquisition of new clients boosted the balances deposited in current accounts, which stood at PLN 11,948.1 million at the end of December 2016, representing an increase of 41.1% year on year. The high volume of current deposits is a springboard for further growth of transactional banking, which is of special relevance to the Bank with respect to the growth potential and forging of closer relations with clients.

2016 was record-breaking in terms of acquisition in the sector of small and medium-sized enterprises (SME). Over 2,500 new clients started cooperation with mBank and over half of them opted for the package offer.

The Bank continued to pursue its strategy of building long-term business relationships with clients and providing opportunities for smooth development of cooperation along with a company's growth in many dimensions. At the same time, 200 SMEs (K3 client segment), whom mBank supported with advanced corporate banking solutions, were transferred to the K2 segment (large enterprises segment).

A number of initiatives aimed at ensuring top-quality service led to good results of customer satisfaction survey – the percentage of K3 clients who actively recommended mBank's services to their counterparties rose by 8%.

As regards the product offer, mBank's clients from the SME segment were granted the opportunity to obtain fixed-rate investment and mortgage financing with predictable servicing cost in the long term.

2016 was yet another year in which mBank put great emphasis on identifying clients' needs and potential problems. Special focus on relations with the clients, which translates into the quality of relations with clients, was mirrored in levels of customer satisfaction of companies using mBank's services, measured i.a. by a recommendation indicator – NPS (Net Promoter Score). It is the key indicator on which mBank continuously focuses in satisfaction surveys. For the corporate clients who indicated mBank as their main bank, NPS is stable. In 2016, NPS reached 36% and was higher by 6 p.p. year on year. Sound level of NPS in the Corporate and Investment Banking segment was caused by the implementation of NPS programme – mSatysfakcja project. The main goal of the project is to increase the level of genuine satisfaction of corporate clients resulting from mBank's offer and services, focusing on clients feedback and improving relationships with them in the context of promoting one of the most significant values of mBank – client-centricity.

Products and services offered

Corporate loans

PLN M	2014	2015	2016	YoY change
Loans to corporate clients*	19,840	21,072	20,817	-1.2%
Loans to enterprises**	17,874	19,442	19,950	2.6%
Loans granted to local governments	1,324	931	708	-23.9%
Market of loans to enterprises	7.4%	7.4%	5.4%	
mBank's share in the market of lending to enterprises	6.3%	6.3%	6.1%	

* Excluding reverse repo transactions.

** NBP category which ensures comparability of results of the banking sector.

Corporate deposits

PLN M	2014	2015	2016	Change in %
Corporate deposits*	25,807	30,203	31,703	5.0%
Current corporate deposits	6,709	8,467	11,948	41.1%
Deposits of enterprises**	20,709	25,629	28,446.3	11.0%
Deposits of local governments	213	193	236.4	22.5%
Market of deposits of enterprises	9.1%	10.5%	8.2%	
mBank's share in the total deposits of enterprises	8.8%	9.8%	10.1%	

* Excluding repo transactions.

** NBP category which ensures comparability of results of the banking sector.

Structured finance, project finance, syndicated loans

As part of the Corporate and Investment Banking segment, the Bank offers structured and mezzanine financing, including in particular: M&A finance, project finance and syndicated finance. In 2016, the Bank was a major market player and participated in 88 syndicated and bilateral products. The Bank's total exposure under syndicated and bilateral products stood at PLN 3,934.1 million.

De minimis guarantee

The Bank continued to perform the Portfolio Guarantee Line De Minimis (PLD) Agreement as part the government's "Supporting Entrepreneurship through BGK Sureties and Guarantees" programme with the allocated limit for guarantees at PLN 2,200 million. As at December 31, 2016, the amount drawn under the limit reached PLN 1,612.6 million.

Moreover, based on the agreement signed with Bank Gospodarstwa Krajowego, mBank offered loans secured with guarantees to innovative enterprises from the SME sector. The guarantees were financed from the pool of the Innovative Economy Operational Programme. The pool of funds available within the programme amounted to PLN 250 million. The BGK guarantee limit for mBank stood at PLN 16.3 million and was used in full.

mBank continued to offer the portfolio guarantee line with a counter-guarantee provided by the European Investment Bank under the COSME programme (a European Union programme supporting the competitiveness of enterprises in 2014-2020). The BGK guarantee limit for mBank stands at PLN 120 million. As at December 31, 2016, the amount drawn under the limit reached PLN 51.6 million.

European Union financing

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

Corporate debt origination

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

	Short-term debt	Corporate debt	Mid-term bank debt
mBank (PLN M)	1,356	7,927	12,631
Market (PLN M)	13,871	68,926	36,493
Market share	9.8%	11.5%	34.6%
Market position	#4	#4	#1

The largest issues arranged by mBank in 2016 included bond issues of PLN 437 million for the European Investment Bank, PLN 250 million for BGK and PLN 100 million for Credit Agricole Bank Polska. Other relevant transactions included mBank Hipoteczny's covered bonds issues of EUR 98 million and PLN 850 million. The value of outstanding debt securities issued by banks (excluding „road” bonds issued by Bank Gospodarstwa Krajowego) arranged by mBank, amounted to ca PLN 12.6 billion at the end of 2016, compared to PLN 11.3 billion at the end of 2015.

In the growing corporate bond market, mBank executed a number of new major issues, i.e. for Kruk S.A. (PLN 311 million), HB Reavis (PLN 100 million), Echo Investment (PLN 100 million), Work Service (PLN 80 million), LC Corp S.A. (PLN 65 million), Magellan S.A. (PLN 50 million and EUR 6.1 million), Archicom (PLN 55 million), Best S.A. (PLN 40 million), EGB Investment (PLN 28 million).

Transactional banking

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

The balances of corporate current accounts crossed the mark of PLN 12 billion for the first time in history in 2016. The year-on-year growth rate of transactional products in 2016 was as follows:

Number of domestic transfers	+16.5%
Number of outgoing foreign transfers	+12.7%
Number of direct debit transactions	+18.8%
Number of corporate cards	+11.8%
Number of prepaid corporate cards	+128.4%
Number of mCompanyNet users	+11.4%

Development of the Corporate Banking offer

Service of POS terminals

In H1 2016, mBank entered into cooperation with IT Card and Planet Pay in the area of servicing payment cards in terminals. Introduction of the service and the signing of an outsourcing agreement with IT Card, enriched mBank's transactional banking offer.

In June 2016, mBank together with IT Card and Planet Pay signed an agreement on the provision and service of payment terminals for couriers of DPD Polska Sp. z o.o. It was the first such agreement on the Polish market under which 4.5 thousand terminals will be delivered. This transaction sets a new standard of quality and a new direction of settlements on the e-commerce market in the area of 'cash on delivery' mail.

Silesian City Card (ŚKUP)

The Silesian City Card (ŚKUP) is one of the largest city card projects in Poland. It was implemented by way of a public tender for the provision of a comprehensive system of city cards with payment functionality. The system was ordered by the Communication Municipal Association of the Upper Silesian Industrial District (KZK GOP), while the project is implemented by a consortium of Asseco Poland (Leader) and mBank. The project is co-financed by the European Regional Development Fund.

Since the launch of the ŚKUP system in October 2015, nearly 130 thousand personalised and bearer ŚKUP cards were issued to the inhabitants of the Silesian agglomeration, and 105 thousand bearer ŚKUP cards were delivered to points of sale with a view to issuing them to the inhabitants of the agglomeration.

Fixed-rate loan

In response to the volatile macroeconomic conditions, the environment of low interest rates and the need for maximum safety guarantee for the client, mBank introduced investment loans and mortgage products

based on the fixed interest rate in its standard offer for SMEs in December 2016. The fixed rate will be applicable throughout the entire lending period and will be included directly in the agreement. The fixed rate is available for all loans in PLN, EUR and USD.

Financial Markets

Financial results

The Financial Markets segment generated a profit before tax of PLN 90.9 million in 2016, compared with PLN 80.2 million posted in 2015.

PLN M	2015	2016	Change in PLN M	Change in %
Net interest income	191.7	314.5	122.8	64.0%
Net fee and commission income	-1.8	-4.6	-2.8	152.8%
Dividend income	0.1	0.4	0.3	194.1%
Net trading income	-17.4	-103.3	-85.8	492.8%
Gains less losses from investment securities, investments in subsidiaries and associates	5.8	17.3	11.5	197.9%
Net other operating income	0.6	-0.6	-1.2	-223.9%
Total income	179.0	223.7	44.7	25.0%
Net impairment losses on loans and advances	-0.7	-1.6	-0.9	119.2%
Overhead costs and amortization & depreciation	-98.1	-104.4	-6.3	6.4%
Taxes on Group's balance sheet items	0.0	-26.8	-26.8	-
Profit before tax of Financial Markets	80.2	90.9	10.7	13.3%

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

- **Increase in total income** by PLN 44.7 million year on year. Higher income resulted from a much higher net interest income driven mainly by higher income on derivatives classified into banking book (growing volumes of these transactions), and revenues in hedge accounting. At the same time, net trading income decreased by PLN 85.8 million due to valuation of interest rate derivatives.
- **Increase in operating costs (including amortisation)** at PLN 104.4 million.
- **Tax on the Group's balance sheet items** at PLN 26.8 million.

Financial Markets segment activity in 2016

Since January 2016 the activities of the financial market products sales segment have been focused on increasing the activity of new clients and enlarging the Bank's share in the markets of FX products, commodity derivatives and interest rate risk hedging transactions related to large financing projects, as well as on selling commercial securities.

The key initiatives which impacted on the volume of transactions and income generated from the Bank's cooperation with clients included:

- activities aimed at using market volatility to increase the number of transactions per client. The main emphasis was put on active telephone contact with existing and new clients. Thanks to these measures, both the number of clients active on average per month and transactions concluded by dealers by phone grew respectively by 6.2% and 8.6% year on year;
- micro-enterprises served by the retail part of mBank saw intensive on-boarding activities addressed to new clients and mobilisation campaigns aimed at existing clients who make transactions on Internet

currency exchange platforms. Thanks to these measures, the value of trade increased by 212.1% year on year, and over 252.5 thousand transactions were concluded;

- the Derivative Instruments Division which sells transactions in commodity derivatives adjusted the scopes of responsibilities of sellers to reach a greater group of clients in an effective way and maximise the margins, which in 2016 increased by 43.2%;
- intensive selling activities also took place in the area of project-related transactions. Conducted in collaboration with mLeasing and mBH, they produced a number of new, smaller transactions;
- measures designed to increase the sales of and margins on Treasury transactions with K0 (global companies) and K1 clients were continued resulting in a substantial increase in both margins and sales, especially on the market of FX derivatives.

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

	Treasury bills & bonds	IRS/FRA	FX Spot & Forward
mBank	16.2%	11.5%	16.1%

Financial Institutions

The Financial Markets area covers relations with financial institutions, focusing mainly on raising capital from other banks and placing excess funds with them.

As at December 30, 2016, mBank had 17 active loans in the amount of PLN 18,116 million, of which the utilized value stood at PLN 11,161 million. In 2016, two loans in CHF and one loan in EUR, amounting to PLN 6,176 million in total, were repaid at maturity. Additionally, the Bank took out two new loans in EUR in the total amount of PLN 1,017 million. The Bank's total debt under loans from other banks was by PLN 1,812 million lower than at the end of 2015. At the exchange rates from the end of 2015, the decrease would amount to PLN 798 million.

At the end of December 2016, mBank's exposure under loans granted to other banks reached the equivalent of PLN 129.5 million. mBank's portfolio comprised nineteen short- and medium-term active loans granted to financial institutions from Poland and abroad.

The greatest accomplishments of the Financial Institutions Department in 2016 include:

- Obtaining further, considerable funding in the amount of EUR 100 million from the European Investment Bank (EIB) and a bilateral loan from ICBC (Europe), the Branch in Poland, totalling EUR 130 million.
- The year 2016 was also marked by further acquisition of loro accounts. The Bank managed to maintain its position as one of the leading Polish banks in handling settlements in PLN.

Moreover, in 2016 the Financial Institutions Department continued to actively support trade transactions concluded by Polish exporters by offering short-term financing to financial institutions, as well as granted financing as part of syndicated loans. At the same time, the Bank was still serving banks from the Commonwealth of Independent States (CIS) and offering them medium-term loans secured with KUKE insurance policies.

Custody Services

mBank provides services including settlement of transactions in securities registered in local and foreign markets, safe-keeping of clients' assets, maintenance of securities accounts and registers of securities in non-public trading, maintenance of asset registers of pension funds and investment funds, monitoring the valuation of their assets, and processing corporate actions. mBank's custody clients are mainly investment and pension funds, local and foreign financial institutions, banks offering custodian and investment services, insurance companies, asset management institutions and non-financial institutions.

2016 was a record-breaking year in terms of growth in the number of offered investment funds and in the value of registered assets. The number of investment funds for which mBank acts as depositary rose by

21.5% compared with the end of 2015, while the total value of assets of investment and pension funds increased by 19.4%.

6.6. Subsidiaries of mBank Group

Summary of financial results of mBank Group subsidiaries

[G4-4, G4-8, G4-9, FS6] mBank Group subsidiaries generated a profit before tax of PLN 301.8 million in 2016, compared to PLN 305.5 million in 2015.

The profits of the subsidiaries mLeasing, mBank Hipoteczny and mFaktoring improved in the period under review.

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

PLN M	2015	2016	Change in PLN M	Change in %
BRE Ubezpieczenia ¹	7.1	0.0	-7.1	-
mLeasing	57.2	72.6	15.3	26.8%
mBank Hipoteczny	26.8	30.2	3.4	12.6%
mFaktoring	-22.2	15.1	37.4	-168.1%
Dom Maklerski mBanku ³	28.2	2.9	-25.4	-89.9%
mWealth Management ³	27.4	9.0	-18.4	-67.2%
mLocum	18.0	18.3	0.2	1.3%
mFinanse (d. Aspiro) ²	170.1	155.4	-14.6	-8.6%
Other ⁴	-7.1	-1.7	5.4	-76.6%
Total gross profit of mBank's subsidiaries	305.5	301.8	-3.8	-1.2%

¹ The company was sold to AXA Group at the end of Q1 2015.

² Excluding one-off gain on the sale of shares of BRE Ubezpieczenia TUiR in Q1/15 and changes in allocation within the Group.

³ Companies were integrated into the organizational structure of mBank as of 20.05.2016.

⁴ Other subsidiaries include mFinanceFrance, MLV-45 (only in 2015), mCentrumOperacji, BDH Development, Garbary and Tele-Tech Investment (since Q3 2015).

Business activity of selected subsidiaries



The year 2016 was a period of many unfavourable factors on the mortgage loan market, e.g. the amendment to the Act on Land and Mortgage Registers and on Mortgage applicable from April 30, 2016. At that time, restrictions regarding the establishment of a mortgage on agricultural land were introduced, which made it impossible to obtain a loan for building a house on such land. Additionally, the Polish Financial Supervision Authority recommended that banks take into consideration the future increase in interest rates while assessing creditworthiness.

In 2016, the company reported a 35.6% decrease in sales in the mortgage loan area year on year. Except the above-mentioned factors, the decrease of mortgage loan volumes was strongly correlated with the shift in the pricing policy of the main partners of mFinanse, i.e. mBank and mBank Hipoteczny.

In 2016, mFinanse continued dynamic growth in car loan market share (+19% year on year). Since December 2015, the company has been the only sales agent for Volvo car loans in Poland. It is the second

premium brand, after BMW, for which mFinanse exclusively offers this kind of financing. Thereby it became a leader on the market of loans for luxury cars.

In 2016 mFinanse continued the project of the sales network development aimed at placing new outlets in the regions with no physical presence of mBank and mFinanse. Additional 17 outlets were established in the analysed period and the company managed 98 mKiosks at the end of 2016.

The profit before tax generated by mFinanse in 2016 fell to PLN 155.4 million from PLN 242.6 million a year earlier (including a one-off gain on the sale of BRE Ubezpieczenia TUIR SA amounting to PLN 72.5 million in 2015). The profit before tax was mainly influenced by the insurance area where the company operates as the insurance agent.

Leasing

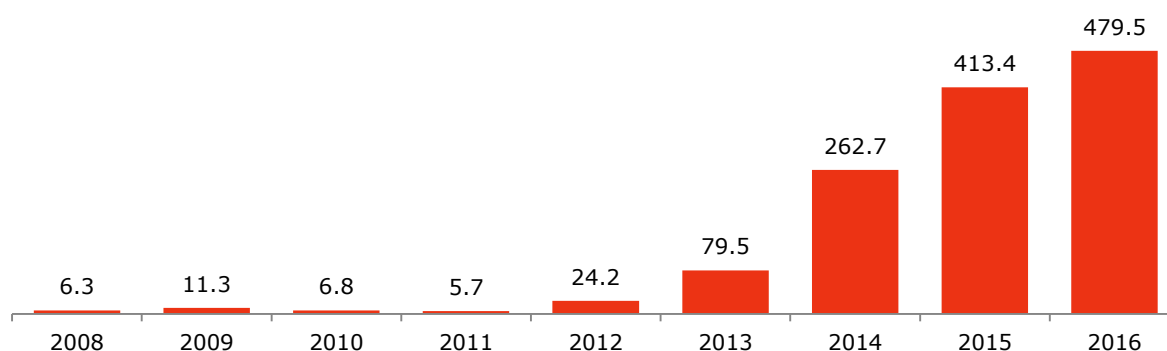
The value of contracts executed in 2016 amounted to PLN 4.0 billion, compared with PLN 3.8 billion in 2015, which represents an increase of 11.1% year on year. As demand increased in 2016, the sales grew year on year, mainly driven by an increase in the sales of vehicles. In 2016, the company ranked third by aggregate volume of executed contracts (movables and real estate) with the market share of 6.9%, including the fifth position in movables and the third position in real estate. The value of contracts on movables concluded in 2016 amounted to PLN 3.9 billion compared with PLN 3.3 billion a year before (+20.4% year on year), while the value of contracts executed on real estate stood at PLN 0.1 billion compared to PLN 0.5 billion in 2015 (-78.5% year on year).

The profit before tax of mLeasing in 2016 was PLN 72.6 million representing an increase of 26.8% year on year.

The "Leasing in Retail" project continued in 2016 pursuant to the "One Bank" Strategy geared to developing a comprehensive offer for clients. The initiative is dedicated to mBank's business clients and enables them to conclude a leasing agreement using special leasing processes. Thanks to the combined efforts of Retail Banking and mLeasing, in 2016 the company financed fixed assets of PLN 479.5 million, estimated by the purchase price.

The chart below presents the value of leasing contracts executed under the "Leasing in Retail" project:

Value of leasing contracts as part of "Leasing in Retail Banking" project (PLN M)



Bank Hipoteczny

The gross loan portfolio of mBank Hipoteczny (mBH) was PLN 9.5 billion at the end of 2016 (+27.3% year on year). That change was driven mainly by a systematic rise in the retail portfolio. Sales in this segment reached PLN 1.6 million in 2016. Moreover, in pursuit of its strategy, mBank Hipoteczny acquired from mBank (in four tranches) retail loans with a total nominal value exceeding PLN 529.4 million. The sales of commercial loans were also strong. In 2016, the total value of new contracts reached PLN 1.9 billion, which represents a surge by ca. 56% compared with 2015.

Despite the additional charge imposed on the bank in the form of a banking tax (PLN 16.7 million), in 2016, mBH reported a 12.6% increase in profit before tax year on year. The profit before tax amounted to PLN 30.2 million at the end of 2016, compared with PLN 26.8 million in 2015.

Compared with last year, the mBH's profit was driven by the continuing growth in the credit portfolio, in particular in the retail banking segment. In the period covered by this report, the net interest income of mBH grew by 17.5%. Moreover, the Bank's net trading income also rose considerably, stimulated by improved matching of instruments in the hedge accounting area and a significant positive result on unrealised foreign exchange differences. In addition, compared with the last year, loan loss provisions dropped by PLN 3.2 million owing to a favourable change in impairment parameters.

In 2016, mBH was very active on the debt market again, which was reflected in six issues of mortgage covered bonds worth a total of PLN 869.6 million. Both domestic (PLN 400 million) as well as foreign (EUR 98 million) institutional investors subscribed for the mortgage covered bonds. Four of the six issued series of mortgage covered bonds have fixed interest rate which makes the issue the first transaction with fixed interest rate in the history of the contemporary mortgage banking in Poland. For more information about mBH's issue of covered bonds see chapter 5. mBank Group's capital and funding.

Locum

In 2016, mLocum sold 254 apartments under final agreements, which is less by 24 apartments than in 2015 when it sold 278 apartments. The company's revenues amounted to PLN 103.8 million, which represents an increase by PLN 2.5 million, compared with 2015.

In 2016, mLocum posted a profit before tax of PLN 18.3 million, which is higher by 1.3% compared with PLN 18.0 million reported a year before.

Factoring

In 2016, the company was growing dynamically breaking new business records. Turnover (the value of purchased invoices) was historically high at PLN 11.6 billion in 2016, an increase of 11.5% year on year. Thanks to this the company ranked eighth on the factoring market in Poland with a 7.3% market share (according to the Polish Factors Association).

The profit before tax of mFactoring amounted to PLN 15.1 million in 2016, whereas in the previous year the company posted a loss of PLN 22.2 million, mainly due to a revaluation write-offs for a transaction under restructuring.

Centrum Operacji

In 2016, mCO successfully conducted many projects aiming at optimising the processes. One of them included work on digitalisation of handling post-sale documentation by replacing documents on paper with an electronic image. Additionally, the company continued its cooperation in terms of services provided for current clients, i.e. mBank, Orange Finanse and mBank Hipoteczny.

Sales revenues in 2016 stood at PLN 34.6 million, compared with PLN 35.7 million in 2015. Reduced revenues in the current year resulted mainly from lower revenues from mBank service connected with the decrease in the serviced volumes.

In 2016, mCO posted a loss of PLN 59.6 thousand, compared with PLN 49.8 thousand of profit before tax in 2015. Negative financial result in 2016 was mainly driven by impairment losses of the value of real estate owned by the company.

7. Responsible company

7.1. Goal 1: We want to understand, respect and share our clients' values. We want to be open. We want to think and feel like they do

Measure (KPI)	2016 Target	2016 Actual
NPS for a business client (for particular major events)*	>100% from the previous period	✓ Increase by 36%

* For all business clients.

Dialogue with Clients

[G4-26] It is no coincidence that it is at mBank where numerous pioneering solutions based on collaboration with clients were developed. Openness to dialogue stems directly from the adopted philosophy of carrying on business. It also derives from the five basic values – client-centricity, looking ahead, simplifying, commitment and professionalism – which form the corporate culture.

"The client-centric approach, empathy towards clients" is a fundamental value at mBank. This means that whatever we do, we are always guided by individual needs, preferences and behaviours of our clients, which we are aware of, understand and are able to anticipate. The belief that clients and their needs should be in the centre of all actions taken by us is what underlies our numerous initiatives. Tangible manifestations of the client-centric approach include the apprenticeship in the bank's branches obligatory for top managers, the 2016 training for all outlet employees in providing service to persons with disabilities, or the provision of customer service in the sign language in a video chat.

The belief that clients and their needs should be in the centre of all actions taken by us is what underlies our numerous initiatives.

mCouncil (mRada)

mCouncil (mRada) is a group of mBank's ambassadors. mConuncillors (mRadni) were not the employees of mBank nor did they receive remuneration from us for their activity. They were recruited, among others, from clients who showed particular interest in the bank's operations and were very active on Internet forums, blogs or in social media. After having operated for 16 years, however, mCouncil was suspended as it's formula had ran out. A new formula of institutionalised dialogue with clients is being developed.

mBank's consultants active round the clock in social media

mBank has appointed a separate consultant team, composed of the most experienced experts of mLinia. Their task is to answer clients' questions asked in social media and on major Internet portals and forums. The team monitors Internet services on an on-going basis and is available 24 hours a day 7 days a week.

It provides mBank's clients with quick answers to their questions and helps them in case of any difficulties related to using our products and services.

Contact via Messenger

Market research indicates that Poles use both mobile devices and communicators, the new tool used for transmitting information, more and more frequently. Messenger is among the most popular communicators.

In response to these needs, we introduced changes on mBank's contact page at the beginning of November. Instead of writing an e-mail, clients can contact us using Messenger. By clicking on the Messenger icon, users are redirected to the application and their messages are sent to the Social Media team. This change supports two elements of the new strategy of mBank – mobility and efficiency. We want our clients to contact us using channels in which we can answer their questions as quickly as possible. Of course they can still contact us via e-mail – the e-mail address is displayed at the bottom of the contact page.

[G4-26] Platform for dialogue and micro-entrepreneurs' engagement

Meetings with micro-entrepreneurs, organised since the beginning of 2015, have provided a platform for an open dialogue about the needs, barriers and challenges which are part of our client's daily life, and gave us an opportunity to better understand their way of thinking.

The formula of the project is constantly evolving. Clients share their ideas with us and vice versa. This is how our new product, mKsięgowość, was developed. We asked a group of entrepreneurs we serve about their opinions on the product we were preparing. In the course of the meetings, an idea originated that the tab reminding of important deadlines as regards accounting (e.g. the deadline for payments to the Polish Social Insurance Institution (ZUS) and tax payments) should be displayed on the desktop and not in the application itself. From the clients' perspective, this makes a significant difference since the desktop screen is undoubtedly viewed more often, so that the information, the so-called task centre, is not likely to go unnoticed. We accommodated these suggestions, thanks to which the final product meets the clients' expectations even better.

Tomorrow belongs to women. A series of seminars

For several years, we have been organising a one-day event entitled "Tomorrow Belongs to Women", addressed to key female corporate clients of mBank. Twice a year, we host around 100 women who own companies and sit on management boards of large companies. Also the members of the management board and managers of our bank participate in the meetings.

The seminars are subject-oriented and include a component dedicated to lifestyle as well as a meeting with a special guest – a success business woman. In 2016, our special guests were Kinga Baranowska and Ewa Wachowicz.

Satisfaction survey

[G4-PR5] We listen to our clients actively. Every month, we contact clients to ask for their opinions. As a result, we receive substantial feedback about the quality of service, the functioning of processes and products. We also monitor comments made and opinions expressed by the clients on the Internet – mainly in social networks and on Internet forums and websites related to the quality of service. The information is provided to the persons responsible for particular areas and to frontline employees. Then, upon an analysis, it is translated into specific remedial actions.

Additionally, in regular surveys which we have conducted for many years, we ask respondents about their level of satisfaction with our processes, products or the cooperation with the bank. In 2016, we implemented the strategic project entitled mSatysfakcja in Corporate Banking, which focuses on the key moments in the clients' relation with the bank, such as meetings in branches, contact with the call centre, completion of a credit application process, closed complaint, experience related to the use of the transactional system or mobile application. In the survey, we ask clients about their willingness to recommend mBank's services (NPS). Apart from closed-ended questions, we also ask open questions which show the reasons behind clients' scoring decisions. In the case of negative assessment, we contact selected clients in order to understand the reasons behind their dissatisfaction and help them solve the problem they encountered. All client opinions are analysed as a basis for projected improvements and new implementations at the bank. NPS surveys among retail clients are carried out relatively often; however, using them in the segment of large corporate clients is still a pioneering solution. In the survey, respondents may assess, among others, the quality of channels for filing complaints, availability of our employees and clarity of the responses provided by them. The survey covers not only corporate clients of mBank, but also mLeasing and mFactoring clients. Thus, we have the opportunity to approach the clients from a more comprehensive perspective and understand them better.

The results of NPS among corporate clients are good and have been improving – the level of NPS (for all the corporate clients) increased by 36% compared with 2015. Still, the NPS is the aim at its own, since what counts is the process of collecting feedback from clients and the actions taken on the basis of it, aimed at improving the clients' satisfaction as regards their relationship with the bank.

We also engage in mystery shopping on a regular basis. Quality audits are cyclically conducted in branches, mLine and the Online expert service. The auditors assess branches in face-to-face conversations, acting as potential and actual clients. We conduct such an audit in different scenarios. The auditors visit branches, contact the call centre, write e-mails, use the Online expert service to obtain information, among others,

about the offer of individual accounts, accounts for companies, loans, deposits or to ask different questions related to the bank's services. After every audit, the level of meeting the applicable standards is assessed.

Our employees also monitor the opinions about the quality of mBank's services registered on the website jakoscobslugi.pl on an ongoing basis. Every opinion is analysed and forwarded to a relevant unit which introduces relevant remedial measures (contact with a branch or person responsible for the area where the clients see room for improvement).

„Closed loop”

Thanks to the results of the research we are more aware of clients' needs and expectations. We strive to determine what we can change and optimise, and finally, in another cycle of research, to assess whether the obtained results are satisfying. This is a kind of a closed loop.

In the survey, respondents may assess, among others, the quality of channels for filing complaints, availability of our employees and clarity of the responses provided by them. We try to reach those employees of the client who are directly involved in cooperation with the Bank and the matter in question in order to ensure that the results are as comprehensive as possible. Opinions of those persons are an invaluable source of information for us. Our employees involved in the satisfaction assessment not only analyse the statistics, but they also review each survey. Relationship managers can view the results of the assessment in the CRM system. Their task is to conduct more detailed interviews and assist in finding a solution to identified problems. Clients' opinions sometimes lead to significant system or organisational changes. What is more, we always endeavour to explain the reasons behind particular solutions (e.g. clients relatively often point to the excess complexity of some specific clauses, which, however, are obligatory regulatory clauses that the Bank must comply with).

The attention we dedicate to analysing business clients' opinions is perceived positively by them. With every year, the number of clients participating in the NPS survey increases. Clients who are positively surprised by the bank's approach more and more often declare that they are willing to recommend our services to other entrepreneurs.

The dialogue with clients is not only an invaluable source of knowledge and a tool helping to improve processes and products. It also directly translates into building trust and long-term partnership relations.

Reliable, clear and transparent communication of products

[PR DMA, G4-PR1] Retail clients have voiced the need for complex banking documentation to be simplified for a long time. We noticed that our agreements did not fulfil the clients' needs and expectations. The conducted qualitative research confirmed that the language used in the agreements was too difficult, while the specialised banking terminology and the rigid document structure discouraged the clients from reading an agreement carefully. We decided that this needed to change and started a new chapter regarding the contact between the client and the bank.

The project entitled Action Renovation is a revolutionary change in the way of thinking about agreements. An agreement has to be understandable for clients as it forms the backbone of their long-term relationship with the bank. This is why we introduced a completely new format of agreements. We removed the unpopular paragraphs which hardly anybody read. Instead, we concentrated on explaining the principles of our products and on provisions which help clients find the content which is of particular interest to them. Our new agreements do not include typical legal terms. Instead, they are presented in the form of the table, some information are highlighted with colours, there are questions and answers, as well as symbols indicating client's obligations and rights or supplementary information. The language of our agreements is simple and clear. We know that our clients are constantly in a hurry and look for information which they need here and now. Therefore, we handle one topic in one paragraph and provide clients with tips on how to adjust a given product to their individual needs. Through an agreement, we want to build partnership and ensure the security of the client's relation with the bank. Clear message and an intuitive structure of the document are our priorities. We address our clients with respect, but at the same time avoid impersonal forms such as e.g. "borrower" or "account holder".

In the previous year, further arguments were subject to changes under Action Renovation. The new agreement form received a very warm welcome from our individual clients. Three out of four agreements

concluded in 2016 were drawn up in the new format. In surveys, clients assessed the agreements as clear or rather clear – nobody evaluated them in negative terms as regards clarity.

mBank simplifies credit agreements

The terms and conditions of a loan in the form of a clear table, with an explanation of the most important financial terms – such is the layout of the new credit agreement of mBank. It is another step taken to simplify all the documents signed by our clients, right after an account agreement.

We have changed a cash loan agreement to make it clear and understandable to the client. This is why, while providing the same scope of information, we decided not to use the difficult, specialist jargon and clauses.

The content of the new document was divided into subjects providing answers to specific questions of our clients, e.g. when they will receive funds, what the repayment schedule and the interest rate will be. Subsequent subpoints are highlighted in different colours, and details are presented in the form of a table. The formal specialist jargon has been limited to the necessary minimum. We explain the most important terms clients may find difficult to understand, e.g. WIBOR or BOK.

The agreement was consulted with clients prior to its introduction. The bank analysed the manner in which clients read agreements, elements they find important and what they want to learn from them.

Simultaneously, the bank has started to simplify the documents for corporate clients. An agreement on secured credit line offered to corporates was the first to undergo changes.

ComplaintsRetail Client

As part of the complaint process management, we systematically analyse clients' needs and spare no efforts to act in line with their expectations. The research we have carried out indicates that the most satisfied clients are those who have never experienced any problems when using the bank's services, this is why we focus our key initiatives on preventing reasons behind complaints.

We do this by:

- analysing a potential risk of complaints when developing new products with the most user-friendly construction possible;
- analysing reasons behind complaints filed by clients and improving other processes on the basis of the conclusions drawn,
- minimising the scale of complaints filed in emergency situations,
- building "client-centric" attitude among the bank's employees.

Once a complaint has been filed, we try to satisfy first the most important expectations of our client, i.e. solve the problem and provide a clear answer in a friendly manner.

We improve the handling process by successively shortening its duration, standardising measures and eliminating downtime.

When communicating with clients, we apply mKanon, i.e. the rules developed by the bank for equal and emphatic communication which takes into account the client's point of view and meets their expectations.

It is very important to us to handle complaints effectively so that a given problem does not happen in the future. We want to serve our clients the way we would like to be served ourselves.

The complaint process does not end in providing a reply to the complaint. We want our clients to assess it on an ongoing basis. Through surveys by phone and e-mail we study clients' satisfaction with the complaint process. The results of these surveys and clients' suggestions provide rich material for analysis and further work on improving quality standards.

A request for feedback in the process of complaint handling

Is the client satisfied with the solution proposed in the process of complaint handling? To answer this question, in 2016 we created a tool for the assessment of the complaint process in the form of an e-mail survey. Upon solving the complaint, the client receives a questionnaire form with 5 questions about our process, i.a. how long it took us to handle the problem, whether the reply to the complaint was exhaustive and whether the problem was effectively eliminated. We also ask our clients for their comments and proposals for the process optimisation.

These questionnaires have become a mine of information about clients' opinions and employees' attitudes.

Clients' reactions are positive and they are willing to share their observations with us. The standard response rate for an e-mail questionnaire totals approx. 3%, while in this case we have a 10% feedback, which gives us over 1000 opinions of clients monthly!

After 5 months from the implementation of this solution, also thanks to several optimisation measures, almost 60% of clients give positive, even enthusiastic opinions about our bank.

We consider it a great success arising from hard work and strong commitment of the teams responsible for complaint handling.

Corporate client

In the process of complaint handling, we consider clients' satisfaction crucial. We try to handle complaints of corporate clients in a quick, thorough and diligent manner.

A corporate banking client may lodge a complaint in a form they find convenient: by phone, e-mail, in writing or in person at a bank's branch. Electronic banking plays an important role in the process. The client may file a complaint via mBank CompanyNet system in an easy and convenient way. Thanks to this channel, a complaint is forwarded directly to the corporate branch maintaining a client's account. Through mBank CompanyNet, the Client is notified of the receipt of a complaint by the bank, the person handling the complaint, and the reply to the complaint once the problem has been resolved.

We consider clients' complaints an indispensable source of knowledge. This is why we try to analyse constantly reasons behind complaints. Using information from clients, we adjust our product offer to their needs and expectations. Customer service quality is also analysed in the complaint handling process, and its standards are improved on an ongoing basis.

Security of clients and their data

[PR DMA, G4-PR8] We regularly update and upgrade the technological solutions used that allow us to protect transaction systems, mobile applications, as well as other IT resources against hostile attacks and any unauthorised actions of third parties. We also monitor unusual behaviours, carry out internal controls and audits to prevent hackers from accessing the bank's IT systems. However, the security of transactions depends not only on the financial institution but also on clients.

The clients who do not pay attention to whether they use secure connection with the bank's transactional system, do not guard their one-off passwords, do not use any anti-virus software, or those who freely disclose their sensitive data expose themselves to risk. The transaction limits on payment cards set individually by the client may also serve as security. We monitor card transactions and detect all anomalies and unusual behaviours that can be a symptom of frauds committed by third parties. A private unsecured PC, tablet or mobile phone, on whose security the bank has no impact, may also pose a threat. A device without an up-to-date anti-virus software, access protection or with applications downloaded from unreliable sources exposes its user to risk.

In 2016 mBank continued its first social campaign promoting online security "You don't do it in real life? Don't do it online!", launched in November 2015. The campaign was addressed not only to the bank's clients but to all internet users who bank and make other transactions online.

Its aim was to explain – via various communication channels, including the website www.mBank.pl/uwazniwsieci – the possible threats lurking online and how to protect oneself from it. The campaign was based on the concept of moving risky online situations to real life. Some well-known vloggers have become the ambassadors of the campaign: Krzysztof Gonciarz on the channel "The Beeczka", the authors of "Abstrachuje" and "5 sposobów na...". They told their followers about risky online behaviour.

Additionally, natemat.pl and aszdzienik.pl websites promoted the campaign with their action, based on the most popular campaign hashtag #mojezlehaslo.

The campaign attracted many viewers, in TV channels it reached over 81% of the target group, over 1 million Internet users visited the dedicated website to find out about the published information, and the average time visit totalled 2 minutes. YouTube spots views totalled over 4 million. In 2016 the campaign was among the finalists of the "Educational business activities. List of the most significant initiatives" project, conducted by the Responsible Business Forum (Forum Odpowiedzialnego Biznesu).

The security campaign hailed the Social Campaign of the Year (May 2016)

In the eighth edition of the Social Campaign of the Year competition organised by the Foundation for Social Communication, 85 projects were entered, out of which the jury selected winners in the 10 main categories. The jury of the competition is composed of experts in social marketing and, in particular, in social campaigns and actions for the public good. The mBank's campaign that drew attention to online security was considered the best in the "Campaigns organised by companies and companies' foundations" categories.

The jury stressed that the first social campaign in mBank's history, "You don't do it in real life? Don't do it online!", used an analogy to convincingly draw attention to threats arising from careless behaviour in the Internet.

Broňa and Robert came back to school to share their knowledge about cyber-security

Broňa Dvořáček and Robert Chrištof, CZ/SK mBank managers, came back to school. As part of the "Bankers go to school" project of the Czech Banking Association (ČBA), they visited secondary schools to discuss with students the important issue of safe online behaviour.

The issue of cyber-security is still slightly underestimated in the Czech Republic. Students of the third and fourth grade, who participated in the "Bankers go to school" project, spend a few hours daily surfing the net. This is why the bank experts tried to draw their attention to online threats, teach them how to identify a hacker's attack and explain preventive measures used by banks.

It turned out that the Czech students are interested in cyber-security; their reactions and questions revealed that they consider the issue important and they are aware of possible risks. On the other hand, most of them give little weight to the issue of mobile security.

In 2014-2015 we did not report any justified claims concerning personal data leakage.

Golden security rules

Security in electronic banking, including mobile banking, depends not only on the bank, but also on you. To avoid threats, one should act carefully and apply the principle of limited trust.

Golden security rules are presented below.

1. Carefully read the information and notifications displayed during logging in and executing transactions. Keep in mind that criminals can make fake websites, including fake bank websites. If you have noticed something surprising in the layout of mBank's website or spotted an odd activity, contact us immediately.
2. Carefully read text messages, including transaction confirmations. The operations, bank account number and amount provided in the message must be consistent with those ordered by you in the transaction service. Pay attention to the content of text messages received from the bank even if you execute transactions very often.
3. If any message or element of the transaction or mobile service has raised your doubts – stop the operation and contact mLine consultant or online expert immediately. We are at your disposal 24 hours a day.
4. Do not open any suspicious e-mails or attachments. Beware of links in e-mails! They may infect your device with malware. That applies to your every e-mail address and all the received e-mails.
5. Do not open the website of the bank's transaction service via a link from e-mail or Internet search engine. Cyber-criminals can fake addresses. Use the log in button on the website of mBank.pl or log in directly at: <https://online.mbank.pl/pl/Login>. Always check whether the connection is encrypted (whether the lock is displayed before the address).
6. Do not install additional software on a computer, tablet or mobile phone on request – bear in mind that the bank never asks for it (especially via e-mails, text messages or messages on the bank's website!). Software or application may be used by cyber-criminals to take control over your device.

7. Bank only using tested devices, avoid logging in on someone else's computers, tablets or mobile phones. Follow the principle of limited trust.
8. Download applications for mobile devices only from official stores: AppStore (for iOS system), Google Play (for Android system), Windows Phone Store or Windows Store (for Windows systems). Software available there is verified, so it guarantees security.
9. Up-to-date and legal software must be installed on your device: an operating system, an anti-virus software and a recommended browser. Cyber-criminals use software vulnerabilities. Updates of legal software often eliminate such "vulnerabilities," thus hampering criminal activities.
10. Carefully read mBank's warnings against new threats. It will help you avoid problems. We keep you posted on the identified threats.
11. Protect your online security and read the following sections: safe online banking from computer, mobile phone and tablet, safe use of credit cards.

Banking without borders

Mobility

[FS13, FS14] In 2000 mBank, at the time a new brand on the market of banking services, revolutionised retail banking. For over 16 years we have been setting new trends and directions in mobile and online banking. mBank has been a synonym for innovative banking solutions. We are a mobile banking leader, we prove that "m" stands for mobility.

At the same time, we are aware that IT and mobile technology change our life and the world around us, giving us comfort, speed and unlimited access to banking services. The moment mBank entered the market, almost overnight everyone who had access to the Internet, the coverage of which was getting broader and broader year after year, was able to use the modern banking services, regardless of their place of residence. It was enough to have access to the internet which was becoming increasingly common.

Our business model of access to banking services automatically became a reply to the threat of exclusion of inhabitants of less urban areas. mBank's social innovativeness consisted in a total redefinition of the business model rather than looking for fragmentary solutions. Banking services became more available to the disabled who had trouble visiting the bank's branch. Since February 2014, our clients have been offered an original and upgraded mobile application built from scratch by our specialists and adjusted to actual needs of its users.

Last year the potential of our bank platform was recognised by the officials of the Ministry of Family, Labour and Social Policy implementing the "Family 500+" programme. As an effect of our agreement, our platform developed to provide commercial banking services has become a convenient tool thanks to which thousands of Polish families could easily apply for the child benefit under the above programme.

The agreement between mBank and the Ministry of Family, Labour and Social Policy concerning the "Family 500+" programme

The agreement between the bank and the Ministry refers mainly to the possibility of using electronic banking system to submit applications under the "Family 500+" programme, thanks to which clients of mBank and Orange Finanse may apply for the child benefit online, without the need to visit the municipal office and present documents in paper form.

Holders of an account with mBank or Orange Finanse could file an application for the benefit on the first effective day of the programme, i.e. already on April 1, 2016.

The application form is available in the electronic banking system upon logging into the bank. The bank transfers the client's application to the public administration system (Emp@tia), and a competent administration authority reaches a decision.

We spare no effort to increase availability of our services. Last year we developed our application and implemented express transfers via BLIK system using the beneficiary's phone number.

mBank develops BLIK. P2P transfers using a phone number available

mBank has introduced into its mobile application the possibility of P2P transfers via BLIK system using the beneficiary's phone number.

mBank's clients using a mobile application and BLIK can make a P2P transfer for the benefit of another person and do not have to provide the beneficiary's account number, even if the latter is an account holder with another bank.

The concept of express transfers executed via BLIK and Express ELIXIR is very simple: no additional authorisation is required and the execution is prompt. In order to receive a transfer via BLIK, you just need to register your phone number in the application. To make a transfer, all you need to know is the beneficiary's phone number. In a couple of seconds, funds are credited to the beneficiary's account. At present, P2P transfers via BLIK may be made between clients of mBank, Bank Millenium, ING Bank Śląski and Bank Zachodni WBK.

#YOLO in banking. mBank with a new offer for the youth

mBank has introduced new financial products developed to satisfy cravings of the youth. A special logo for this group of clients and a new style of communication have been introduced. The bank wishes to get to generation Z, i.e. consumers who are 13-24 year old. By 2020, mBank intends to acquire 0.5 million new clients of the young generation.

Though from the business point of view a young person is an investment for banks, with time their activeness and hence profitability grow even twice.

Regardless of the age group, young people have one thing in common: they do not have own funds. They do not get much from their parents nor earn a lot, but they have vast consumer needs. This is why mSaver is perfect for them – it allows them to put aside small amounts during everyday shopping to use these funds for hobbies and entertainment. We have also prepared mOkazje (mDeals) for them, i.e. discounts for shopping combined with a unique card they can select out of 30 ready designs or design by themselves.

Outlets available to the disabled

[FS13, FS14] The end of 2015 and 2016 were crucial to our bank as far as changes for the benefit of the disabled are concerned. Depending on the type of disability, the client may select the most convenient form of contact and submit an instruction via the transactional system, mLinia available 24/7 (an automated service or a consultant), a bank's outlet or an online expert. What is important, the client may contact us using audio chat, video chat, chat or sign language customer service.

Since the beginning of August 2016, mBank has been offering customer service in the Polish sign language. Deaf clients may have an online video chat with a bank expert who knows the language or use translation services available in every bank's outlet. The initiative is the most comprehensive solution of this kind on the financial services market. The bank has hired consultants who know the sign language and have been working in the deaf community for many years. We have also trained employees from branches so that they are able to help clients with this disability. The communication takes place with the use of an available on-line interpreter from the Polish Association of the Deaf. Before that, we created a dedicated website (<https://www.mbank.pl/pomoc/dostep-zdalny/osoby-niepelnosprawne/>), where the disabled may find comprehensive information on how to contact the Bank the way that suits them the best. Our Bank also actively took part in the work carried out by the team for serving clients with disabilities operating at the Polish Bank Association, jointly creating the guidelines of the "Best Practice".

Our employees participated in training that aimed at sensitising them to the needs of the disabled. All employees of mBank's branches, contact centre, financial services centres and mFinanse underwent the training. 92 employees participated in workshops organised in cooperation with Fundacja Integracja (Integration Foundation), where they had direct contact with a blind person and a guide dog. Exercises and lectures pointed out the barriers encountered by people with disabilities on an everyday basis.

We have also worked out other solutions for our clients, e.g. a person not able to place a signature may, in the presence of an mBank's employee, place a fingerprint on an instruction, agreement or application in paper form in the place reserved for their signature. Then an mBank's employee – at the client's request – enters the client's name and surname, together with own signature and stamp, next to the fingerprint. It is also possible to send documents by mail, i.e. a visit to the branch is not necessary, provided a notary's confirmation has been delivered. Each client may grant a power of attorney.

The majority of our outlets, i.e. approx. 72% , are adjusted to the needs of people in wheelchairs. Moreover, mFinanse representatives may even meet with the client outside the branch, e.g. at the client's home or

another place agreed beforehand. An updated list of branches adjusted to the needs of people in wheelchairs is available on the Bank's website. The typical cash desk furniture in branches is adapted to serving clients standing at the counter, which is a barrier to the people using wheelchairs. However, bank tellers serve disabled clients in wheelchairs not at the counter, but at a table low enough to allow the clients to talk comfortably with our employees.

On the mBank's website, one may find the list of ATMs (including addresses) adjusted to the needs of the blind, i.e. equipped with headphone jacks and voice messages that make it possible to withdraw cash.

It is worth reminding that partially sighted and blind people may use the new transactional system of mBank since November 2015. The new websites have been adjusted to the needs of this group of clients and designed in line with the Web Content Accessibility Guidelines (WCAG). A special software facilitates the use of the transactional system. With the use of a synthetic voice or Braille, the transactional system informs the user about everything what is present on the screen. NVDA (NonVisual Desktop Access) is the recommended software for the transactional system.

One Network

mBank has been rebuilding its branch network. We try to locate our branches in places frequently visited by clients, e.g. shopping malls. Since 2012, mBank has been implementing the One Network Project to end the existing division into retail and corporate branches. They have been replaced by advisory centres and the so called "light" branches located in shopping malls. The advisory centres will be available in all cities where mBank currently operates its branches. They are usually located in modern buildings that can be easily accessed by the disabled.

The newly opened mBank branches stand out from competitors thanks to modern technological solutions – they feature interactive store fronts reacting to motion, innovative touch screens which present mBank's offer in an intuitive way and interesting applications in the children's zone.

mBank's own network is complemented by about 100 outlets of mFinanse which specialises in selling bank accounts, loans, insurance as well as investment and savings products. These outlets are located in shopping malls and operate under the mBank brand. Additionally, the company has ca. 50 back-office units which are visited by clients as well and whose employees meet with clients also outside the outlets of mFinanse.

Compliance with regulations

[G4-S07, G4-S08, G4-PR2, G4-PR4, G4-PR9] On 29 July 2016, the President of the Office of Competition and Consumer Protection (UOKiK) issued the so-called material standpoint regarding the class action against mBank heard by the Court of Appeal in Łódź on the initiative of a group of borrowers having mortgage loans denominated in CHF (file no.: I ACa 1058/15). The case pertained to loan agreements with a variable interest rate. The standpoint of the President of the UOKiK was submitted to the Court of Appeal.

The Supreme Court, which examined mBank's appeal against the rulings of the first and second instance courts, decided that the basis for setting the variable interest rate (laid down in those agreements) was not legally flawed, therefore the agreements were binding upon both the borrowers and mBank. The Supreme Court found solely that a part of the applied clause was abusive. This rules out the possibility of deeming the loan agreements null and void.

Despite this fact, the President of the UOKiK presented an opinion that, in fact, ignores the decision made by the Supreme Court in this respect.

It should be stressed that not only the Supreme Court represents this standpoint since similar rulings have been issued by courts of lower instances in similar cases.

At the beginning of September 2016, the Supreme Court dismissed mBank's appeal against the ruling of the Court of Appeal in Szczecin regarding a request for cancellation of enforceability of an enforceable title (the bank's enforcement title with an enforcement clause) in one of individual cases. In that case, however, the Supreme Court did not take into consideration the indexation of the disputable loan. The Supreme Court emphasized that the loan granted by the bank should be repaid.

In 2016, the Office of Competition and Consumer Protection (UOKiK) did not make any decisions which would result in penalties being imposed on our bank or any of the subsidiaries covered by this report.

More information on regulations in chapter 2.2. Regulatory environment.

Educational activities

[SO DMA, G4-SO1, FS16] mBank's foundation (mFoundation) represents the social involvement of mBank. mFoundation, established as BRE Bank Foundation in 1994, was one of the first corporate foundations in the banking sector.

Its mission is to support programmes aimed at enhancing education and quality of life through actions coherent with the image and policy of mBank. In line with the "m for mathematics" ("m jak matematyka") strategy, adopted in November 2013, mFoundation focuses its efforts on supporting mathematical education. The strategy pursued in 2014-2016 will be also followed in 2017-2020.

The "m for mathematics" strategy constitutes a response to one of the key social problems which is a widening gap in science education. The lack of basic knowledge and skills connected with elementary mathematics hampers the development of competences necessary to make conscious financial decisions and, at the same time, is an obstacle limiting the number of science and technology graduates. This may, in turn, take its toll on the supply of engineers and on the development of enterprises operating in Poland. Looking at the issue comprehensively and going beyond the banking area, we decided to focus on mathematical education.

A step towards the future: even PLN 20 thousand for the best thesis in mathematics from mFoundation

In 2016, we launched the first edition of an annual competition: "A Step towards the Future" ("Krok w przyszłość") for the best student thesis in mathematics. The winner will be awarded the "STEFICIO" statuette and PLN 20 thousand.

Each year the best students and graduates of mathematics will be awarded for presented and defended master's or bachelor's theses or for theses in mathematics written independently and published in international scientific journals.

A single pool of prizes awarded by mFoundation totals PLN 40 thousand. The jury, headed by Prof. Paweł Strzelecki, dean of the Faculty of Mathematics, Informatics and Mechanics, University of Warsaw, awards the main prize amounting to PLN 20 thousand and two distinctions of PLN 10 thousand.

The best thesis in mathematics should promote innovative and original solutions or set new research directions or methods. In addition to the financial award, the author will receive the STEFCIO statuette. The name of the statuette reminds of the achievements of Stefan Banach, an outstanding Polish mathematician. The prize will be awarded every year on March 30, on the birth anniversary of Stefan Banach.

A new grant programme: "Holidays with Mathematics" for children from Łódź

In 2016, mFoundation for the first time organised the "Holidays with Mathematics" ("Wakacje z matematyką") grant competition addressed to local non-governmental organisations, libraries and informal groups under the honorary patronage of the President of the City of Łódź. The winners could receive even PLN 5 thousand for the organisation of holiday activities promoting mathematics among children from Łódź. Seven beneficiaries were awarded grants in the pilot edition of the programme. As many as 661 children and teenagers took part in over 200 hours of maths classes.

Children, teenagers, teachers and parents are, in particular, the beneficiaries of the actions supported by our foundation. Primary schools, lower secondary schools and secondary schools, NGOs, tertiary education institutions and public libraries may apply for grants as part of the foundation's programmes. All projects supported by the foundation increase the quality and effectiveness of mathematical education in Poland.

mFoundation spent a total of PLN 2.9 million on mathematical education in 2016.

The "m for Mathematics" strategy ("m jak matematyka") was pursued through three flagship activities: grants, the "mPower" ("mPotęga") grant programme and the "Masters of Mathematics" ("Mistrzowie matematyki") scholarship programme in 2016. mFoundation provides one-time financial support to development projects in the scope of mathematical education. Applications for grants may be submitted throughout the year and are examined once a month. In 2016, mFoundation supported 75 mathematical projects covering almost 70 thousand students, teachers and parents. In total, in the first three years of the strategy, nearly 190 thousand beneficiaries took part in the activities supported by the foundation.

The grants from mFoundation were used to support local and countrywide projects. We supported 26 schools, 27 non-governmental organisations, three tertiary education institutions and six kindergartens in 2016.

Another key initiative of mFoundation is the "mPower" grant programme executed in cooperation with Good Network Foundation (Fundacja Dobra Sieć). The purpose of "mPower" is to develop mathematical skills in the younger generation by inspiring teachers, parents and enthusiasts of mathematics to seek creative and attractive ways of learning the world of numbers by children and young people. The grants of up to PLN 5 and 8 thousand may be applied for yearly by primary and secondary schools as well as social organisations, tertiary education institutions, libraries and non-formal groups (research clubs, parent councils) represented by a partner organisation.

mPotęga became a countrywide programme in 2016. As many as 210 out of 880 applications sent were awarded grants. The total amount of the awarded grants was three times higher than in the previous year and reached PLN 1.2 million. Over 55 thousand beneficiaries took part in the projects conducted within the third edition of mPower. For more information on the programme go to www.mPotega.pl

Gold for mPower

The 2016 edition of the Golden Banker competition had for the first time featured the "Socially Responsible Bank" category. Both the title and a golden statuette were given to mBank for the mPower grant programme organised by mFoundation.

The Golden Banker competition was held by *Bankier.pl* and *Puls Biznesu* for the seventh time. One of the several new categories for financial institutions that year was the "Socially Responsible Bank" category. The winners were selected by Internet users in a vote. Most of them voted for mBank's Foundation and its mPower grant programme. "Socially Responsible Bank" was one of the most popular categories in the poll - Internet users voted more willingly for CSR activities than for the best advertising spot.

The mPower grant programme is one of the key activities of mBank's foundation conducted within the CSR Strategy titled "m for Mathematics". An underlying aim of the programme is to bring mathematical education to the young generation - students of primary and secondary schools. The previous two editions of the programme enabled the execution of 96 mathematical projects in which over 16 thousand students and parents participated.

The foundation runs also the "Masters of Mathematics" programme, addressed to NGOs which offer scholarship programmes as part of their statutory activity. These organisations may apply for subsidising scholarships for pupils and students who are outstandingly talented in the field of mathematics. In 2016, mFoundation granted twelve non-governmental organisations PLN 333 thousand for scholarships for 156 talented mathematicians. In total, including the first and second edition of the programme, the foundation awarded 400 scholarships to talented young mathematicians.

For more information on the foundation's activities, including the Activity and Financial Report for 2016 go to www.mFundacja.pl.

7.2. Goal 2: We want to be a responsible lender

Measure (KPI)	2016 Target	2016 Actual
Number of major social or environmental conflicts in which mBank, being a financial institution, participates indirectly	0	✓ 0

Follow what you borrow (Kredyt ma się rozumieć™)

We want our clients to make conscious decisions, especially when they are connected with cash loans. At the end of 2015, our clients could see the first results of the "Responsible Lending" ("Odpowiedzialne kredytowanie") programme which is composed of a few significant changes.

Constructive communication of the credit process

The first change refers to communicating rejections. Clients used to receive terse information about their loan application being rejected. Since the beginning of December 2015, clients whose loan applications were rejected have been informed about the reasons for it in an open and precise manner. Additionally, clients are informed about which steps they may take and who they may contact. Sometimes it is sufficient to close a credit card the client does not use or to clarify issues which have an adverse effect on the client's scoring in the Credit Information Bureau's reports, in order to receive a positive answer during the next creditworthiness assessment. We changed also the graphic layout of rejection letters to make them more friendly and readable.

Since December 2015, client advisors may inform their clients about the reasons behind negative decisions.

We promote clear and friendly communication in the whole credit process. Our clients are informed about subsequent stages and can follow them so that they know what is happening to their loan applications. The time needed to examine a loan application is usually shorter than twenty minutes.

The ABC of Loans

Another area was connected with launching The ABC of Loans (ABC Kredytu) subpage on mBank's website (<https://www.mbank.pl/indywidualny/kredyty/abc-kredytu/>). A cost calculator was launched in December and a whole website devoted to responsible lending featuring a creditworthiness calculator, a tool that proved to be the most popular with clients, were launched in Q1 2016. In June 2016, communication was completed with information leaflets regarding lending and the assessment of creditworthiness.

mBank Group adopts "Good Practices on Consumer Loan Advertising Standards" ("Dobre praktyki w zakresie standardów reklamowania kredytu konsumenckiego", July 2016)

The recommendations have been worked out in cooperation with the Polish Bank Association (Związek Banków Polskich), the Conference of Financial Companies (Konferencja Przedsiębiorstw Finansowych) and the Loan Companies Association (Związek Firm Pożyczkowych). They pertain to creating advertising messages by financial market entities. The aim of the recommendations is to standardise the scope of information provided in advertising messages, which will enable clients to compare various offers. The recommendations focus on three aspects: the manner of presenting the legal guidance, general guidelines for creating advertising materials and the specification what an advertisement of a credit product should look like depending on the information carrier, in order to be understandable and transparent to the recipients of the message.

Refusal to finance irresponsible business activities

[d. FS1, d. FS2, d. FS3] mBank formally supported the Ten Principles of the UN Global Compact in 2015, thus becoming a signatory of the initiative. Our support for this initiative was a conscious decision as a consequence of which we decided to limit relations with enterprises breaching the UN Global Compact's principles. Apart from the standard mechanisms of business risk assessment in the banking sector, which include reputation risk assessment, we formally adopted the "Policy on Providing Services and Financing to Entities Operating in Areas that are Particularly Sensitive in Terms of mBank's Reputation Risk". This policy imposes restrictions on providing services to enterprises that conduct business activity:

- based on child labour, forced labour, slave labour, labour connected with forced resettlement or blatantly infringing human rights in any other way;

- focused on economic exploitation of valuable natural areas under protection (including the Arctic), and resort to gross violation of environmental regulations;
- that threatens world heritage sites.

The restrictions apply to the credit process and bank account opening. They apply to new clients and new financing of existing clients, including rollovers, starting from January 1, 2016.

Our other procedures, indirectly, take account of the impact of the client's operations on the social and natural environment. In the case of financing investments (e.g. industrial investments), we primarily try to eliminate legal risk (it is verified whether a given investment has legally binding decisions and permits issued by competent authorities). We limit the risk of investing clients' funds in projects carried out in violation of the law (e.g. projects where the necessary public consultations were not conducted or those which do not compensate for the expected environmental losses). In the case of big investment projects financed with syndicated loans, we employ a technical advisor or demand that one is employed, to supervise the investment process and monitor it on an ongoing basis. As a result we are able to identify potential irregularities, including those concerning social and environmental aspects, on time. At the stage of drawing up the credit report, as part of the assessment of market environment, our representative may indicate social and environmental risks. The analyst assessing the risk may in justified cases forward the case to a higher decision making level, and the case, through the credit committee, may reach the management board.

7.3. Goal 3: We want to build an exceptional team, competence and skills. We want to share what's best about us with others. We want to be unique

Measure (KPI)	2016 Target	2016 Actual
Results of the Employee Engagement Survey (assessment of workplace satisfaction)	>100% compared with the previous period	There has been a slight decrease (4 p.p.). Simultaneously, the indicator of employee satisfaction has increased during this period by 7 p.p.

Organisation and its culture

[LA DMA] The most important internal regulations governing issues connected with employment and employee management include the "Work Rules at mBank", "Remuneration Rules at mBank" and "Rules on Awarding Bonuses to mBank Employees". They are supplemented by procedures regarding recruitment, development activities, and employee evaluation. Particular policies and procedures are adopted by mBank and then by its subsidiaries. In practice, as far as the characteristics of the conducted business activity do not require any exceptions, the same solutions are applied in whole mBank Group.

mBank Group's incentive system

The incentive system of mBank is based on the remuneration policy and intangible elements (e.g. possibility of career development). The incentive system plays a key role in developing corporate culture and builds a competitive advantage by acquiring and retaining competent employees.

The remuneration policy at mBank covers both the base salary (fixed component) as well as the variable part depending on the objectives achieved by the whole organisation and by individual employees.

In 2016, incentive programmes both for the Management Board Members and Key Managers were implemented at mBank Group.

Incentive Programme for the Management Board Members of the Bank

On March 14, 2008, the Ordinary General Meeting of mBank adopted an incentive programme for the Management Board Members of mBank.

Under the programme, the Management Board Members of the Bank have the right to take up bonds with pre-emptive right to take up shares of mBank and, as originally planned, to take up shares of Commerzbank AG. In 2010, the programme was changed in the part concerning shares of Commerzbank, so that the

Management Board Members may obtain the right to receive a cash equivalent corresponding to the value of the shares of Commerzbank calculated on the basis of the average share price on the date when the right to receive the equivalent originated.

All the rights under payments settled in cash equivalent based on shares of Commerzbank and all the rights under payments settled in mBank S.A. shares within the framework of the programme have already been granted. The last settlements under this programme will take place in 2016.

On December 7, 2012, the Supervisory Board decided to replace the 2008 incentive programme with a new incentive programme. Under the new programme, the Management Board Members of the Bank have the right to receive a bonus, including a "non-cash bonus", paid in the Bank's shares, including phantom shares (i.e. virtual shares).

The non-cash bonus, in which members of the Board have a right to take up bonds with pre-emptive rights to acquire shares, was granted under the programme for 2012-2013. The right to purchase the bonds will be realized in three equal annual deferred tranches, on the lapse of, respectively, 12, 24 and 36 months from the date of acquiring the right to non-cash bonus by the Management Board Member. Conditions of receiving as well as the amount of deferred tranche not paid out yet under non-cash bonus depend on the assessment of the financial position of the Bank by the Remuneration Committee and the performance evaluation of member of the Board for a period longer than one financial year.

The bonds may be acquired by the eligible people over the years 2014-2021.

On March 31, 2014, the Supervisory Board acting in line with the recommendation of the Remuneration Committee approved the mBank S.A. Incentive Programme Rules which replaced the mBank S.A. Incentive Programme Rules of December 7, 2012.

Under the programme, the Management Board Members of the Bank are eligible to receive a bonus, including a non-cash bonus paid in Bank shares, including phantom shares.

The basis of the acquisition of the right to receive a bonus and of the calculation of the bonus amount for a financial year includes:

- net return on equity (net ROE) of mBank Group;
- monthly remuneration of the Management Board Member at December 31, of the financial year for which the bonus is to be awarded.

One part of the base bonus is the equivalent of 50% of the base amount calculated depending on the ROE. As the remaining 50% of the base amount, the Remuneration Committee of the Supervisory Board may award the other part of the bonus if it decides that the Management Board Member has achieved the annual/multi-annual business development target. The decision whether to award the other part of the bonus is made at the sole discretion of the Remuneration Committee of the Supervisory Board, which uses its own judgment to confirm whether the MbO are achieved, taking into account the situation on the financial markets in the previous financial periods.

The two parts of the bonus constitute the base bonus of the Management Board Member for the financial year. 40% of the base bonus is not deferred and is paid in the year when it is determined, as follows: 50% in cash and 50% in Bank shares, or bonds with a pre-emptive right to take up shares, or phantom shares.

The remaining 60% of the base bonus is deferred and paid in three equal tranches in three subsequent years after the year when the base bonus is determined, as follows: 50% of each deferred tranche in cash and 50% of each deferred tranche in Bank shares, or bonds with a pre-emptive right to take up shares, or phantom shares.

The Supervisory Board acting on the basis of a recommendation of the Remuneration Committee of the Supervisory Board may decide to withhold the full amount or to reduce the amount of the deferred tranche depending on later assessment of the performance of the Management Board Member in a time horizon longer than one financial year, i.e., for a period of at least 3 years, taking into account the Bank's business cycle as well as the risk inherent in the business of the Bank but only if the action or omission of the Management Board Member had a direct and negative impact on the financial results and the market

position of the Bank in the period of the assessment, and only if at least one of the elements covered by the score card is not achieved.

The Remuneration Committee of the Supervisory Board may decide to withhold the full amount or to reduce the amount of the non-deferred and deferred bonus for the financial year, including the deferred tranches not yet paid, in cases referred to in Article 142.1 of the Banking Law Act. Withholding the full amount or reducing the amount of a non-deferred and deferred bonus or any deferred tranche by the Remuneration Committee of the Supervisory Board may also apply to a deferred and non-deferred bonus, including a deferred tranche not paid to a Manager following the expiration or termination of the contract.

2008 Incentive Programme for Key Managers of mBank Group

On October 27, 2008, the Extraordinary General Meeting of the Bank adopted an incentive programme for the key staff of mBank Group, i.e. Bank's Directors and representatives of the key staff.

In 2010, the Management Board of the Bank decided to launch the programme and approved the list of participants for Tranche III. Within Tranche III 13,000 options were granted. In 2011 within the Tranche IV and V programme 20,000 options and 19,990 options were granted. The rights started to be exercised in 2012 for Tranche III, in 2013 for Tranche IV and in 2014 for Tranche V. In 2011 a decision was taken on suspension of the programme and not activating the remaining tranches. All the bonds granted within this programme have been already acquired by the entitled persons.

On April 11, 2013, the Extraordinary General Meeting of the Bank adopted a resolution amending the rules of the employee programme, which replaced the incentive programme for key management staff of mBank Group from 2008.

The aim of the programme is to ensure growth of the Company's shares value by linking the interest of the key staff of mBank Group with the interest of the Company and its shareholders and implementing variable components of remuneration of persons holding managerial positions in the Group in accordance with the Resolution of the Polish Financial Supervision Authority.

During the programme the rights to acquire bonds under Tranche VI have been granted, which may be exercised in three equal parts after 12, 24 and 36 months from the date of granting these rights, in accordance with the internal regulations adopted in mBank Group specifying rules of variable remuneration of the employees having a material impact on the risk profile at mBank Group. The bonds may be acquired by the entitled persons during the programme term, but not later than by December 31, 2022.

On March 31, 2014, the mBank Supervisory Board acting in line with the recommendation of the Remuneration Committee approved a resolution amending the employee programme rules, which replaced the 2013 employee incentive programme for key staff of the mBank Group; however, for persons who acquired bonds or were granted the right to acquire bonds in Tranche III, IV, V or VI, the programme will be carried out under the existing principles.

Starting with Tranche VII, the right to acquire bonds granted to an eligible person will be divided into four parts exercisable as follows: one part – non-deferred bonds representing 50% of 60% of the discretionary bonus amount granted for the financial year in the year when the right was determined, and then subsequent three equal parts – deferred bonds representing 50% of 40% of the discretionary bonus amount granted for the financial year on the lapse of 12, 24, and 36 months after the date that the right was granted, in accordance with internal regulations of mBank Group governing the rules of variable remuneration for mBank risk-takers.

The Management Board of the Bank/the Supervisory Board of a subsidiary may decide to suspend the programme in whole or to reduce the number of non-deferred or deferred bonds in a given tranche for an eligible person in cases referred to in Article 142.1 of the Banking Law Act, i.e., occurrence or risk of a balance-sheet loss, risk of insolvency or bankruptcy, conditions laid down in agreements with programme participants under which work or other services are provided to the Bank and the subsidiaries.

Detailed information on the incentive programmes is presented in Note 44 to the Consolidated Financial Statement of mBank Group for 2016 under the International Financial Reporting Standards.

Management by Objectives (MbO):

Since 2011 mBank has been operating a management by objectives system (MbO). For a few years now the MbO system has covered not only mBank employees, but also all the employees of the key subsidiaries of mBank Group, thereby ensuring effective cooperation and communication across mBank Group.

The process of setting and cascading MbO objectives for 2016 started in late 2015 in both mBank and selected subsidiaries of the group. We placed a strong emphasis on solidarity and integration objectives as well as those driving cooperation in mBank and across the Group. It is a long-term process which will, in effect, provide mBank Group with a lasting competitive advantage and a tool which supports its long-term strategy on an ongoing basis.

The MbO system supports the implementation of 2016-2020 Strategy. The knowledge of strategic goals will allow mBank Group to focus employees' involvement on the most important issues, improving their effectiveness and saving time.

The MbO system has the following functions in the organisation:

- it translates directly into mBank's and mBank Group's performance by imposing discipline and involving the entire organisation in the achievement of results;
- it forms a direct communication platform which enables sharing information on the role and involvement of individual employees in developing the organisation and achieving the strategic goals of mBank.

[G4-LA2] At mBank we offer employees fair terms and conditions of employment, in every aspect. We have a comprehensive approach to remuneration policy (i.e. we look from the perspective of the whole remuneration, including the basic remuneration, commissions and bonuses). We want to offer our employees a friendly and discrimination free workplace. In particular subsidiaries, we offer a very similar range of employee benefits, e.g. we co-finance access to private medical care and to sports facilities (sports cards).^{*} Additionally, employees have also the possibility of joining a group life insurance.

** Sports cards were available in mLocum until H2 2016. They are to be made available again in 2017.*

Family Care - a pilot project

As an employer, we are aware how difficult it may be to combine career and family. That is why we invited employees who are parents to participate in a pilot phase of the new Family Care benefit. The aim of the pilot phase was to better understand the needs of our employees and help us decide whether to offer this benefit on a permanent basis.

The assumption of the programme is to ensure professional babysitting at home in emergencies when an employee cannot take care of his/her child on his/her own or just needs a break. Care and nursing services will be provided by persons with relevant education and experience verified during a multi-stage recruitment process.

The pilot phase lasted six months (from April 1 to September 30, 2016) and was funded by the bank. As many as fifty mBank's employees at any location in Poland could take part in the programme.

The Employee Benefits Fund allows us to support current employees and those who have retired for whom mBank was the last employer. Such support is available to current and former employees and their closest ones who are in a difficult personal situation (e.g. sickness). In justified cases we finance periodic medical care (medical pre-paid package) for mBank's retired employees. The same fund is used to finance home repair loans, holiday benefits, sports and recreation as well as cultural and educational activities.

What is important, we do not differentiate employees according to the type of employment contract - all employees (employed for a trial period, for a fixed term, for a fixed term of substitution as well as trainees and interns) have access to the same employee benefits.

"Quitting Smoking May Backfire" („Nie rzucaj, bo wróci”) – an anti-nicotine programme for employees of mBank Group

World No Tobacco Day, created by the World Health Organisation (WHO), is observed every year on May 31. On this occasion, all employees of mBank Group were invited to participate in an anti-nicotine programme.

During information meetings conducted by a therapist in Łódź and Warsaw, participants learned what a cognitive behavioural therapy is, why conventional methods of giving up smoking do not work and how to free yourself from the nicotine trap – without the pain of quitting smoking, quickly and effectively.

Smokers had also the opportunity to enroll on one-day training sessions/therapy sessions which were a key part of the programme. The costs of this event were fully borne by mBank.

[G4-LA10] Our goal is to strengthen and popularise a unique organisational culture in the Group's subsidiaries, which has allowed us to create the innovative brand of mBank. It also makes our bank one of a kind. We wish to encourage our employees to develop their skills, enhance their competences and broaden their, often very special, interests. We not only provide training sessions and programmes aimed at developing managerial, sales and communication competences, but we also support social engagement of our employees and any activities they take to pursue their passions.

We want all our staff (especially those who have just joined mBank) to feel welcome in our organisation, know the rules we adhere to and the values we cherish. That is why new employees, including interns, undergo an introductory training, during which they gain information on procedures, products, history and current activities of the bank.

Banking Talents 2016 are in full swing!

On October 5, 2016, a campaign called "Young Talents Development Programme" was launched. As every year, the Banking Talents campaign follows a multi-channel model, using both offline and online means of communication. We promoted our rotational internships during Absolvent Talent Days in Łódź and Warsaw, AIESEC Career Days at Warsaw School of Economics, at the Faculty of Economic Sciences of Warsaw University and during University Job Fair organised at the Faculty of Management of Łódź University.

For mBank and its subsidiaries development means more than just training sessions. The holistic approach allows us to complement theoretical knowledge with practical experience. We also have specialist tools of knowledge sharing at our disposal. One can choose from a wide range of development tools, from traditional to non-standard ones. Typical forms of development measures are internal and external training, Insight Discovery workshops (allowing optimisation of teams' work and cooperation of their members), or off-site workshops (improving communication, developing organisational culture). At the same time, apart from development group activities, employees are individually directed to specialist training, courses and certified exams (e.g. ACCA, CFA, CIA, brokerage exams), postgraduate studies, MBA studies, training for legal advisers or coaching. Voluntary activities also play an important role in educating our employees. Helping others is a chance to gain valuable skills and it requires cooperation, project management and empathy.

We encourage our staff to pursue their passions and interests, which enables them to strike a balance between their professional and private life. The right work-life balance has been promoted in our company for years. An example of effective and proactive response to the need to get away from daily work-related problems was launching mBank Clubs. The initiative has been expanding for almost 20 years, gathering people passionate about skiing, tennis, triathlon, volleyball, cooking, board games, fishing and many more. Members of the clubs are ever more willing to get involved in charity work, e.g. take part in charity runs.

We have also been running the "Our people make the difference" ("Wyróżniają Nas Ludzie") programme for a long time. Its aim is to promote employees who stand out because of professionalism of their actions, collaborative attitude and open communication manner. It serves to build the awareness of the organisation which appreciates attitudes consistent with mBank's values as well as the quality of the work performed. The programme allows us to recognise and promote employees who e.g. subscribe to mBank's values through their actions and attitudes, are ahead of time owing to their way of thinking and ideas, show extraordinary involvement, exceeding their basic scope of duties, and contribute to implementing innovative solutions. Employee nominations for the programme are announced once a year. Employees are

recognised in both individual and team categories. Successful employees are provided with special development opportunities, tailored for every single edition.

Annual employee engagement survey is of key importance for planning activities in the area of human resources management. It is carried out both at mBank and mBank Group's subsidiaries. Its results tell most about satisfaction at work and the work atmosphere. An interesting element of the survey is the possibility for employees to communicate their ideas on how to improve work or other anonymous feedback to the organisational units with which they cooperate. We try to encourage employees to share their views, ideas and knowledge. A great example of this principle is the "Knowledge Sharing Programme".

[G4-56, G4-LA11] The planning and employee appraisal system allows gradual transfer of strategic goals to successive levels of the organisational structure (Management by Objectives). According to the Management by Objectives system (MbO), the objectives of the management board are translated into objectives of directors. Directors delegate these tasks to managers and managers assign them to employees in particular teams. Every objective, both quantitative and qualitative, has defined measures which serve as the criteria for its fulfilment. Employees' behaviours and attitudes are also subject to assessment. The model of values and behaviours of mBank Group determines expectations in this respect, which form a benchmark in the appraisal process.

Every manager holds individual appraisal meetings with his/her employees. The employee receives feedback from the manager about the effects of his/her work and the manner of performing tasks. This is the moment when the manager expresses his/her appreciation of the strengths and indicates the areas which the employee should improve. The evaluation of attitudes and behaviours was first made during the appraisal for 2015, in Q1 2016.

Cooperation with Łódź University in creating a new study programme

The Digital Banking and Finance undergraduate course at the University of Łódź has been developed by mBank and Accenture since its very beginning. This has given our employees a unique opportunity to prove themselves as lecturers. Students, on the other hand, have a chance to obtain practical and up-to-date knowledge directly from practitioners.

Following in the footsteps of the largest and most innovative companies in the world, mBank wishes to cooperate with the academic circles in educating its future employees. In our opinion, the market demand for finance specialists with extensive digital expertise is still very high. As the course aims at shaping these exact qualifications, its graduates will make sought-after employees.

The course takes three years. Graduates are awarded a bachelor's degree. After completing a year and a half, students are able to select one of the following majors: Banking 3.0 and IT in Finance. First 100 students started the course in October 2015. As many as 50 employees of the bank are involved in forming the contents of the course.

Employee volunteer projects at mBank

The Employee Volunteer Projects Programme "Let's Do Something Good Together" ("Zróbmy razem coś dobrego"), which was created in response to employees' expectations, is supposed to make it easier for employees to get involved in voluntary and grass-roots activities for local communities. We provide the volunteers with professional, organisational and financial support.

The programme is addressed to all employees of mBank Group's subsidiaries and is conducted in the form of a grant-awarding competition. Employees may propose and engage in actions resulting from the interest in social problems in their communities. They can submit their projects three times a year. They may include children's homes, nursing homes, social care centres, community centres and public schools, hospitals, kindergartens, animal shelters, foundations and associations. The decision on awarding the grant is made by a chapter composed of representatives of the bank and mFoundation. Over 7 years of the programme's existence, approximately 100 initiatives had been provided with support. In 2016, the interest in the programme was not very high though, and only 3 projects were granted financing. These included: "days with maths" at a kindergarten with the integration programme, scientific and technical competitions combined with a trip to Multicentrum Zodiak (educational centre) in Częstochowa and training sessions for primary school teachers in economics and finance (also, providing teachers with scenarios for economics and finance classes).

Prevention of unethical behaviour

[G4-56, SO DMA] What plays a key part in prevention of unethical behaviour is the effective and continuously improved procedures and tools as well as measures aimed at educating and building mindset of employees. This refers both to dangers and effective detection of behaviours that are not tolerated in the organisation, as well as inevitability of consequences in the case of breach of principles applicable at the bank. When speaking about mBank's policies, in practice we mean solutions implemented at mBank Group (additional procedures apply at mBank's Brokerage Bureau, which was included in the structure of mBank S.A. in 2016. Due to the specifics of brokerage operations and existing legal regulations, additional solutions are needed e.g. in the conflict of interest area. The unit also has its own supervision services).

Rules of conduct. Code of Conduct

The "Rules of Conduct. Code of Conduct" ("Zasady Postepowania. Code of Conduct") entered into force by the Resolution of the Management Board of mBank dated June 13, 2016.

The Code of Conduct comprises most important rules applicable at the bank, including first and foremost the values which form the foundations of our business philosophy. It reminds us that we provide financial services to our clients by connecting modern banking with traditional values: honesty, trust and professionalism.

The Code of Conduct is a set of best practices, which includes guidelines binding on all employees. The document defines basic rules regarding the allowed and prohibited business and financial practices, appropriate behaviour at work and social responsibility. The document covers both the relations inside the company and the contact with external providers and partners. It is not intended to replace the existing internal regulations. It has been designed to facilitate the decision-making process and indicates persons and units to which one should report any doubts or suspicions of frauds.

We provide the system via which employees, clients and third parties can anonymously inform the bank about suspected frauds and actions that are illegal or contrary to good morals (available at the bank's home page www.mbank.pl). We guarantee that the identity of persons who report irregularities will be kept confidential and that they will bear no negative consequences, also if their reports are not confirmed during the conducted investigations.

The rules of conduct are binding on all employees, management and members of the management board. We expect that similar rules will be applicable in whole mBank Group.

The management approach related to the prevention of unethical behaviour is regulated by the following policies:

- Anti-Corruption Policy,
- Gift Policy,
- Anti-Fraud Policy,
- Policy of Managing Conflicts of Interest.

We have decided to adopt several separate documents due to the specifics of financial services, which require due diligence and thus, detailed regulation in these documents. Compliance with the above policies is supervised by mBank's Compliance Department, and its counterparts in each subsidiary. The Compliance Department ensures compliant functioning of particular mBank Group subsidiaries (different solutions apply at mBank's Brokerage Bureau, which, despite being a part of mBank S.A., is supervised by its own Law Compliance Supervision Bureau).

Fraud is a deliberate use of an official position or status of mBank's client or counterparty in order to receive unauthorised benefits to the detriment of mBank or its clients. The category includes frauds related to payments or securities, fraudulent banking transactions, electronic banking frauds, credit frauds, theft, embezzlement of assets or abuse of trust, money laundering, unauthorised access, manipulation or destruction of IT systems, industrial espionage or unauthorised transactions, business and trade practices.

At mBank, we maintain a central data base on frauds and organise training sessions in fraud-prevention and early recognition of fraud symptoms for selected employees. Each employee is obliged to inform his/her supervisor about any suspicions or use an electronic system that guarantees anonymity. At the same time, it is forbidden to provoke any acts of retaliation against an employee reporting (in good faith) suspected fraud or breach of internal regulations.

Employees terminating their employment with mBank can share their opinion on their work at the exit interview, also with regard to the observed frauds (their participation in the exit interview is voluntary).

The fight against corruption forms an integral part of the system designed to combat any fraudulent actions that could jeopardise the assets and reputation of the bank. In addition, thanks to its measures against money laundering and terrorism financing, the bank mitigates the risk of being misused for the purposes of processing payments involving ill-gotten funds.

Internal regulations specify in detail the rules for giving and accepting gifts. Accepting gifts from the bank's counterparties is forbidden except for holiday gifts considered standard in business relationships. The value of gifts should not exceed PLN 250. Similar rules apply to giving gifts by our employees. Accepting or giving a gift of higher value requires relevant consent and is documented in the gift register. In 2016, detailed solutions in this respect were introduced, which made the policy even stricter.

[G4-SO6] As we generally aim at ensuring that our activities remain fully apolitical, particular attention is given to making employees aware of the ban on offering any kind of benefits to government officials, representatives of public institutions, civil servants, public sector or local government workers, as well as politicians, and to guaranteeing that the ban is strictly observed.

[G4-SO3, G4-SO4, G4-SO5] Within the relevant systems of internal control, all (100%) organisational units, areas of the bank's operation and job positions are subject to periodical inspections covering business processes that are vulnerable to corruption to the greatest extent. In practice, it translates into several dozen planned or *ad hoc* inspections annually. We also guarantee all the employees (100%), including managerial staff or cooperating entities, support in counteracting corruption behaviour, also in the form of training. We maintain the register of proceedings instigated with regard to corruption. All identified corruption incidents or corruption attempts are punished in accordance with the rule of "zero tolerance" for any fraudulent activities. In 2016, the Compliance Department did not identify any incidents bearing the hallmarks of corruption.

The adopted solutions for counteracting conflicts of interest guarantee equal treatment of clients, and assure that neither mBank nor its employees or other persons linked to mBank benefit or avoid losses at the expense of the interests of mBank's clients. In the case when the conflict of interest arises or may arise, the interests of the bank and its clients have priority over the employee's interests, and the interests of its clients have priority over the bank's interests. Special solutions in this regard apply at mBank's Brokerage Bureau due to potential risks arising from conflict of interest, which accompany brokerage operations.

The compliance units are informed of any identified or potential conflicts of interests related with the activities of a given organizational unit or its employees. They conduct analyses of the reported conflicts of interest and issue recommendations on the procedure to be applied in a given case. Reports on the occurrence or the possibility of occurrence of conflicts of interests are archived.

Ergonomics and security

[LA DMA] Occupational health and safety procedures in particular mBank Group subsidiaries are uniform, i.e. are consistent with the procedures applicable at mBank S.A. We wish to ensure that our employees work in suitable, safe, friendly and fair conditions. The office nature of the job keeps the risk of typical accidents at work at a moderate level. The only risks that may be considered significant are the ones arising from transport accidents in the case of employees using company cars. Persons working in warehouses (mCO) may have to perform their tasks at the height of over 3 metres, which may in turn pose additional risks and requirements. This also applies to persons responsible for maintenance of communication devices placed on roofs. These, however, account for very few cases. In mLocum 6 persons work in higher risk conditions, which entail inspections at construction sites and work at height. Similarly, mBank Hipoteczny's appraisers undergo special tests in terms of working at height.

We have standardised the amount of refund for glasses in all of the Group's subsidiaries.

[G4-LA5] The Committee for Health and Safety at Work is responsible for guaranteeing all mBank's employees (100%) safe and healthy work conditions. It is chaired by the bank's Head of Operations and IT and composed of representatives of several bank departments and an occupational medicine physician. The Committee is an advisory and consultative body to the management board. The tasks of the Committee

include the review of the work conditions in all the organisational units of the bank, periodical assessment of occupational health and safety and issue of conclusions on the improvement of work conditions.

In 2016, 10 mBank outlets were equipped with defibrillators. In addition, first aid trainings were conducted.

7.4. Goal 4: We want to reduce our environmental footprint

Measure (KPI)	2016 Target	2016 Actual
Reducing bank's environmental footprint with respect to: - CO2 emission / revenue - water consumption / revenue - paper consumption / revenue	✓	✓ a minimal increase was noted in the case of emissivity at the Group level, with a simultaneous decrease in emissions

Nature of direct impact on the environment

[EN-DMA] The direct impact mBank and its subsidiaries have on the natural environment (offices of these subsidiaries are often located in the same locations as mBank's offices) mainly stems from the operation of offices and branches. In practice, it boils down to the consumption of utilities (electricity, heat and others), typical office materials (paper, toners, etc.) and generation of municipal waste. For a part of real estate, it also means consumption of natural gas. Key branches and offices of mBank Group are located in Warsaw and Łódź, which means daily travel between the two cities for a great many employees. What is more, employees have to travel to clients and take business trips which translates into fuel consumption by cars in our fleet.

mBank's business model, i.e. focus on online banking as the basis for banking operations, requires extensive IT infrastructure. Its functioning, including functioning of cooling systems, involves electric energy consumption. On the other hand, mBank's mobility means that clients do not have to go to outlets so they travel less, which in turn contributes to decreasing CO2 emissions. The said contribution may be difficult to assess, but should not be neglected.

When considering our environmental footprint, mLocum also needs to be mentioned. Its direct impact is limited to operation of offices, but it also implements real estate development projects with the help of its contractors. The environmental consequences of housing construction include changes in local natural environment, demand for raw materials and construction materials, need for balanced waste management and certain dangers arising from the risk of local contamination (e.g. of soil or surface water) at the construction site.

However, the Group's environmental footprint is relatively low compared with the one on which we can have a knock-on influence. It refers to e.g. business clients who apply for financing of planned industrial investments. The technology they use to implement a given project partially depends on the lender and costs of a loan. In addition, as a bank we can refuse to co-finance the project in certain cases. Alongside the "Strategy for corporate sustainability and responsibility of mBank S.A." ("Strategia odpowiedzialnego biznesu i zrównoważonego rozwoju mBanku S.A."), the Management Board adopted the "List of industries and areas of operation particularly sensitive in terms of mBank's reputation risk". It stipulates, among other things, that mBank may not provide financial services to companies which, regardless of the industry, base their operations on the economic exploitation of valuable natural areas under protection (including the Arctic), and resort to gross violation of environmental regulations.

Expecting our borrowers to be eco-friendly and reduce their environmental footprint wherever possible, we also oblige ourselves to undertake actions which reduce our environmental footprint, however small it may be.

Limiting the environmental footprint of the car fleet

Measures aimed at limiting our environmental footprint also cover those related to the use of company cars. These include refuelling limits in terms of both litres of fuel per employee in a given month and the amount an employee is reimbursed in this respect; blocking the possibility of refuelling at weekends, bank

holidays, and holidays as well as limiting the possibility of refuelling to selected petrol stations. Furthermore, GPS devices monitoring the use of cars and fuel are gradually being installed in the company vehicles. In the case of pool cars, i.e. cars used by more than one employee, a dedicated smartphone applications has been introduced for driver authorisation, which facilitates the settlement of fuel costs and makes it more transparent. The new fleet policy developed in 2016 promotes hybrid vehicles. In order to incentivise employees to opt for more eco-friendly cars, additional budget for car equipment is provided, but solely to those who choose hybrid vehicles. Such an approach is represented by whole mBank Group.

Car sharing at mBank

There is and will be relatively little room for reducing fuel consumption and emission of pollutants by the Bank's car fleet as long as the combustion engine remains the key pillar of transport. The Bank can and should try to use low-emission electric cars that meet high exhaust emission standards or hybrid cars, but every travelled kilometre will still mean that a specific amount of fuel has to be consumed and a certain amount of gases emitted into the atmosphere.

What can be done now is to travel reasonably, e.g. by promoting car sharing among the employees. It is especially important in the case of business trips, in particular between Warsaw and Łódź.

Starting from 2016, the employees can share car rides. The process is supported by inOneCar, a car pooling application. In collaboration with the application's developer, the Bank set up a closed mBank group where users can offer and book rides. The application is also available on mobile devices and enables users to communicate with each other. What's interesting, among the users of the application there is also the Bank's CEO who sometimes joins other travellers or offers others to share a ride.

Thanks to inOneCar the Bank can optimise the way it uses its car fleet, which saves both money and environment. Car sharing has one more positive side - it integrates people from various divisions, which in turn supports cooperation.

Saving paper and office supplies

The Bank optimises the consumption of office supplies, which in practice means less printing, by making the existing processes paperless. Among them were the confirmation of receipt of fixed assets which now takes place in paperless form via the My Zone application (it is no longer necessary to print out and sign paper protocols) and electronic stocktaking (paper reports were replaced by electronic confirmation of being a user of specific assets performed in the system). In 2016, My Zone was expanded by a feature enabling electronic approval of statements submitted by the employees. Settlement of business trips and the correspondence circulation system are fully electronic too. Measurable effects were also produced by the ban on single-sided printing and the monitoring of printouts in mCentrum Operacji launched in 2015 and the replacement of individual printers with a smaller number of shared multi-functional devices that took place in 2014.

Paperless mCentrum Operacji

2016 saw numerous changes taking place in mCentrum Operacji with the company's move to a new headquarters being the most important of them. This change inspired mBank to have a closer look on how we work with paper documents. As we realised that due to the limited amount of time we had to move to the new office (6 months) we would not be able to redesign the processes and make them paperless, we devised a new way of handling operational process which stops paper documents the time they come in. In short, it works as follows:

- paper documents are received and registered by the mail room,
- next, the documents are scanned and their electronic images are generated,
- the images are then forwarded directly to operating units via the correspondence handling system (SOK),
- paper documents are moved to the archive.

The mail room does not forward paper documents to operating rooms, it takes less time for electronic images to reach their recipients and the unit competent for a given case can respond to it faster. Working with electronic documents is more efficient. We have already replaced more than 80% of processes with their digital equivalents. The relocation ran smoothly as we were able to reduce the number of cabinets.

The next step will be to get rid of paper documents while handling cases. mCentrum Operacji wants to reduce the number of printed pages by 80% until 2020.

7.5. Goal 5: We want to improve our management approach

Key Performance Indicators

Measure (KPI)	2016 Target		2016 Actual
Position in the Ranking of Responsible Companies (a high position among institutions from the financial sector)	min. 8th (among financial institutions)	✘	13th (among financial institutions in the 2015 ranking)
Listed in the RESPECT Index		not applicable	not applicable

Coordination of CSR activities

The director of the Communication and Marketing Strategy Department, who reports directly to the president of the management board of the bank, and whose managerial objectives (MbO) include CSR-related objectives, is responsible for coordinating the efforts aimed at implementing the socially responsible approach in management. On an ongoing basis CSR projects are coordinated by the CSR specialist reporting immediately to the director, who is also responsible for the cooperation with managers of individual functional areas related to social responsibility.

Responsibility in the supply chain

[G4-12, G4-EN32, G4-LA14, G4-HR10, G4-SO11] As far as the supply chain of mBank and the majority of its subsidiaries is concerned, apart from typical services such as the supply of electricity, utilities and rental of real property, one should also not forget about the purchase of specialist services, including broadly understood IT services, which is related to the specificity of our business model. We also use the services of a number of external companies supporting sales activities and customer service. Just like many other banks, we cooperate with operators of ATMs, credit and payment cards. In addition, external companies provide the Bank with services related to the maintenance and security of facilities. A completely different supply chain, which needs to be mentioned in this report, exists in mLocum. The subsidiary is not a typical financial sector company, but specialises in housing property development. Being a real property developer, the subsidiary cooperates with general contractors who, in turn, employ other construction firms.

From the point of view of CSR management in the supply chain it is important that the majority of purchases are negotiated and made centrally, i.e. by mBank for the whole group. Purchases made by individual companies are limited to making orders under agreements that were earlier negotiated for whole mBank Group and cooperating with suppliers in the areas that are specific to their business.

In accordance with the announcement made in the 2015 CSR report, mBank started to introduce regulations governing its relationship with suppliers, which took account of ethical, social and environmental issues.

Such provisions are contained in the "Principles of Participation in the Procurement Process" which must be approved by every supplier who decides to answer to our enquiry. A supplier cannot submit an offer and become mBank's partner without signing the principles regardless of whether a procurement process ends with a contract or an order. Suppliers have to undertake that they will respect human rights and labour standards, counteract corruption and protect the natural environment. In particular, they have to respect the Universal Declaration of Human Rights, International Labour Organisation Standards, OECD Guidelines (in particular those pertaining to counteracting corruption), Agenda 21 on Environment and Development as well as the United Nations Convention against Corruption. In addition, suppliers have to undertake that they will observe international trade sanctions and embargoes, including sanctions that may be applicable due to a resolution of the UN Security Council or imposed by the EU. Every potential supplier who participates in the procurement process or signs a contract with mBank undertakes to immediately inform mBank about the procedures they have implemented to protect human rights, ensure compliance with labour standards, counteract corruption and protect the natural environment, whenever so requested. If any irregularities are identified, the supplier must remove them immediately upon mBank's request.

Should the request be ineffective, mBank may immediately terminate the contract. Moreover, suppliers undertake to voluntarily inform mBank about any identified irregularities as well as the corrective measures they have taken.

As a result of introducing this type of provisions, 100% of potential suppliers who participate in procurement processes are obligated to respect them. In addition, many contracts contain social responsibility clauses that are specific to the banking business, e.g. provisions on the protection of personal data.

Public reporting on social responsibility

[G4-32, G4-17] This report has been mBank Group's first integrated report and has for the first time covered the capital group. It has been our second non-financial report under the mBank brand (the report for 2014-2015) covered mBank S.A. For information about the subsidiaries whose consolidated financial and non-financial results are covered by this report, see the appendix to this report ("Tables with financial and non-financial data").

The report for 2014-2015 covered mBank S.A.

It is worth stressing at this point that the publication of the consolidated integrated report is a part of implementation of our "Strategy for Corporate Sustainability and Responsibility of mBank S.A." and even goes beyond the initial plans. We initially assumed that 2016 would be summed up in a CSR report covering the capital group, whereas an integrated report covering mBank Group would be for the first time released after 2017.

7.6. Tables with non-financial data

[G4-17] Subsidiaries consolidated in the financial statements of mBank Group

Subsidiaries consolidated in the financial statements of mBank Group	Entities included in the financial statements for 2016	Entities included in the non-financial report for 2016
mBank S.A.	✓	✓
mLeasing sp. z o.o.	✓	✓
mBank Hipoteczny S.A.	✓	✓
mFaktoring S.A.	✓	✓
mFinanse S.A. (Aspiro S.A.)	✓	✓
mWealth Management S.A.	✓	✓
mCentrum Operacji Sp. z o.o.	✓	✓
BDH Development Sp. z o.o	✓	
mLocum S.A.,	✓	✓
Garbary S.A.	✓	
mFinance France S.A.	✓	
Tele-Tech Investment sp. z o.o	✓	

[G4-10] Employment at the year end (The data refer to mBank Group employees only. They do not include information on the employees of subcontractors working under the supervision of mBank Group employees).

	2015			2016		
	Women	Men	In total	Women	Men	In total
mBank S.A.						
for a definite period	1,165	716	1,881	1,395	797	2,192
for an indefinite period	2,496	1,793	4,289	2,569	1,909	4,478
working full-time	2,861	2,092	4,953	3,187	2,333	5,520
working part-time	900	483	1,383	777	373	1,150
under the age of 30	1,066	647	1,713	1,243	771	2,014
30-50 years old	2,433	1,772	4,205	2,429	1,758	4,187
above the age of 50	262	156	418	293	176	469
In total	3,661	2,509	6,170	3,964	2,706	6,670
mBank S.A. (Czech Republic)						
for a definite period	83	66	149	77	67	144
for an indefinite period	88	64	152	106	76	182
working full-time	99	70	169	123	83	206
working part-time	60	72	132	60	60	120
under the age of 30	75	69	144	99	72	171
30-50 years old	71	68	139	71	69	140

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above the age of 50	13	5	18	13	2	15
In total	171	130	301	183	143	326
mBank S.A. (Slovakia)						
for a definite period	37	37	74	39	28	67
for an indefinite period	31	18	49	30	20	50
working full-time	34	20	54	35	21	56
working part-time	34	35	69	34	27	61
under the age of 30	34	34	68	35	31	66
30-50 years old	34	20	54	32	15	47
above the age of 50	1	2	3	2	2	4
In total	68	55	123	69	48	117
mLeasing S.A.						
for a definite period	24	24	48	34	18	52
for an indefinite period	190	117	307	195	111	306
working full-time	198	123	321	217	116	333
working part-time	16	18	34	12	13	25
under the age of 30	30	15	45	41	7	48
30-50 years old	171	115	286	172	111	283
above the age of 50	13	11	24	16	11	27
In total	214	141	355	229	129	358
mBank Hipoteczny S.A.						
for a definite period	39	32	71	28	11	39
for an indefinite period	105	49	154	124	66	190
working full-time	135	78	213	144	74	218
working part-time	3	9	12	8	3	11
under the age of 30	26	13	39	23	13	36
30-50 years old	107	59	166	116	57	173
above the age of 50	11	9	20	13	7	20
In total	144	81	225	152	77	229
mFaktoring S.A.						
for a definite period	2	1	3	4	3	7
for an indefinite period	42	17	59	41	16	57
working full-time	42	17	59	43	18	61
working part-time	2	1	3	2	1	3
under the age of 30	5	5	10	5	8	13
30-50 years old	36	12	48	37	10	47
above the age of 50	3	1	4	3	1	4
In total	44	18	62	45	19	64
mFinanse S.A. (former Aspiro S.A.)						
for a definite period	467	338	805	503	412	915
for an indefinite period	63	27	90	62	27	89
working full-time	59	26	85	59	24	83
working part-time	471	339	810	506	415	921
under the age of 30	246	134	380	277	200	477
30-50 years old	278	224	502	271	233	504
above the age of 50	6	7	13	17	6	23
In total	530	365	895	565	439	1004
mCentrum Operacji Sp. z o.o.						
for a definite period	76	32	108	110	38	148
for an indefinite period	236	62	298	219	52	271
working full-time	338	93	431	313	84	397
working part-time	9	7	16	16	6	22
under the age of 30	112	35	147	98	28	126
30-50 years old	194	57	251	194	53	247
above the age of 50	41	8	49	37	9	46
In total	312	94	406	329	90	419
mLocum S.A.						
for a definite period	7	3	10	7	5	12
for an indefinite period	20	23	43	18	23	41
working full-time	27	26	53	24	28	52

working part-time	0	0	0	1	0	1
under the age of 30	3	2	5	4	1	5
30-50 years old	18	13	31	14	14	28
above the age of 50	6	11	17	8	12	20
In total	27	26	53	25	28	53

[G4-LA1] Employees joining and leaving the company

2015				2016		
	Women	Men	In total	Women	Men	In total
mBank S.A.						
New employees joining the company						
under the age of 30	325	244	569	440	314	754
30-50 years old	250	226	476	201	121	322
above the age of 50	22	8	30	6	4	10
Employees leaving the company						
under the age of 30	268	232	500	329	244	573
30-50 years old	395	300	695	262	199	461
above the age of 50	24	10	34	29	20	49
mBank S.A. (Czech Republic)						
Employees hired at the company						
under the age of 30	64	46	110	28	15	43
30-50 years old	35	25	60	18	13	31
above the age of 50	7	1	8	1	0	1
Employees leaving the company						
under the age of 30	44	37	81	19	10	29
30-50 years old	33	20	53	17	6	23
above the age of 50	5	0	5	1	1	2
mBank S.A. (Slovakia)						
Employees hired at the company						
under the age of 30	19	19	38	6	6	12
30-50 years old	23	10	33	4	1	5
above the age of 50	1	0	1	0	0	0
Employees leaving the company						
under the age of 30	11	10	21	0	3	3
30-50 years old	7	5	12	6	2	8
above the age of 50	0	0	0	0	0	0
mLeasing S.A.						
Employees hired at the company						
under the age of 30	15	5	20	21	0	21
30-50 years old	15	11	26	19	9	28
above the age of 50	0	1	1	1	0	1
Employees leaving the company						
under the age of 30	5	6	11	10	1	11
30-50 years old	10	10	20	15	19	34
above the age of 50	1	0	1	1	1	2

mBank Hipoteczny S.A.

Employees hired at the company

under the age of 30	18	8	26	15	3	18
30-50 years old	12	12	24	14	6	20
above the age of 50	0	0	0	0	0	0

Employees leaving the company

under the age of 30	9	5	14	11	1	12
30-50 years old	9	12	21	8	9	17
above the age of 50	1	2	3	0	1	1

mFaktoring S.A.

Employees hired at the company

under the age of 30	1	2	3	2	4	6
30-50 years old	1	1	2	2	0	2
above the age of 50	1	0	1	0	0	0

Employees leaving the company

under the age of 30	0	0	0	0	1	1
30-50 years old	3	1	4	3	1	4
above the age of 50	1	0	1	0	0	0

mFinanse S.A. (formerly Aspiro S.A.)

Employees hired at the company

under the age of 30	182	119	301	193	148	341
30-50 years old	80	66	146	82	60	142
above the age of 50	1	4	5	4	1	5

Employees leaving the company

under the age of 30	142	104	246	161	95	256
30-50 years old	87	67	154	62	73	135
above the age of 50	6	7	13	2	3	5

mCentrum Operacji Sp. z o.o.

Employees hired at the company

under the age of 30	58	25	83	35	16	51
30-50 years old	22	14	36	10	6	16
above the age of 50	3	0	3	0	1	1

Employees leaving the company

under the age of 30	31	15	46	34	23	57
30-50 years old	29	17	46	22	7	29
above the age of 50	1	1	2	9	1	10

mLocum S.A.

Employees hired at the company

under the age of 30	1	1	2	1	0	1
30-50 years old	1	0	1	0	2	2
above the age of 50	0	0	0	0	0	0

Employees leaving the company

under the age of 30	0	0	0	0	0	0
30-50 years old	0	1	1	3	0	3
above the age of 50	0	0	0	0	0	0

[G4-11] Percentage of employees covered by collective bargaining agreements

	2015	2016
mBank S.A.	0%	0%
mBank S.A. (the Czech Republic)	0%	0%
mBank S.A. (Slovakia)	100%	100%
mLeasing S.A.	0%	0%
mBank Hipoteczny S.A.	0%	0%
mFaktoring S.A.	0%	0%
mFinanse S.A. (Aspiro S.A.)	0%	0%
mCentrum Operacji Sp. z o.o.	0%	0%
mLocum S.A.	0%	0%

[G4-LA13] Relation of remuneration of men to remuneration of women (in the same remuneration brackets)

	2015	2016
mBank S.A.		
directors	117%	108%
managers	121%	114%
specialists	129%	106%
mBank S.A. (the Czech Republic)		
directors	134%	102%
managers	n/a	159%
specialists	76%	132%
mBank S.A. (Slovakia)		
directors	77%	102%
managers	N/A	158%
specialists	84%	105%
mLeasing S.A.		
directors	125%	115%
managers	123%	113%
specialists	112%	98%
mBank Hipoteczny S.A.		
directors	134%	137%
managers	131%	115%
specialists	104%	115%
mFaktoring S.A.		
directors	n/a	n/a
managers	n/a	n/a
specialists	120%	124%
mFinanse S.A. (formerly Aspiro S.A.)		
directors	96%	81%
managers	131%	134%
specialists	126%	110%
mCentrum Operacji Sp. z o.o.		
directors	168%	149%
managers	176%	133%
specialists	150%	156%
mLocum S.A.		
directors	105%	105%
managers		
specialists	152%	152%

[G4-EC5] Relation of remuneration received at the lowest level to the minimum wage

	2015		2016	
	Women	Men	Women	Men
mBank S.A.	144%	158%	145.00%	141%
mBank S.A. (the Czech Republic)	433%	515%	323%	408%
mBank S.A. (Slovakia)	445%	400%	362%	275%
mLeasing S.A.	100%	100%	100%	100%
mBank Hipoteczny S.A.	102%	114%	100.%	100%
mFaktoring S.A.	183%	200%	189%	189%
mFinanse S.A. (formerly Aspiro S.A.)	173%	166%	145%	156%
mCentrum Operacji Sp. z o.o.	104%	106%	111%	119%
mLocum S.A.	156%	210%	119%	173%

[G4-LA3] The number of employees on maternity/parental leave as at December 31, 2016

	2015			2016		
	Women	Men	In total	Women	Men	In total
mBank S.A.	236	3	239	245	1	246
mBank S.A. (the Czech Republic)	4	0	4	11	0	11
mBank S.A. (Slovakia)	3	1	4	6	1	7
mLeasing S.A.	11	0	11	13	0	13
mBank Hipoteczny S.A.	5	1	6	5	0	5
mFaktoring S.A.	4	0	4	1	0	1
mFinanse S.A. (formerly Aspiro S.A.)	42	1	43	50	0	50
mCentrum Operacji Sp. z o.o.	2	0	2	14	0	14
mLocum S.A.	2	0	2	3	0	3

[G4-LA3] The number of employees who came back from maternity/parental leave in a given year

	2015			2016		
	Women	Men	In total	Women	Men	In total
mBank S.A.	235	166	401	195	3	198
mBank S.A. (the Czech Republic)	0	0	0	2	0	2
mBank S.A. (Slovakia)	1	0	1	2	0	2
mLeasing S.A.	8	0	8	3	0	3
mBank Hipoteczny S.A.	3	4	7	4	1	5
mFaktoring S.A.	1	0	1	3	0	3
mFinanse S.A. (formerly Aspiro S.A.)	42	5	47	34	6	40
mCentrum Operacji Sp. z o.o.	5	2	7	8	0	8
mLocum S.A.	2	0	2	1	0	1

[G4-LA3] The number of employees who within 12 months following coming back to work after maternity/parental leave left the company

	2015			2016		
	Women	Men	In total	Women	Men	In total
mBank S.A.	47	19	66	5	0	5
mBank S.A. (the Czech Republic)	0	0	0	0	0	0
mBank S.A. (Slovakia)	1	0	1	1	0	1
mLeasing S.A.	1	0	1	3	0	3
mBank Hipoteczny S.A.	0	0	0	1	0	1
mFaktoring S.A.	0	0	0	1	0	1
mFinanse S.A. (Aspiro S.A.)	15	1	16	10	1	11
mCentrum Operacji Sp. z o.o.	0	0	0	1	0	1
mLocum S.A.	0	0	0	0	0	0

[G4-EC6, G4-LA12] Men vs. women in Management and Supervisory Boards of mBank S.A.

	2015			2016		
	Women	Men	In total	Women	Men	In total
Management Board						
<i>under the age of 30</i>	0	0	0	0	0	0
<i>30-50 years old</i>	0	5	5	0	5	5
<i>above the age of 50</i>	1	1	2	0	1	1
<i>including foreigners</i>	0	2	2	0	2	2
Supervisory Board						
<i>under the age of 30</i>	0	0	0	0	0	0
<i>30-50 years old</i>	1	0	1	1	0	1
<i>above the age of 50</i>	1	9	10	1	9	10
<i>including foreigners</i>	0	5	5	0	5	5

[G4-LA9] Training participants by gender (the following were not taken into account: exams, courses with certificates, off-site events, language courses, Basel training, coaching).

	2015			2016		
	Women	Men	In total	Women	Men	In total
mBank S.A.						
The average number of training days (excluding initial training)	2.7	3.6	3.1	2.43	2.69	2.53
The average number of training hours (excluding initial training)	21.9	29.0	24.8	19.43	21.49	20.27
The number of training days for mBank employees - initial training	2,523	1,494	4,017	2,224	1,023	3,247
mBank S.A. (the Czech Republic, Slovakia)						
The average number of training days (excluding initial training)	0.14			0.15		
The average number of training hours (excluding initial training)	1.00			1.12		
The number of training days for mBank employees - initial training	12			8		

mLeasing S.A.						
The average number of training days (excluding initial training)	1.05	2.21	3.26	0,73	2,18	1,25
The average number of training hours (excluding initial training)	8.38	17.27	25.65	5,83	17,43	10,01
The number of training days for mBank employees - initial training	0	0	0	0	0	0
mBank Hipoteczny S.A.						
The average number of training days (excluding initial training)	1.84	2.65	2.13	1.80	2.13	1.91
The average number of training hours (excluding initial training)	14.69	21.23	17.05	14.37	17.04	15.27
The number of training days for mBank employees - initial training	0	0	0	0	0	0
mFaktoring S.A.						
The average number of training days (excluding initial training)	3.97	4.11	4.01	6,93	10,84	8,09
The average number of training hours (excluding initial training)	31.73	32.89	32.06	55,47	86,74	64,75
The number of training days for mBank employees - initial training	0	0	0	0	0	0
mFinanse S.A. (Aspiro S.A.)						
The average number of training days (excluding initial training)	6	6	6	6	6	6
The average number of training hours (excluding initial training)	42	42	42	42	42	42
The number of training days for mBank employees - initial training	5	5	5	9	9	9
mCentrum Operacji Sp. z o.o.						
The average number of training days (excluding initial training)	0.41	1.42	0.64	0.56	1.43	0.75
The average number of training hours (excluding initial training)	3.31	11.37	5.14	4.03	10.93	5.51
The number of training days for mBank employees - initial training	86	26	112	78	38	116
mLocum S.A.						
The average number of training days (excluding initial training)	54	52	106	56	48	104
The average number of training hours (excluding initial training)	432	416	848	448	384	832
The number of training days for mBank employees - initial training	16	8	24	1	2	3

[G4-EN1] Paper consumption

	unit of measure	2015	2016
mBank S.A.	A4 paper sheets	24,746,500	23,025,500
mBank S.A. (the Czech Republic, Slovakia)	A4 paper sheets	2,441,000	2,125,000
mLeasing S.A.	A4 paper sheets	3,500,000	4,691,000
mBank Hipoteczny S.A.	A4 paper sheets	1,453,794	422,500
mFaktoring S.A.	A4 paper sheets	135,000	155,000
mFinanse S.A. (Aspiro S.A.)	A4 paper sheets	22,500	178,500
mCentrum Operacji Sp. z o.o.	A4 paper sheets	2,850,000	2,522,000
mLocum S.A.	A4 paper sheets	80,500	332,500
Łącznie	A4 paper sheets	35,206,794	33,452,000

[G4-EN3, G4-EN5] Consumption of fuels and energy

Source of energy and raw materials for energy production	Unit of measure	2015	2016
mBank Group			
Electric energy	GWh (GJ)	19.5 (70,204)	18.7 (67,493)
Gas	Cubic meters	630,690 (22,705)	308,025 (11,089)
Petrol	l (GJ)	1,109,904 (36,791)	1,284,983 (42,595)
Fuel oil	l (GJ)	429,216 (15,713)	325,792 (11,926)
Energy consumption in total Including mBank S.A.	GJ	145,412	133,103
Electric energy	GWh (GJ)	15.9 (57,240)	15.2 (54,889)
Gas	m ³ (GJ)	604,364 (21,757)	283,200 (10,195)
Petrol	l (GJ)	964,647 (31,976)	1,108,903 (36,758)
Fuel oil	l (GJ)	270,396 (9,899)	167,184 (6,120)
Energy consumption in total	GWh (GJ)	120,872	107,963
Unit of measure			
2015			
2016			
mBank Group			
Net profit	in PLN thousand	1,304,128	1,222,224
Energy consumption	MJ / PLN thousand	0.1115	0.1089
mBank S.A.			
Net profit	in PLN thousand	1,301,233	1,219,339
Energy consumption	MJ / PLN thousand	0.0929	0.0885

[G4-EN15, G4-EN16, G4-EN18] Estimated CO2 emission

Source	unit of measure	2015	2016
Electric energy (including mBank S.A.)	Mg	12,845 (10,473)	12,348 (10,042)
Gas (including mBank S.A.)	Mg	1,274 (1 221)	622 (572)
Petrol (including mBank S.A.)	Mg	2,726 (2,369)	3,156 (2,724)

Fuel oil (including mBank S.A.)	Mg	1,164 (734)	884 (454)
In total (including mBank S.A.)	Mg	18,010 (14,796)	17,010 (13,792)

	Unit of measure	2015	2016
mBank Group			
Net profit	in PLN thousand	1,304,128	1,222,224
Efficiency	MJ / PLN thousand	0.0138	0.0139
mBank S.A.			
Net profit	in PLN thousand	1,301,233	1,219,339
Efficiency	MJ / PLN thousand	0.0114	0.0113

[G4-LA6] Accidents at work

	2015	2016
mBank S.A.		
Total number of accidents	8	7
Accident frequency ratio	1.26	31.82
Total number of days of absence from work due to accidents	157	350
Accident severity ratio	19.63	50
mBank S.A. (the Czech Republic, Slovakia)		
Total number of accidents	0	0
Accident frequency ratio	0	0
Total number of days of absence from work due to accidents	0	0
Accident severity ratio	0	0
mLeasing S.A.		
Total number of accidents	1	1
Accident frequency ratio	2.82	2.79
Total number of days of absence from work due to accidents	15	173
Accident severity ratio	15	173
mBank Hipoteczny S.A.		
Total number of accidents	0	1
Accident frequency ratio	0	4.35
Total number of days of absence from work due to accidents	0	28
Accident severity ratio	0	0
mFaktoring S.A.		
Total number of accidents	1	0
Accident frequency ratio	16.23	0
Total number of days of absence from work due to accidents	8	0
Accident severity ratio	8	0
mFinanse S.A. (Aspiro S.A.)		
Total number of accidents	1	0
Accident frequency ratio	1.24	0
Total number of days of absence from work due to accidents	44	0
Accident severity ratio	32	0
mCentrum Operacji Sp. z o.o.		
Total number of accidents	0	2
Accident frequency ratio	0	34.5
Total number of days of absence from work due to accidents	0	69
Accident severity ratio	0	17.5
mLocum SA		
Total number of accidents	0	0
Accident frequency ratio	0	0
Total number of days of absence from work due to accidents	0	0
Accident severity ratio	0	0

8. Statement of mBank on application of corporate governance principles in 2016

8.1. Application of corporate governance principles

[G4-34] In 2016 mBank was subject to corporate governance principles contained in the following documents:

1. "Code of Best Practice for WSE Listed Companies 2016";
2. "Principles of Corporate Governance for Supervised Institutions".

The text of the "Best Practice of WSE Listed Companies" is available on the website of the Warsaw Stock Exchange (<http://www.corp-gov.gpw.pl/>), and the "Principles of Corporate Governance for Supervised Institutions" are available on the website of the Polish Financial Supervision Authority (<http://www.knf.gov.pl/regulacje/praktyka/index.html>).

Code of Best Practice for WSE Listed Companies 2016

[G4-34] The "Code of Best Practice for WSE Listed Companies 2016" was adopted in a resolution of the Stock Exchange Board on October 13, 2015 and entered into force on January 1, 2016. The "comply or explain" rule applies to the detailed rules of Best Practice. Constant non-application of a given principle or its incidental non-application are subject to obligatory reporting by the company in a manner specified in Article 29 (3) of the Stock Exchange Rules.

From among the detailed rules of the "Code of Best Practice for WSE Listed Companies 2016", mBank does not apply two rules:

- The rule II.Z.8. which reads "The chairman of the audit committee meets the independence criteria specified in Rule II.Z.4." Stephan Engels, Member of the Board of Commerzbank AG (CFO) is the Chairman of the Audit Committee of the Supervisory Board of mBank S.A. Therefore, Stephan Engels does not meet the criterion of independence referred to in rule II.Z.4.; however, this does not have an impact on the manner and credibility of tasks performed by the Committee.
- The rule VI.Z.2. which reads "In order to link the remuneration of Members of the Management Board and key managers with the company's long-term business and financial objectives, the period between granting options or other instruments connected with company shares as part of the incentive programme and the possibility of executing them should be at least 2 years." The principles for granting variable components of remuneration at mBank S.A. are compliant with Resolution No. 258/2011 of the Polish Financial Supervision Authority (PFSA) of October 4, 2011 drafted in response to EU Directive CRD III and CEBS guidelines (Committee of European Banking Supervisors; at present, EBA – European Banking Authority) and consistent with EU Directive CRD IV, the provisions of which do not provide for the indication specified in item VI.Z.2. of the Code of Best Practice for WSE Listed Companies 2016 as a condition for awarding the bonus.

Moreover, from among all recommendations specified in the "Code of Best Practice for WSE Listed Companies 2016", mBank does not apply the following recommendations:

- items 2 and 3 of recommendation IV.R.2, which refer to conducting a General Meeting with the use of means of electronic communication. Item 2 concerns ensuring two-way communication in real time during the General Meeting, which allows shareholders to speak from a different location, whereas item 3 is related to exercising the voting right in person or by proxy during the General Meeting. For many years, mBank has broadcast General Meetings in real time, however, without the possibility to engage in two-way online communication by allowing shareholders to speak during the General Meeting from a different location. The Bank's By-laws and the Standing Rules of the General Meeting do not provide for the possibility to actively participate in General Meetings with the use of means of electronic communication. Moreover, in the opinion of the Management Board of the Bank, the organisation of General Meetings with the use of means of electronic communication involves additional legal, organisational and technical risks. It should be noted that mBank has a stable majority shareholder, while a large part of minority shareholders are represented at each General Meeting even if participation in General Meetings with the use of means of electronic communication is not available.

- recommendation VI.R.3. concerning the remuneration committee. The recommendation stipulates, among others, that it is required that at least the majority of the committee members be independent. At mBank, the Remuneration Committee of the Supervisory Board is composed of four members, including two independent members. Two members do not meet the criterion of independence, as they are linked to the strategic shareholder of mBank – Commerzbank.

“Principles of Corporate Governance for Supervised Institutions”

[G4-34] The “Principles of Corporate Governance for Supervised Institutions” approved by the PFSA on July 22, 2014 have been in effect since January 1, 2015. They cover relations with shareholders and clients, issues relating to the organisational structure, an effective and efficient internal control system, as well as the risks of business activities.

mBank has adopted the “Principles of Corporate Governance for Supervised Institutions” excluding the rules defined in Article 8 (4) and Article 16 (1).

The rule in Article 8 (4), which provides as follows: “A supervised institution, when justified by the number of shareholders, should strive for facilitating the participation of all shareholders in the meeting of the General Meeting of the supervised institution, among others, through ensuring the possibility of electronic active participation in the meetings of the General Meeting”, is similar to recommendation IV.R.2 of the “Code of Best Practice for WSE Listed Companies 2016”. As a large part of mBank’s shareholders are represented at General Meetings and with a view to mitigating the risk inherent in active participation in General Meetings with the use of means of electronic communication, mBank has decided that non-compliance with the rule defined in Article 8 (4) was justified.

Likewise, mBank does not comply with the rule defined in Article 16 (1), which provides as follows: “It is proper that meetings of a management body shall be held in Polish. In case of need, necessary assistance of an interpreter should be ensured.”

The non-compliance derives from the fact that all Members of mBank’s Management Board speak fluent English. Communication without an interpreter is more effective as discussions and decisions can be made without the participation of a third party (interpreter). In some circumstances, the participation of an interpreter could make discussions at Management Board meetings more difficult or prolonged due to the complex nature of issues under discussion as well as the specialised language. Furthermore, given that Management Board meetings review information that constitutes the company’s secret, it is legitimate to limit to the bare minimum the participation of non-members of the Management Board in its meetings. At the same time, most of mBank’s Management Board Members speak Polish, which implies that the Bank can be represented whenever participation of Management Board Members is required including communication in Polish without an interpreter. Furthermore, minutes of Management Board meetings as well as resolutions of mBank’s Management Board are prepared in two language versions, ensuring compliance with the provisions of Article 16 (2) of the “Principles of Corporate Governance for Supervised Institutions”.

The stand of shareholders as regards the “Principles of Corporate Governance for Supervised Institutions” was presented in resolution no. 31 of the 28th Annual General Meeting of mBank S.A. of March 30, 2015.

In the above resolution, the shareholders undertook:

- to participate in the performance of the statutory objectives of mBank, ensuring security of its operations and following its interest,
- not to violate the competence of other statutory bodies of mBank,
- to immediately solve any potential conflicts between shareholders to prevent infringing the interest of mBank and its clients,
- not to make decisions resulting in transferring assets from mBank to other entities, and in acquisition or alienation of or in conclusion of other transactions leading to mBank disposing of its assets under conditions other than market conditions or posing a threat to the security or interest of mBank; the individual rights will be granted to the given shareholder or shareholders when justified on the grounds

of achieving significant objectives of mBank and not causing hindrance to proper functioning of the bodies of mBank or discrimination against other shareholders and reflected in the By-Laws of mBank,

- to provide, if needed, additional capital or grant financial support to the Bank to the extent to which it is possible and compliant with authorisations, whereas it will only take place after the analysis of the entirety of reasons which led to such a necessity; the shareholders will take into consideration the possibility of providing support from the point of view of their financial situation, provisions of law and supervisory regulations the shareholders are bound to respect and considering the best interest of mBank and its clients,
- to make decisions with regard to dividend payment depending on the need for maintaining an appropriate level of equity and on the achievement of strategic objectives of mBank and to take into consideration general and individual recommendations issued by the supervisory authorities,
- to implement the recommendations of the PFSA regarding the election of Members of the Supervisory Board of the Bank.

Code of Banking Ethics

[G4-34, G4-56] Irrespective of the corporate governance principles, mBank has for many years complied with best banking industry practices developed by the Polish Bank Association (ZBP). The currently applicable version of the Code of Banking Ethics was approved at the 25th General Meeting of the Polish Bank Association held on April 18, 2013. The Code of Banking Ethics is a set of principles referring to banks, their employees and persons acting as intermediaries in banking activities. The Code of Banking Ethics includes two parts: Code of Best Banking Practice and Code of Employee Ethics. The Code of Banking Ethics is available on the website of the Polish Bank Association (<http://zbp.pl/dla-bankow/zespoly-rady-i-komitety/dzialania-w-obszarze-legislacyjno-prawnym/komisja-etyki-bankowej>).

The model of values and behaviours of mBank employees and the Rules on conduct towards business partners

It is also worth mentioning that mBank has defined behaviours which are most important from the perspective of the organisation and which facilitate achieving individual and team results as well as contributing to customer satisfaction. The model of values and behaviours applicable at the Bank, which sets mBank's work standard, is based on the following organisational values: "client-centricity", "looking ahead", "simplifying", "commitment" and "professionalism". The model specifies ways of acting and attitudes underlying the above slogans and stipulates how employees of mBank Group should behave when interacting with each other and with clients.

Moreover, the Bank's employees apply the "Code of Conduct", which establishes the standards applicable in interactions between the Bank's employees and the Bank's business partners. This is meant to contribute to mutual trust. The guidelines related to behaviour include, among others, being guided by mBank's values, creating a sustainable corporate culture, corporate social responsibility, pursuing a responsible credit policy, treating relationships with clients in a responsible way, honesty in business relationships, applying established standards in relationships with clients and in internal relationships, avoiding conflicts of interest, responsible use of social media and simplifying communication.

Information policy of mBank

mBank pursues an open, transparent, and effective information policy. As regards its information policy, mBank complies with requirements arising from provisions related to information confidentiality and security, which the Bank must abide by as a public company and a supervised institution.

The main means applied by the Bank in its information policy include:

- current and periodic reports;
- meetings, tele- and video-conferences of representatives of the Management Board and the Investor Relations and Group Strategy Department with investors and analysts, both in Poland and abroad;
- quarterly presentations of financial results for investors and analysts provided directly and through interactive webcasts and teleconferences;

- ongoing contact by phone or e-mail with analysts and investors, including sending Newsletters on a monthly basis and, if necessary, other informational materials;
- participation of the representatives of the Bank in domestic and foreign investor conferences and road-shows in the selected European countries and in the United States of America;
- website of the company with a comprehensive investor relations section where information is published on, among others, the shareholders of mBank, the composition of the Management Board and Supervisory Board, General Meetings (including video recordings of the course of the General Meetings), ratings, the Euro Medium Term Note Programme, quotations of mBank's shares on the WSE, analysts' recommendations, the consensus on mBank Group's expected performance, the target share price, annual, periodical and current reports and presentations, including presentations with the results of the Group for analysts and equity investors as well as presentations for the investors in the Bank's debt securities, online version of the annual report allowing for interactive access to the audited financial data, investor's calendar, mBank Analyzer which is a convenient tool to make financial and business analyses of mBank Group in different dimensions. In the section dedicated to corporate governance and best practice, the following is included: by-laws and rules of the Bank's bodies, statements on the application of corporate governance principles, principles of remunerating the Management Board and the Supervisory Board, information on incentive programmes, rules for changing the entity entitled to audit financial statements, and information on the participation of men and women in statutory bodies of mBank.

Open communication with stakeholders during the General Meetings manifests, among others, in the following aspects:

- providing shareholders with answers and explanations by the members of the Bank's governing bodies,
- broadcasting the General Meeting,
- enabling media representatives to participate in the General Meeting.

8.2. Internal control and risk management systems with regard to the process of preparing financial statements of mBank

[G4-34] mBank is equipped with an internal control system which supports Bank management by ensuring the efficiency and effectiveness of the Bank's operations, reliability of financial reporting, as well as compliance of the Bank's operation with the provisions of law and internal regulations.

The internal control system includes the following:

- functional control covering all organisational units and all processes;
- risk monitoring and risk control mechanisms;
- monitoring compliance of the Bank's operation with the provisions of law and internal regulations;
- internal audit.

The adequacy and effectiveness of the internal control system is subject to independent assessment of the Internal Audit Department (DAW). The audit results are reported, among others, to the President of the Management Board, the Chief Risk Officer, and the Chairman of the Supervisory Board of the Bank. Moreover, the Integrated Risk and Capital Management Department (DKR) manages the process of integrated reporting on risk and capital of the Bank and mBank Group to the Bank's statutory bodies, the supervisors and financial market participants and for the purpose of consolidated supervision.

The process of preparing financial data for reporting is automated and based on the accounting data of the Bank. Preparation of data in source systems is subject to formalised operational and acceptance procedures. Creating a collection of accounting balances on the basis of the system of general ledgers of the Bank takes place within a process covering respective internal controls. Manual adjustments are subject to special controls.

The Bank continuously monitors changes in provisions and external regulations related to the preparation of financial statements and updates internal regulations on an ongoing basis as well as adjusts IT systems where necessary.

The process of monitoring the operational risk which occurs in the preparation of financial statements in the Bank includes mechanisms which effectively ensure the security of IT systems. mBank has in place a business continuity plan which covers also the IT systems used in the process of preparing financial statements.

Financial statements of mBank and the Group are prepared by the Financial Reporting Department. Consolidated financial statements are based on data submitted by Group subsidiaries. The Financial Reporting Department monitors the reporting packages prepared by the subsidiaries in terms of their correctness, completeness and coherence of data.

The responsibility for controlling the coherence and completeness of the Bank's accounting books and administering the model chart of accounts lies within the Accounting Department. Both Departments report to the Vice-President of the Management Board, Chief Financial Officer.

Financial statements are submitted to the Management Board of the Bank for verification. The Audit Committee of the Supervisory Board receives quarterly financial statements before they are published. After consultations with the Bank's external auditor and the Members of the Management Board of the Bank, the Audit Committee recommends whether the Supervisory Board should approve or reject annual financial statements.

The annual and semi-annual financial statements of mBank are respectively subject to an independent audit or review by a statutory auditor. The selection of the statutory auditor of the Bank requires a resolution of the General Meeting. The Audit Committee of the Supervisory Board issues an opinion on the selection of the statutory auditor. In the subsidiaries, supervisory boards decide on the selection of the statutory auditor.

mBank abides by the principle regarding the change of statutory auditors in line with the applicable provisions and recommendations issued by the PFSA in respect of the change of statutory auditors.

On March 24, 2016, the 29th Annual General Meeting of the Bank selected PricewaterhouseCoopers Sp. z o.o. as the auditor to review the Bank's financial statements and consolidated financial statements of mBank S.A. Group for the year 2016. The Bank has used the services of PricewaterhouseCoopers Sp. z o.o. as an auditor to review the financial statements of the Bank and consolidated financial statements of mBank S.A. Group with regards to financial statements for 2012 and for earlier years. However, in 2013-2015, Ernst & Young Audit Sp. z o.o. sp. k. was the entity authorised to audit the Bank's financial statements and consolidated financial statements of the Group.

The amount of fees paid to PricewaterhouseCoopers is presented in Note 47 to the Consolidated Financial Statement of mBank S.A. Group for 2016 under the International Financial Reporting Standards

The procedures of co-operation of mBank and the external auditor ensure that all the important issues related to the recognition of economic events in the books and financial statements are being consulted on an on-going basis.

The aspiration to ensure the highest standards of financial statements is reflected in the high quality of reporting. In "The Best Annual Report 2015" contest organised by the Accounting and Tax Institute (IRiP), the results of which were announced in October 2016, mBank won the title "The Best of the Best" for the best annual report in the category of financial institutions for the fourth time in a row and for the fifth time in its history. Additionally, IRiP awarded mBank the distinction for the best report on performance.

8.3. Significant blocks of shares

Commerzbank AG is the majority shareholder of mBank.

As at December 31, 2016, Commerzbank held directly 29,352,897 shares of mBank, which accounted for 69.42% of the share capital and votes at the General Meeting.

30.58% of mBank shares in free float are held by institutional investors, in particular Polish pension funds and Polish and foreign investment funds as well as individual investors. Nationale-Nederlanden Otwarty Fundusz Emerytalny exceeded the 5% threshold of shares and votes at the General Meeting.

Pursuant to the By-laws of mBank, each share gives the right to one vote at the General Meeting. There are no preferred shares. The control rights of Commerzbank AG as the parent entity of mBank are a result of

the number of shares held, their percentage share in the equity, and the number of votes at the General Meeting of mBank.

The By-laws of mBank do not impose any limitations on the exercise of the voting right. There are no provisions which would separate the equity rights attached to securities from the holding of securities. Furthermore, there are no limitations on the transfer of the property right to securities issued by the Bank.

Information on the majority shareholder

The strategic shareholder of mBank, Commerzbank AG, is a leading German bank with a history dating back to 1870. It provides services to private and corporate customers.

The German government, currently the largest shareholder of Commerzbank, holds a stake of above 15% in the share capital through Germany's Financial Market Stabilisation Fund (SoFFin). The largest institutional investors are BlackRock and Capital Group – each of them holds slightly less than 5% of the bank's shares. The remaining institutional investors hold about 45% of shares in free float.

Commerzbank holds branches and offices in nearly 50 countries. The main markets for the bank are Germany and Poland. With approximately 1,000 branches, Commerzbank has one of the most extensive branch networks among German private banks. In total, Commerzbank serves more than 17.5 million private and small business customers, as well as more than 60,000 corporate clients, multinational companies, financial service providers, and institutional clients. Commerzbank finances more than 30% of Germany's foreign trade and is the unchallenged leader in SME financing. Commerzbank Group is composed of two business segments: Private and Small Business Customers, as well as Corporate Clients.

In 2016, Commerzbank generated gross revenues of EUR 9.4 billion with ca. 49.9 thousand employees. As at December 31, 2016, Commerzbank Group held assets of EUR 480 billion.

8.4. Principles of appointing and dismissing Management Board Members

[G4-34] Pursuant to the By-laws of mBank, the Management Board is composed of at least three Members appointed for a joint term of five years. At least half of the Members of the Management Board, including the President of the Management Board, have to hold Polish citizenship, be habitually resident in Poland, speak Polish, and have experience on the Polish market which can be used while managing the Bank.

The President of the Management Board, the Vice-Presidents of the Management Board and other Members of the Management Board are appointed and dismissed by the Supervisory Board, which acts pursuant to the provisions of the Banking Law and considers whether they have the relevant qualifications for the assigned functions. The Polish Financial Supervision Authority (PFSA) approves two Members of the Management Board of the Bank: the President of the Management Board and the Chief Risk Officer (Board Member responsible for developing and implementing the Bank's credit policy and risk management).

In accordance with the Code of Commercial Partnerships and Companies, a Member of the Management Board may also be dismissed or suspended by the General Meeting.

The mandate of a Member of the Management Board expires at the latest on the day of the General Meeting that approves the financial statements for the last full financial year of the term of that Management Board Member. The mandate of a Member of the Management Board also expires if the Member dies, resigns from his or her position, or is dismissed. The mandate of a Member of the Management Board appointed before the end of the term expires on the expiration date of mandates of the other Members of the Management Board.

8.5. Amendments to the Company's By-Laws

[G4-34] Amendments to the By-Laws of mBank require adoption of a resolution by the General Meeting of mBank and registration of the adopted amendment in the National Court Register. Before the General Meeting of mBank is presented with a draft resolution concerning amendment to the By-Laws, the Management Board of mBank adopts a resolution on the proposed amendment by approving the draft resolution of the General Meeting. The draft is then presented to the Supervisory Board of mBank for approval.

In accordance with Article 34 (2) of the Banking Law Act of August 29, 1997, an amendment to the Bank's By-laws requires the authorisation of the Polish Financial Supervision Authority if such amendment relates to:

- the Bank's registered business name;
- the Bank's registered office, objects and scope of the Bank's operation;
- the bodies and their powers, including particularly the powers of the Members of the Management Board appointed with the approval of the Polish Financial Supervision Authority and the decision-making principles, the general organisational structure of the Bank, the procedures applicable to making legally binding statements regarding property rights and obligations, the procedures for issuing internal regulations and the procedure for making decisions on assuming obligations or disposing of assets whose total value with regard to a single entity exceeds 5% of the Bank's own funds;
- the principles of functioning of the internal control system;
- the own funds and the financial management principles;
- shares preferred or limited as to voting rights.

8.6. General Meeting and shareholder rights

General Meeting procedures and powers

[G4-34] The General Meeting is convened pursuant to the provisions of the Code of Commercial Partnerships and Companies, the Bank's By-laws, and the Standing Rules of the General Meeting. Both the By-laws and the Standing Rules of the General Meeting are available on the website of mBank (<https://www.mbank.pl/o-nas/lad-korporacyjny/>).

The General Meeting convened by the Management Board under the ordinary procedure is held once a year, no later than in June. The Supervisory Board may convene an Annual General Meeting if the Management Board fails to convene it within the time limit set out in the By-laws and an Extraordinary General Meeting, if the Supervisory Board considers it necessary. In addition, under specific circumstances, the shareholders have the right to convene a General Meeting or to request for a General Meeting to be convened.

The shareholders may participate in the General Meeting and cast their votes either in person or by proxies. One proxy may represent more than one shareholder.

Subject to the cases defined in the Code of Commercial Partnerships and Companies, the General Meeting is valid regardless of the number of shares represented at the General Meeting.

All matters submitted to the General Meeting are previously submitted to the Supervisory Board for consideration.

Subject to specific exceptions, resolutions of the General Meeting are passed in an open ballot by a simple majority of votes, unless the Code of Commercial Partnerships and Companies or mBank's By-laws impose a stricter requirement for the passing of resolutions on specific issues. A secret ballot is required in the case of elections and motions to dismiss members of the Bank's authorities or liquidators, motions to call members of the Bank's authorities or liquidators to account, and motions concerning personal issues. In addition, a secret ballot is required if requested by at least one shareholder present or represented at the General Meeting.

Voting takes place with the use of a computer system, which also counts the votes. The By-laws and Standing Rules of the General Meeting do not provide for the possibility to vote by mail or with the use of electronic means of communication.

The following matters require a resolution of the General Meeting (in addition to other matters set out in the Code of Commercial Partnerships and Companies):

- examination and approval of the report of the Management Board on the Bank's operation and financial statements for the past financial year;
- adoption of resolutions on the distribution of profits or coverage of losses;
- vote of discharge of duties for members of the Bank's authorities;

- election and dismissal of Members of the Supervisory Board;
- amendment to the By-laws;
- increase or reduction of the Bank's share capital;
- adoption of resolutions concerning the redemption of shares, which set the rules of acquiring shares by the Bank, in particular the amounts allotted to purchasing shares for redemption and funding sources, and in particular setting the policy of share redemption not regulated in the By-laws;
- creation and winding up of special purpose funds;
- issue of convertible bonds or preferred bonds;
- establishment of the principles of remunerating the Members of the Supervisory Board;
- liquidation of the Bank or its merger with another bank;
- appointment of liquidators;
- matters submitted by the Supervisory Board;
- matters submitted by the shareholders in accordance with the By-laws;
- election of the entity authorised to audit financial statements as a statutory auditor of the Bank.

The General Meetings of mBank take place in the Bank's headquarters in Warsaw and are broadcast on-line. The General Meetings may be attended by the representatives of the media.

Shareholder rights

[G4-34] The shareholders have the right to participate in the profit reported in the audited financial statements and allocated by the General Meeting to be paid to the shareholders.

The shareholders representing at least one-half of the share capital or at least one-half of the total number of votes in the Company may convene an Extraordinary General Meeting. The shareholders appoint the chairperson of such a meeting. The shareholder(s) representing at least one-twentieth of the share capital may request that the Management Board convene an Extraordinary General Meeting and that specific items be put on the agenda for such a meeting.

Only persons who are shareholders of the Bank sixteen days before the date of the General Meeting have the right to participate in the General Meeting of the Bank. The shareholder(s) of the Bank representing at least one-twentieth of the share capital may request that specific items be put on the agenda for the Annual General Meeting. The request should be submitted to the Management Board of the Bank no later than twenty-one days prior to the date of the Annual General Meeting.

The shareholders may participate in the General Meeting and cast their votes either in person or by proxies.

A shareholder has the right to:

- vote, propose motions and raise objections;
- justify his or her position briefly;
- stand for the election of the Chairperson of the General Meeting and propose a candidate for the Chairperson of the General Meeting to be noted in the minutes;
- take the floor during the proceedings and make a reply;
- table draft resolutions concerning the items put on the agenda;
- propose amendments and additions to draft resolutions being on the agenda for the General Meeting before the discussion on the item covering the draft resolution concerned by the proposal is closed;
- propose formal motions relating to the proceedings and the voting procedure;
- propose candidates for the Bank's Supervisory Board in writing to the Chairperson of the General Meeting or orally to the minutes;
- review the book of minutes and request copies of resolutions authenticated by the Management Board;

- take legal action to have a resolution of the General Meeting annulled where the shareholder voted against a resolution of the General Meeting and after its adoption raised an objection to the minutes or the shareholder was unreasonably prevented from participating in the General Meeting or the shareholder was not present at the General Meeting as a result of it being convened incorrectly or the adopted resolution not being on the agenda;
- take legal action against the Company to have a resolution of the General Meeting annulled where the resolution is in breach of law.

The Management Board is obliged to provide the shareholder, at the shareholder's request, with information concerning the Company if this is justified by the assessment of an issue on the agenda. The Management Board should refuse information if:

- this could damage the Company or its associated company or subsidiary, in particular due to disclosure of technical, trade or organisational secret of the Company;
- this could expose a Member of the Management Board to criminal, civil or administrative liability.

In justified cases, the Management Board may provide information in writing no later than two weeks after the General Meeting is adjourned.

8.7. Composition, powers and procedures of the Management Board and the Supervisory Board

7.4. Composition of the Management Board

[G4-34] The Management Board is composed of at least three members appointed for a joint term of 5 years. At least half of the Members of the Management Board, including the President of the Management Board, have to hold Polish citizenship, be habitually resident in Poland, speak Polish, and have experience on the Polish market which can be used while managing the Bank. The Members of the Management Board manage selected areas of the Bank's operation within the scope determined by the President of the Management Board. The division of powers of the Members of the Management Board has been described in detail in the Management Board's resolutions.

There was one change in the composition of the Management Board in 2016. On April 12, 2016, Mr Jörg Hessenmüller informed the Bank about his resignation from the position of the Member of the Management Board, Vice-President of the Management Board of mBank S.A, Chief Financial Officer, effective as of June 30, 2016. Jörg Hessenmüller assumed new duties as a Managing Director for Commerzbank Group Strategy. On June 10, 2016, the Supervisory Board of mBank appointed Mr Heins the Vice-President of the Management Board, Chief Financial Officer. He took the office on July 1, 2016.

Additionally, on December 12, 2016, the Bank was informed that Vice-President of the Management Board, Mr Hans Dieter Kemler, intended to resign from his function at the Bank. Mr Kemler decided to resign as he was offered the position of a member of the management board in German Landesbank Hessen Thuringen (Helaba) responsible for capital markets, Treasury and asset management.

On February 16, 2017, Vice President of the Management Board – Head of Operations and Information Technology, Jarosław Mastalerz, informed the Bank of his intention to resign from his functions performed in the Bank in the nearest future. The reason for the Mr Mastalerz resignation is his intention to engage in development and commercializing of new technologies in the finance sector within the project realized in cooperation with the Bank.

Please find below the composition of the Management Board of mBank as at December 31, 2016:

1. Cezary Stypułkowski – President of the Management Board, Chief Executive Officer
2. Przemysław Gdański – Vice-President of the Management Board, Head of Corporate and Investment Banking
3. Christoph Heins – Vice-President of the Management Board, Chief Financial Officer
4. Lidia Jabłonowska-Luba – Vice-President of the Management Board, Chief Risk Officer
5. Hans-Dieter Kemler – Vice-President of the Management Board, Head of Financial Markets

6. Cezary Kocik – Vice-President of the Management Board, Head of Retail Banking

7. Jarosław Mastalerz – Vice-President of the Management Board, Head of Operations and Information Technology

Detailed information on mBank Management Board Members is presented below:

Cezary Stypułkowski - President of the Management Board, Chief Executive Officer



Cezary Stypułkowski holds a Ph.D. in Law from the University of Warsaw. In the late 1980s, he studied at Columbia University Business School in New York as a participant of the Fulbright Program. Starting in 1991, he chaired the management board of Bank Handlowy S.A. (currently Citibank Group) for nearly thirteen years. Mr Stypułkowski was appointed as president of the management board of the PZU Group in 2003 and held this function for three years. From 2006 to 2010 he worked for J.P Morgan in London, and from 2007 as Managing Director of J.P. Morgan Investment Bank in Central and Eastern Europe. Mr Stypułkowski was also a member of the International Advisory Board for Deutsche Bank Management Board, INSEAD International Advisory Board and the Geneva Association. Since 2012 he has been the co-chairman of the Emerging Markets Advisory Council of the Institute of International Finance in Washington (IIF).

Cezary Stypułkowski was appointed President of the Management Board of mBank on August 2, 2010, acting as President of the Management Board of the Bank as of October 1, 2010. He was approved as President of the Management Board by the Polish Financial Supervision Authority on October 27, 2010.

Przemysław Gdański – Vice-President of the Management Board, Head of Corporate and Investment Banking



Przemysław Gdański graduated from the University of Gdansk (faculty: International Trade) and completed a one-year program in international banking and finance at the Loughborough University in the UK. In 2012, he completed the Advanced Management Program (AMP) at IESE Business School.

He has over 25-year experience in corporate and investment banking. From 1993 to 1995 he worked for IBP Bank S.A., then for ABN AMRO Bank in Poland, Romania and in the headquarters in Amsterdam. From 2002 to 2006, he was the Managing Director of the Large Corporates Division in Bank BPH Bank S.A. From May to November 2006 he was CEO and General Director of Calyon Bank Polska and Calyon S.A. Branch in Poland.

In November 2006, Przemysław Gdański took the position of Deputy CEO in BPH Bank, responsible for corporate banking and real estate financing. After the merger of part of BPH Bank and Pekao S.A., he became the Deputy CEO of Pekao S.A. responsible for the Corporate Banking, Markets and Investment Banking Division.

Mr Gdański has been a Member of the Management Board since November 19, 2008.

Christoph Heins – Vice-President of the Management Board, Chief Financial Officer



Christoph Heins graduated from Bankakademie in Frankfurt am Main (currently: Frankfurt School of Finance and Management) in 1996 and obtained a master's degree in banking (Diplom-Bankbetriebswirt (BA)).

Mr Heins embarked on his career in 1988 in Dresdner Bank as Relationship Manager. Since then he occupied many positions in Commerzbank Group, both in Germany and abroad, gaining valuable experience in the front office, back office and support area. In 2008 Mr Heins was appointed as CFO in Commerzbank's branch in New York and performed this function until his return to Frankfurt in 2012. Subsequently, Mr. Heins was the global head of divisional controlling, the unit responsible for the financial reporting and forecast of and for the divisions of Commerzbank Group.

Christoph Heins has been the Vice-President of the Management Board of mBank, Chief Financial Officer, since July 1, 2016.

Lidia Jabłowska-Luba – Vice-President of the Management Board, Chief Risk Officer

Lidia Jabłowska-Luba graduated from the Mathematics Institute of the University of Gdańsk.

From 1994 to 2001, Ms Jabłowska-Luba was Vice-President of Schroder Salomon Smith Barney Poland, where she advised financial institutions on M&A and public equity transactions. In 2002, Lidia Jabłowska-Luba joined Citigroup in Poland, first as Head of Financial Institutions & Public Sector

Division and since November 2003 as Member of the Management Board in charge of finance and operational risk management, capital management and implementation of the New Capital Accord. From 2008 to 2010, she served as Vice-President of the Management Board of Kredyt Bank acting as Chief Finance and Risk Officer. She was also the Advisor to the CEO of Warta S.A. and TUNŻ Warta S.A. From 2010 to 2012, Ms Jabłowska-Luba was the Senior General Manager at KBC Group in Brussels, where she was responsible for managing all risk types in the group, including model development and valuation, risk policies and procedures, risk support for business decisions, supervision and reporting, ICAAP and ORSA processes, capital adequacy policy and technological support for risk management. Additionally, Ms Jabłowska-Luba held the position of Vice-Chairman of the Group Risk Management Committee and also served as a member of the Group Risk and Capital Oversight Committee and ALCO at KBC Group.

Member of the Management Board of the Bank since April 12, 2013.

Hans-Dieter Kemler – Vice-President of the Management Board, Head of Financial Markets

Hans-Dieter Kemler graduated from the Westphalian Wilhelm University of Munster with a degree in business administration in 1996.

In 1987-1990 he took part in manager traineeship at Dresdner Bank in Muenster. In 1990-1991 he participated in a training programme on trading in securities and investment banking at the headoffice of Dresdner Bank in Frankfurt. In 1991-1992 he worked in the Bond Trading Department at

Dresdner Bank.

Between 1996 and 1998, employed with Sal. Oppenheim jr. & Cie. KGaA, Financial Markets Department in Frankfurt am Main, where he was responsible for interest rate transactions. From 1998 to 2005, Head of the Corporate Risk Advisory in the Head Office of Commerzbank.

Since 2005 until mid-2009, member of the senior management of Commerzbank responsible for international public finance. He also acted as a managing director at Erste Europäische Pfandbrief- und Kommunalkreditbank AG in Luxemburg S.A.

Member of the Management Board of mBank responsible for Financial Markets since July 10, 2009.

Cezary Kocik – Vice-President of the Management Board, Head of Retail Banking

Cezary Kocik graduated from the University of Łódź with a degree in Banking and Finance. In 2015, he completed the Advanced Management Program (AMP 189) at Harvard Business School. Holder of a securities broker license. From 1994 to 1996 Mr Kocik was employed with the brokerage house of Bank PBG as a securities broker. Starting in 1996 he worked for Bank PBG in the Investment Banking and Debt Collection and Restructuring divisions.

In 1999, Mr Kocik was employed with the Debt Collection and Loan Restructuring Department of Bank Pekao S.A. In 2000 he was appointed director of a Pekao Branch in Łódź.

He has been shaping mBank's retail banking since 2004: first in the retail credit risk area, then in the sales and business processes area, contributing to successful implementation of CRM system and substantially improving the effectiveness of key sales processes in direct channels.

Member of the Management Board of the Bank since April 1, 2012.

Jarosław Mastalerz – Vice-President of the Management Board, Head of Operations and Information Technology

Jarosław Mastalerz graduated from the University of Łódź, the Economics and Sociology Department (major: Foreign Trade) and the Management Department (major: Management Accounting). He holds a certificate of the British Association of Chartered Certified Accountants. From 1996 to 1998, he worked as a consultant in PricewaterhouseCoopers. In 1998, he started to work for the Zurich Group. Initially, he was responsible for the organisation and market strategy of the pension fund, and then he took over the position of Marketing Director and became a Member of the Management Board. Starting in 2000, he served as the Member of the Management Board responsible for the retail client segment of the Zurich Group in Poland, and from 2001 – as the Financial Director. From January 2003 to June 2006, he was a Member of the Management Board and the Financial Director of Generali T.U. S.A and Generali Życie T.U. S.A. From January 1, 2003, he was responsible for the financial department, the actuarial office, controlling and bancassurance. In 2002, he participated in the process of merging Zurich companies with Generali companies. On July 20, 2006, he was appointed Chief Executive Officer of BRE Ubezpieczenia Sp. z o.o., then Chief Executive Officer of BRE Ubezpieczenia Towarzystwo Ubezpieczeń S.A.

In August 2007, Jarosław Mastalerz was appointed by the Supervisory Board as Member of the Management Board of BRE Bank SA (currently mBank S.A.), Head of Retail Banking. Since April 2012, Jarosław Mastalerz has been a Member of the Management Board, Head of Operations and Information Technology responsible for IT and logistics area.

Powers and procedures of the Management Board

The Members of the Management Board are jointly liable for the overall operations of the Bank. They work collegially and inform each other about the most important matters concerning the Bank for which particular Members of the Management Board are responsible. The Management Board may appoint standing committees or teams to perform specific functions or to co-ordinate the work of organisational units of the Bank or to perform specific tasks.

The following committees led by Members of the Management Board operate at mBank:

- Resource Management Committee (chairperson: Cezary Stypułkowski)
- Capital Management Committee (chairperson: Christoph Heins)
- Data Quality and IT Systems Development Committee (chairperson: Christoph Heins)
- Assets and Liabilities Management Committee of mBank Group (chairperson: Hans-Dieter Kemler)
- Foreign Branch Supervision Committee of mBank S.A. (chairperson: Cezary Kocik)
- Credit Committee of mBank Group (chairperson: Lidia Jabłonowska-Luba)
- Retail Banking Risk Committee (chairperson: Lidia Jabłonowska-Luba)
- Corporate and Investment Banking Risk Committee (chairperson: Lidia Jabłonowska-Luba)
- Financial Markets Risk Committee (chairperson: Lidia Jabłonowska-Luba)
- Model Risk Committee (chairperson: Lidia Jabłonowska-Luba)
- IT Architecture Committee of mBank S.A. (chairperson: Jarosław Mastalerz)

The Management Board manages the Bank's business, represents the Bank and defines the guidelines for the Bank's operations, especially for the areas subject to risks, including the credit policy, the investment policy, the Bank's assets and liabilities management policy, and the guarantee policy. The Management Board presents to the Supervisory Board on a regular basis comprehensive information on all significant aspects of the Bank's operations and related risks as well as risk management methods.

The Management Board operates pursuant to its Rules approved by the Supervisory Board. The Rules determine among others the issues which require consideration of the Management Board as a collegial body and adoption of a resolution of the Management Board.

All resolutions are adopted by a majority of votes of the Management Board Members present at the meeting, and in the case of an equal number of opposing votes, the President of the Management Board has the casting vote.

Rules and levels of remuneration of Members of the Management Board are determined by the Remuneration Committee of the Supervisory Board. The rules of the incentive programme for the Management Board as well as the principles of allocating bonuses to Management Board Members are defined in Resolutions of the Supervisory Board.

Total remuneration of the Members of the Management Board includes a fixed and a variable part.

A detailed description of the rules of the incentive programme for the Management Board is presented in Note 44 of the Consolidated Financial Statements of mBank S.A. Group for 2016 in line with the International Financial Reporting Standards.

The section below presents a brief description of the 2014 incentive programme for the Management Board which replaced the Incentive Programme Rules of December 7, 2012.

Under the programme, the Members of the Bank's Management Board have the right to receive a bonus, including a non-cash bonus paid in the Bank's shares, including phantom shares.

The net ROE of mBank Group and the monthly remuneration as at the end of the financial year for which the bonus is to be awarded constitute the basis for the acquisition of the right to a bonus and for the calculation of the bonus amount for a given financial year. One part of the base bonus is the equivalent of 50% of the base amount calculated depending on the ROE. The other part of the bonus may be granted by the Remuneration Committee of the Supervisory Board on the basis of its appraisal of the Management Board Member and achievement of the MbO objectives. The two parts of the bonus constitute the base bonus. 40% of the base bonus is paid in the year when it is determined: 50% in cash and 50% in Bank's shares, or bonds with a pre-emptive right to take up shares, or phantom shares. The remaining 60% of the base bonus is deferred and paid in three equal tranches in three subsequent years: 50% in cash and 50% in Bank's shares, or bonds with a pre-emptive right to take up shares, or phantom shares.

The remuneration of the Members of Management Board in 2015 and in 2016 is presented below.

	Basic remuneration	Remuneration paid in 2016 (in PLN)		
		Other benefits	Bonus for 2015	Deferred bonus*
1. Cezary Stypułkowski	2,725,108	252,868	500,000	325,000
2. Lidia Jabłonowska-Luba	1,500,000	170,504	280,000	180,000
3. Przemysław Gdański	1,500,000	194,440	280,000	180,000
4. Christoph Heins	841,392	368,824	-	-
5. Hans-Dieter Kemler	1,509,926	348,238	280,000	180,000
6. Cezary Kocik	1,500,000	185,316	300,000	200,000
7. Jarosław Mastalerz	1,500,000	203,396	340,000	180,000
In total	11,076,426	1,723,586	1,980,000	1,245,000

* In 2016, the 1st deferred tranche was paid out as part of the settlement of cash bonus for 2014.

	Remuneration paid in 2016 (in PLN)			
	Basic remuneration	Other benefits	Bonus for 2015	Deferred bonus*
Remuneration of Members of the Management Board who resigned from the Management Board in 2016				
1. Jörg Hessenmüller	781,500	93,768	300,000	190,000

* In 2016, Jörg Hessenmüller was paid the 1st deferred tranche as part of the settlement of cash bonus for 2014.

		Remuneration paid in 2015 (in PLN)			Cash settlement of the incentive programme based on Commerzbank shares
		Basic remuneration	Other benefits	Bonus for 2014	
1.	Cezary Stypułkowski	2,092,108	174,833	650,000	827,941
2.	Lidia Jabłonowska-Luba	1,219,483	228,872	360,000	-
3.	Przemysław Gdański	1,200,000	143,184	360,000	658,950
4.	Jörg Hessenmüller	1,263,000	166,535	380,000	-
5.	Hans-Dieter Kemler	1,218,561	366,354	360,000	688,900
6.	Cezary Kocik	1,200,000	156,825	400,000	-
7.	Jarosław Mastalerz	1,200,000	125,670	360,000	778,749
In total		9,393,152	1,362,273	2,870,000	2,954,540

Composition of the Supervisory Board

[G4-34] The Supervisory Board acts on the basis of adopted Rules and performs the functions provided for in the By-laws of the Bank, the Code of Commercial Partnerships and Companies, and the Banking Law. The By-laws of mBank provide that the Supervisory Board consists of no less than five Members elected by the General Meeting for a joint term of three years. Members of the Supervisory Board should possess knowledge, skills and experience adequate for fulfilling their function and duties entrusted to them and should guarantee proper fulfilment of these duties. At least half of all Supervisory Board Members, including the Chairman, shall hold Polish citizenship, permanently reside in Poland, speak Polish and have experience on the Polish market which can be used while supervising the Bank's operations. Pursuant to the statutory requirement, at least two Supervisory Board Members are independent, unless the General Meeting decides otherwise. The independence criteria of the Supervisory Board Members are stipulated in the Rules of the Supervisory Board.

In 2016, the composition of mBank's Supervisory Board changed twice.

In March 2016, Martin Blessing resigned from his position as Member of the Supervisory Board and the Executive Committee of the Supervisory Board as of April 30, 2016. On March 24, 2016, Michael Mandel was appointed to replace Martin Blessing from May 1, 2016 to the end of the current term of office of the Supervisory Board. Since May 23, 2016, Michael Mandel has held the position of a Member of the Management Board at Commerzbank AG responsible for private banking.

Furthermore, on October 27, 2016, the Bank received a letter from Martin Zielke, Deputy Chairman of the Bank's Supervisory Board, Member of the Remuneration Committee of the Supervisory Board and Member of the Executive Committee, with his resignation from these functions as of December 15, 2016. By the Resolution of the Supervisory Board of December 15, 2016, Jörg Hessenmüller, the Managing Director for Commerzbank Group Strategy was appointed Member of the Supervisory Board.

The composition of the Supervisory Board as at the end of 2016 is presented below.

1. Maciej Leśny – Chairman of the Supervisory Board
2. Stephan Engels – Deputy Chairman of the Supervisory Board
3. Andre Carls – Member of the Supervisory Board
4. Marcus Chromik – Member of the Supervisory Board
5. Jörg Hessenmüller – Member of the Supervisory Board
6. Thorsten Kanzler – Member of the Supervisory Board

7. Michael Mandel – Member of the Supervisory Board
8. Teresa Mokrysz – Member of the Supervisory Board
9. Agnieszka Słomka-Gołębiowska – Member of the Supervisory Board
10. Waldemar Stawski – Member of the Supervisory Board
11. Wiesław Thor – Member of the Supervisory Board
12. Marek Wierzbowski – Member of the Supervisory Board

More detailed information on mBank Supervisory Board Members as at December 31, 2016, is presented in the table below.

Maciej Leśny – Chairman of the Bank's Supervisory Board

In 1969 Maciej Leśny completed his studies at the Faculty of Economic Sciences at Warsaw University. During his professional career, Mr Leśny worked for 6 years in the shipbuilding industry in Gdańsk and 8 years for Zakłady Elektronicznej Techniki Obliczeniowej. For more than 22 years, he worked in the central state administration, including 8 years in the position of Undersecretary of State: in the Ministry of Foreign Economic Co-operation; the Ministry of Economy; the Ministry of Economy, Labour and Social Policy; and finally in the Ministry of Infrastructure.

He completed post-graduate studies and training in the United States at Michigan University (Business School of Administration) and De Paul University (Chicago). In 1992-1993, as a scholarship holder of the US government, Mr Leśny studied at the American University in Washington, DC. During his scholarship he served a four-month internship at the World Bank and completed a privatization training course in the International Monetary Fund.

From March 1994 to 1998, Mr Leśny was the Chairman of the Supervisory Board of mBank (former BRE Bank). By December 2001, Member of the Supervisory Board. In 2004, Mr Leśny was re-elected Chairman of the Supervisory Board.

Stephan Engels – Deputy Chairman of the Supervisory Board

He is a graduate from the University of St. Gallen in Switzerland. Between 1988-1993, he worked at Daimler-Benz AG's internal audit department. Afterwards he headed the Regional Controlling (Europe) at debis AG for three years. From 1996 to 2000 he served as Chief Financial Officer at debis AirFinance B.V. In 2000, he joined DaimlerChrysler Bank AG, as Member of the Board for Credit then Chief Financial Officer & IT. From 2003 he worked at DaimlerChrysler Services AG as a Member of the Board for Finance, Controlling, Risk Management & Strategy. From 2007 to 2012 he was a Member of the Executive Committee of Mercedes-Benz Car Group for Finance & Controlling and Head of Management Group Controlling at Daimler AG.

Since April 1, 2012, Member of the Board, Chief Financial Officer at Commerzbank AG.

Andre Carls – Member of the Supervisory Board

Having studied business economics and completed a doctorate at the University of Cologne, Dr Carls joined Commerzbank through an international trainee programme in 1990.

He subsequently held various positions in Corporate Finance and Capital Markets in Frankfurt and from 1998 to 2000 was Executive Director of the Investment Banking Division of Commerzbank in London.

From 2000 to 2008, Dr Carls was a Member of the Board of Managing Directors of comdirect bank AG, from September 2002 to November 2004 as CFO and from November 2004 to March 2008 as CEO. From March 2008 to September 2008 he held the position of Vice-President of the Management Board and CFO of BRE Bank S.A. (currently mBank S.A.).

From March 2008 to December 2013, Dr Carls was CEO of Commerzbank Auslandsbanken Holding AG and CEO of Central & Eastern Europe-Holding of Commerzbank AG. In January 2014, Dr Carls became a Divisional Board Member in the "Mittelstandsbank" of Commerzbank AG.

Marcus Chromik – Member of the Supervisory Board

Marcus Chromik studied physics in Munich, Göttingen, and Kiel. He also spent time in the US, engaged in scientific research at Michigan State University. Mr Chromik holds a PhD in nuclear physics.

He started his professional career with McKinsey in 2001. In 2004 he joined Postbank Group, where he held various executive positions, including new issues and syndication, liquidity management, and Credit Treasury. Then he served as Chief Market Risk Officer for Commerzbank more than three years and was responsible for the bank's market and liquidity risk management. Dr Marcus Chromik has been a Divisional Board Member and Chief Credit Risk Officer at Commerzbank since 2012.

On January 1, 2016, he was appointed Member of the Board of Managing Directors at Commerzbank AG, Chief Risk Officer.

Jörg Hessenmüller – Member of the Supervisory Board

Jörg Hessenmüller graduated from Hochschule für Bankwirtschaft in Frankfurt am Main in 1997 and was awarded a Master's in Management (Diplom-Betriebswirt (FH)). From 1989 to 2009 he worked for Dresdner Bank, holding the position of, among others, Head of Financial Control responsible for London, New York, Moscow, Sao Paulo and Asia. In 2009 Mr Hessenmüller was appointed Managing Director in Commerzbank Group and worked as Head of Investment Banking Finance, Group Finance. From April 2012 to June 2016, he was the Member of the Management Board of mBank S.A. responsible for the finance area.

Since July 2016, Mr Jörg Hessenmüller has been the Managing Director in Commerzbank Group responsible for Group Management Development & Strategy.

Thorsten Kanzler – Member of the Supervisory Board

Thorsten Kanzler studied mechanical engineering and economics at the University of Technology in Darmstadt (Germany), where he obtained the Diplom-Wirtschaftsingenieur (M.Sc. Eng.).

From 1991 to 2004 he was employed with Deutsche Bank AG on various positions in the treasury and risk management area in Frankfurt, New York, Sydney and London.

Between 2004 and 2007, Mr Kanzler was Group Treasurer and Divisional Board Member of Corporate & Investment Banking in WestLB AG in Düsseldorf.

From May 2007, Mr Kanzler was Head of Group Treasury & Capital Management at Dresdner Bank AG in Frankfurt am Main. Since the beginning of 2009, Mr Kanzler has been Divisional Board Member for Group Treasury at Commerzbank AG. He is responsible for assets and liabilities management, risk management, capital management and funding.

Michael Mandel – Member of the Supervisory Board

Michael Mandel is a graduate of Business Administration at the University of Muenster. Between 1986-2000 he worked for Dresdner Bank AG, where he was responsible for private banking. In the years 2000-2002 he was a consultant in McKinsey&Company.

Since 2002 he has worked for Commerzbank AG, first as the Director for Business Development – private clients segment, and then the Group Manager – Private and Business Clients. In 2008, he was appointed CEO of Comdirect Bank AG. Since 2010, Divisional Board Member for private customers at Commerzbank AG. In May 2016 Michael Mandel was appointed Member of the Board of Managing Directors at Commerzbank AG responsible for the segment of "private and business customers".

Teresa Mokrysz – Member of the Supervisory Board

Teresa Mokrysz is a graduate of the Academy of Economics (now the University of Economics) in Katowice (1978). In 1990, she created the Mokate brand, one of the most recognisable Polish brands in the world. She transformed a small family-run company into a group of international companies with worldwide operations. As a co-owner, she directs nine Mokate companies with their business seats in

Poland and Central Europe. She built from scratch production plants in Żory and Ustroń and expanded a production facility near Prague (production of coffee, tea, ingredients for the food industry). She has successfully launched her products in several dozen countries on all continents.

In 2000, the International Association of Women Entrepreneurs from Los Angeles awarded her the title "The Leading Women Entrepreneurs of the World". Teresa Mokrysz has been the recipient of numerous prestigious awards in Poland and abroad. She was awarded Commander's Cross of Polonia Restituta by the President of the Republic of Poland. She funds scholarships for talented and less well-off young people and provides financial support to health care institutions, nursing care homes, orphanages and schools.

Agnieszka Słomka-Gołębiowska – Member of the Supervisory Board

Agnieszka Słomka-Gołębiowska is a graduate of Warsaw School of Economics (SGH) of faculty: finance and banking and MBA in the French Management Institute (IFG). She obtained a PhD degree in economics at SGH, where she is currently working as a lecturer and conducting research into corporate governance.

From 2006 to 2009, the director in the Industrial Development Agency responsible for corporate governance and before that, a consultant for private and public companies at Arthur Andersen. Since 2006, she has been a member of supervisory boards. She completed the Alexander von Humboldt Fellowship at the University of Muenster and the Polish-American Fulbright Fellowship at the University of California, Berkeley. She was a visiting scholar at universities in Cambridge (MIT), Tucson (UOA), Munster, Copenhagen (CBS), Birmingham (BBS), Berlin (HSoG), Genoa (UoG - Law School), Vienna (WU) and Florence (UniFi). She is the author of many publications on corporate governance.

Waldemar Stawski – Member of the Supervisory Board

Graduate of the Gdańsk Technical University and post-graduate studies in: Accounting and Finance (2009-2010), Financial Analysis in Business Management (1992-1993), Microprocessors in Ergoelectronics and Propulsions (1986-1987), Didactics and Pedagogy (1984-1985).

In 1991-2011 he underwent domestic and foreign training on banking, finance and banks' organisation.

Mr Stawski holds the Accounting Certificate issued by the Minister of Finance and is authorised to provide bookkeeping services. He passed the exam for the candidates for members of supervisory boards at state-owned companies (certificate MPW April 8, 1995).

In 1983-1991, Mr Stawski was a member of the teaching staff of the Maritime University of Gdynia. In 1991, he became an employee of Pomorski Bank Kredytowy. In 1993, Mr Stawski became a branch director in Gdynia. In 1995-2000, he was director of the Regional Branch of PKO BP in Gdańsk. In 2000, Mr Stawski was appointed Vice-President of the Management Board of PKO BP S.A. responsible for managing the treasury, corporate clients, capital market and corporate governance areas. From June 2002 to February 2003, Mr Stawski was Chairman of the Team of Receivers for Wschodni Bank Cukrownictwa S.A. He then served as a Member of the Management Board of CTL Logistics S.A. and General Director of the Polish Association of Transport and Logistics Employers.

From 2006 to 2015, Mr Stawski was a consultant of ALDAZ Sp. z o.o., and he currently acts as director at Zarzecki, Lasota i Wspólnicy Sp. z o.o.

In the years 2012-2014 he was the Member of the Management Board of Gdańsk Business Club of which he has been a member since 1995. In 2012, he was appointed to the Council of the Maritime University of Gdynia. From November 2014 to February 2015, Waldemar Stawski was special administrator of SKOK Wołomin.

Wiesław Thor – Member of the Supervisory Board

Wiesław Thor graduated from the Central School of Planning and Statistics (currently Warsaw School of Economics – SGH), training program "Train the Trainer" organised by KPMG and the South Carolina Business School, and summer school of banking at McIntire University Business School. Employed with

BRE Bank since 1990 (currently mBank) in the following positions: Specialist, Division Head, Deputy Director of the Warsaw Branch, Director of the Credit Department, and Chief Risk Officer from May 2000. From August 1, 2002, Managing Director at Bank Handlowy in Warsaw.

On November 2, 2002, Mr Thor was appointed Member of the Management Board of BRE Bank, Chief Risk Officer. He was Deputy President of the Management Board of BRE Bank from March 15, 2008 to April 11, 2013.

Lecturer at the Warsaw Institute of Banking and SGH. Long-time Member of the Steering Committee of the Risk Management Association (formerly: Robert Morris Association European Credit & Risk Management Round Table) and Member of PRMIA Polska.

Marek Wierzbowski - Member of the Supervisory Board

Professor ordinarius at the University of Warsaw, legal advisor, the founding partner of the law firm Wierzbowski and Partners - Legal Advisors and Advocates, President of the Arbitration Court of the Chamber of Brokerage Houses, member of the Board of Directors of the Polish-U.S. Fulbright Commission, and member of the Council in the European Law Institute based in Vienna. He was a member of the College of the Supreme Audit Office, member of the Public Procurement Council, Vice-President and President of the Supervisory Board of the Warsaw Stock Exchange, and President of the Construction Law Codification Committee. He was the deputy dean of the Faculty of Law and Administration, as well as vice rector of the University of Warsaw.

For many years he was an associate of law firms Weil Gotshal & Manages and Linklaters. He was an advisor to the Minister of Ownership Transformations, the Minister of Treasury, the President of the Energy Regulatory Office, and Deputy President of the Court of Arbitration at the National Chamber of Commerce.

In his legal practise, Prof. Marek Wierzbowski managed legal teams, supporting numerous transactions, including sales of shares in connection with privatization of large enterprises. He is the scientific editor and co-author of many legal commentaries and textbooks.

The Supervisory Board has five independent members: Maciej Leśny, Teresa Mokrysz, Agnieszka Słomka-Gołębiowska, Waldemar Stawski and Marek Wierzbowski. Wiesław Thor is not an independent member as he was a Member of the Management Board of mBank, and holding the function of a Member of the Management Board of the Bank in the past five years is one of the reasons why a Member of the Supervisory Board cannot be considered an independent member.

Andre Carls, Marcus Chromik, Stephan Engels, Jörg Hessenmüller and Thorsten Kanzler are not independent members due to their relationship with the main shareholder of mBank.

Powers and procedures of the Supervisory Board

The responsibilities of the Supervisory Board include, in particular, the following matters:

- Advising and supervising the Management Board in defining internal guidelines for the activity of the Bank, especially for the areas subject to risks, including the Bank's credit policy, investment policy, guarantee policy, compliance policy, and approving the Management Board's proposals concerning the general organisational structure of the Bank.
- Supervising compliance of the Bank's risk-taking regulations with the strategy and financial plan of the Bank.
- Approving the disclosure policy rules concerning risk management and capital adequacy adopted by the Management Board.
- Approving strategies and procedures for the internal control system, the risk management system, the internal capital assessment process, capital management and capital planning, as proposed by the Management Board.
- Assessing the adequacy and effectiveness of the risk management system.

- Reviewing regular and exhaustive reports presented by the Management Board on all relevant issues related to the activity of the Bank, the risks of its activity, and the means and effectiveness of risk management.
- Preparing a concise assessment of the position of the Bank to be presented to the Annual General Meeting and attached to the annual report of the Bank for the previous financial year.
- Approving the Bank's annual financial plans, multi-year growth plans, as well as the strategy of the Bank and the rules of prudent and stable management of the Bank.
- Reviewing any motions and matters to be decided in a resolution of the General Meeting, including draft resolutions of the General Meeting; the Supervisory Board prepares the justification for draft resolutions to be presented to the General Meeting for approval.
- Issuing and approving rules provided for in the By-laws of the Bank.
- Appointing and dismissing the President of the Management Board, the Vice-Presidents of the Management Board and other Members of the Management Board subject to the procedures laid down in the Banking Law and taking into account relevant qualifications for the functions assigned to them.
- Defining the terms of contracts and remuneration of the Management Board.
- Authorising the Chairman of the Supervisory Board to represent the Bank in agreements with Management Board Members, including the conclusion of management contracts with Management Board Members.
- Approving conclusion or amendment of any significant contract or agreement with Members of the Management Board or the Supervisory Board.
- Approving conclusion, amendment or termination of any significant alliance or co-operation agreements.
- Analysing reports of the Internal Audit Department Director received at least once per year.

Meetings of the Supervisory Board are convened by the Chairman of the Supervisory Board on his or her own initiative or on request of the Management Board or on request of a Supervisory Board Member at least three times a year. All Management Board Members participate in the meetings of the Supervisory Board except for those agenda items which directly concern the Management Board or its Members.

Resolutions of the Supervisory Board are adopted by a simple majority of votes. In the case of an equal number of opposing votes, the Chairman of the Supervisory Board has the casting vote.

No resolution should be passed without the consent of the majority of the Independent Members of the Supervisory Board on the following matters:

- any benefits provided by the Bank or any entities associated with the Bank to the Members of the Management Board.
- consent for the Bank to enter into a significant agreement with an entity associated with the Bank, a Member of the Supervisory Board or the Management Board, and entities associated with them.

The Supervisory Board has four committees: the Executive Committee, the Risk Committee, the Audit Committee, and the Remuneration Committee. Members of the Committees are presented below (in the first place - Chairman of the Committee).

Executive Committee	Risk Committee	Audit Committee	Remuneration Committee
<u>Maciej Leśny</u>	<u>Marcus Chromik</u>	<u>Stephan Engels</u>	<u>Andre Carls</u>
Andre Carls	Thorsten Kanzler	Andre Carls	Stephan Engels *
Stephan Engels *	Maciej Leśny	Maciej Leśny	Maciej Leśny
Teresa Mokrysz	Agnieszka Słomka-Gołębiowska	Waldemar Stawski	Marek Wierzbowski

* Since December 16, 2016. Until December 15, 2016 Martin Zielke was a member of the Committee.

The tasks of the Executive Committee involve, in particular, exercising regular supervision over the Bank's operation in the periods between meetings of the Supervisory Board. The Executive Committee authorises the Management Board to acquire, encumber or dispose of real estate, perpetual leasehold, or interests in real estate, shares or equity interests in companies, and other fixed assets if the value of the transaction exceeds 1% of the Bank's own funds. Such authorisation is not required if the aforesaid acquisition took place as part of enforcement or bankruptcy proceedings, including the bankruptcy proceeding with the possibility to make an arrangement or other settlement with the Bank's debtor or in the case of the sale of assets so acquired.

The Audit Committee issues opinions about the selection of the Bank's statutory auditor by the General Meeting, recommends whether the Supervisory Board should approve or reject financial statements, exercises regular supervision over the internal control system at the Bank, and approves changes proposed by the Management Board of the Bank as regards the head of the Internal Audit Department. The Audit Committee must have at least one independent Supervisory Board Member with qualifications and experience in accounting and finance.

The Risk Committee has, among others, the following tasks: exercising permanent supervision over credit risk, market risk, operational risk, and liquidity risk. Moreover, the Risk Committee issues recommendations for approval or rejection of exposures with single entity risk, in accordance with the parameters defined by the Supervisory Board at the time. Moreover, the Risk Committee provides the Supervisory Board with recommendations for approval or rejection of the transactions, provided for in the Banking Law, concluded between the Bank and Members of the Bank's authorities, and recommendations for approval or rejection of the Bank's disclosure policy regarding risk management.

The tasks of the Remuneration Committee include among others: reviewing the remuneration principles and amounts of remuneration paid to the Members of the Management Board, setting the remuneration levels, presenting opinions concerning approval for Members of the Management Board of mBank to engage in competitive activity, issuing recommendations to the Supervisory Board regarding the general guidelines for the Management Board on the level and structure of remuneration for the Bank's senior management and the policy of variable components of remuneration paid to persons holding managerial positions at the Bank. Moreover, the Committee monitors the level and structure of the remuneration paid to senior managers.

All standing committees of the Supervisory Board make reports on their activity in the past reporting period available to the shareholders. The aforesaid reports are appended to the set of materials for the Annual General Meeting.

The amount of monthly remuneration of the Members of the Supervisory Board was set in Resolution No. 26 adopted by the 25th Annual General Meeting held on March 30, 2012. The Chairperson of the Supervisory Board earns PLN 17,000 monthly, the Deputy Chairperson - PLN 14,500 monthly, while members of the Supervisory Board earn PLN 12,000 monthly each.

Additional monthly remuneration is granted for participation in the standing committees of the Supervisory Board: 50% of the monthly basic remuneration for the first committee and 25% for participating in every other committee. Total remuneration for the participation in committees cannot exceed 75% of basic remuneration.

The remuneration of the Supervisory Board for 2015-2016 is presented in the table below.

	Remuneration paid in 2016 (in PLN)	Remuneration paid in 2015 (in PLN)
1. Maciej Leśny	367,235	367,235
2. Andre Carls	252,000	252,000
3. Marcus Chromik	-	-
4. Stephan Engels	-	-
5. Jörg Hessenmüller	-	-
6. Michael Mandel	-	-
7. Thorsten Kanzler	216,000	216,000
8. Teresa Mokrysz	220,225	220,225
9. Agnieszka Słomka-Gołębiowska	221,435	221,435
10. Waldemar Stawski	221,435	221,435
11. Wiesław Thor	149,435	149,435
12. Marek Wierzbowski	216,000	216,000
Martin Zielke*		-
Martin Blessing**		
Stefan Schmittmann***		-
In total	1,863,765	1,863,765

*On December 15, 2016 Mr Martin Zielke resigned from his position.

**On April 30, 2016 Mr Martin Blessing resigned from his position.

***On December 31, 2015 Mr Stefan Schmittmann resigned from his position.

Activity of the Supervisory Board and its Committees in 2016

In 2016, the Supervisory Board held six meetings and adopted 65 resolutions. The resolutions covered all areas of the Bank's operation and were consistent with the scope of supervisory functions specified in generally applicable laws, the Banking Law, PFSA recommendations, corporate governance principles, and the Bank's By-laws and the Rules of the Supervisory Board.

The adopted resolutions concerned among others:

- Approval of financial statements of mBank and mBank Group and other materials for the Annual General Meeting.
- Adoption of the Financial Plan for 2017 and the Medium-Term Plan for 2017-2020.
- Approval of the assessment of mBank's application of the Corporate Governance Principles for Supervised Institutions in 2015.
- Approval of the "Mobile Bank - mBank Group Strategy for 2016-2020".
- Approval of mBank's IT Strategy and Cyber-Security Strategy for 2016-2020.
- Approval of the documentation and the report on a review of the Internal Capital Adequacy Assessment Process (ICAAP) at mBank Group.
- Adoption of the Capital Management Policy at mBank Group.
- Allocation of funds to mBank Foundation.
- Approval of the general organisational structure of mBank and the division of powers among Members of the Management Board of and Managing Directors of mBank.
- Approval of the Risk Takers Identification Policy, as well as the Risk Takers Remuneration Policy and Rules.

- Approval of the Rules of mBank Management Board Incentive Programme.
- Approval of the Employee Incentive Programme Rules and the Information Memorandum drawn up to implement the Employee Incentive Programme.
- Approval of the Audit Plan of the Internal Audit Department for 2016 and adoption of the Internal Control Rules of mBank S.A.
- Approval of the Compliance Policy, and approval of the Compliance Risk Management Report.
- Approval of reports on the outsourcing and complaints handling supervision functions.
- Approval of the strategies and policies requiring approval of the Risk Committee and the Supervisory Board including: market and liquidity risks management strategy and corporate and retail credit risks management strategy.
- Approval of the Contingency Plan in the event of a threat of losing financial liquidity by mBank S.A.
- Approval of mBank Group's Models Management Policy.
- Approval of the Reputation Risk Management Strategy of mBank Group.
- Approval of the Limit Book – Limit Rules and the levels of limits for mBank Group.

In the past year, current results of mBank Group and its business areas were discussed and evaluated in a systematic, regular manner at meetings of the Supervisory Board with reference to the financial plan.

Attendance of the Supervisory Board Members at Supervisory Board meetings in 2016 is presented in the table below.

	Attendance*
Martin Blessing	2/2
Andre Carls	6/6
Marcus Chromik	6/6
Jörg Hessenmüller	1/1
Stephan Engels	5/6
Thorsten Kanzler	5/6
Maciej Leśny	6/6
Michael Mandel	3/3
Teresa Mokrysz	6/6
Agnieszka Słomka-Gołębiowska	6/6
Waldemar Stawski	6/6
Wiesław Thor	6/6
Marek Wierzbowski	6/6
Martin Zielke	5/6

* Attendance at meetings / number of meetings during the term of office.

In 2016, the Executive Committee performing its function of ongoing supervision over the Bank's operation in the periods between the meetings of the Supervisory Board co-operated closely with the Management Board and was informed about the situation of the Bank on an ongoing basis. Apart from the meetings of the Supervisory Board, Members of the Committee had regular meetings with the Members of the Management Board discussing the most important current issues of the Bank. According to its powers, the Executive Committee took decisions on the strategic transactions concluded by mBank. In a decision, the Executive Committee approved its report for the previous year which is presented to the Annual General Meeting.

The Audit Committee was regularly informed about the results and the financial position of the Bank and the Group. It received and analysed information on actions taken in the key risk areas.

The Committee held four meetings in 2016 and discussed, among others, the following:

- Compliance of the process of preparing financial statements with the applicable law.
- Co-operation with the external auditor.
- Conclusions from the audit of the annual financial statements of mBank Group for 2015.
- Scope of the audit of the annual financial statements for 2016.
- Assessment of mBank's internal control system in 2016.
- On-going supervision of proposed changes to mBank's internal control system in 2016.
- Ongoing supervision over the activity of the Internal Audit Department.
- Approval of reports of the Compliance Department.

The Audit Committee provided the Supervisory Board with recommendations on the approval of: Reports of the Management Board on the activity of mBank and mBank Group in 2015, and the financial statements for 2015, the annual report on compliance risk management at mBank in 2015, report of the Outsourcing Coordinator on the implementation of the Outsourcing Policy at mBank in 2015 and the Audit Plan of the Internal Audit Department for 2016.

In 2016, the Risk Committee held four meetings, during which it discussed the following matters: changes in the economic situation in Poland and their impact on the Bank, quarterly risk reports (capital adequacy, liquidity risk, credit risk, operational risk, market risk, interest rate risk, key events in the risk area), as well as a range of issues related to mBank's portfolios, including dedicated presentations on corporate, investment, financial markets, and retail portfolio risks.

Other major issues considered by the Committee included the largest exposures, development of risk parameters, and loan loss provisions at the Bank and in the Group. Furthermore, in accordance with its work plan, the Risk Committee discussed in detail the effectiveness of particular portfolios of the Bank, analysing risk parameters, change directions and forecasts. It also reviewed the management strategies covering individual risks of mBank Group and the strategic risk limits.

In 2016, the Risk Committee issued:

- 16 recommendations concerning exposures subject to single entity risk in accordance with the parameters defined by the Supervisory Board
- 16 decisions containing recommendations for the Supervisory Board regarding the approval of a range of strategies and policies and other risk management documents requiring the Supervisory Board's approval.

The Remuneration Committee held four meetings in 2016 and issued 19 decisions. During its meetings the Remuneration Committee discussed and issued recommendations for the Supervisory Board regarding the approval of:

- Rules of mBank Management Board Incentive Programme.
- Rules of mBank Employee Incentive Programme.
- Assessment and definition of the MbO objectives for the Members of the Management Board of mBank.
- Risk Takers Identification Policy.
- Risk Takers Remuneration Policy and Rules.
- Policy for the assessment of qualifications (suitability) of members of the supervisory body, management body and key function holders in the Bank.

8.8. mBank's Diversity Policy

[G4-34, G4-56] Being guided by the rule that diversity creates value added for the organisation, mBank has made use of the basic elements of the diversity policy in its HR policy for many years. Elements of the diversity policy are present in various procedures and processes, but the Bank does not have in place a uniform diversity policy document approved by the company's authorities.

Diversity arising from experience, knowledge, education, interests and a number of other things fosters creativity, innovation and effectiveness, and thus contributes to the company's competitive advantage, service quality and economic results.

mBank treats people equally regardless of their sex, age, material status, family background, physical abilities, nationality, sexual orientation, and political and religious beliefs, that is all the factors that may give rise to direct or indirect discrimination. The Bank offers a workplace that helps the management make use of and develop their unique features, skills and interests, for example through participation in training activities and clubs that bring together people with similar interests.

In accordance with the sex equality policy, the Bank tries to ensure that both men and women take part in external and internal recruitment and in the succession planning regarding the key functions at the Bank, taking into account the principles of equal treatment in hiring new employees. mBank's recruitment process involves a selection method that ensures objective assessment of candidates' skills. Every employee of the Bank can be promoted to manager, if they have a relevant professional track record.

Among the seven Members of the Bank's Management Board there is one woman, whereas two women sit on the twelve-person Supervisory Board of the Bank.

The composition of mBank's Supervisory Board reflects the care exercised to achieve the greatest possible diversification of members both in terms of their professional experience, as well as their knowledge and skills. The Supervisory Board is composed of representatives of mBank's main shareholder, representatives of science and business, and persons having vast legal knowledge and banking expertise.

Women account for 25% of top managers at the Bank. mBank's managers graduated from different fields of study in Poland and abroad, including economics, technology, IT, law, and philology. The management consists of people with diverse experience in Polish, European and American financial and non-financial institutions. The managers are aware of how important diversity is to the workplace and take part in training to learn how to identify differences and make use of them. mBank employs the Success Insights method to identify skills and personal features that may turn profitable in the workplace.

9. About the report

[G4-32, G4-33] This report was compiled in accordance with the core option of GRI G4 guidelines and with the use of the International Integrated Reporting <IR> Framework. It refers also to the sector indicators described in a relevant sector supplement. The report was not verified by an independent auditor.

The report sums up the first effective year of the five-year CSR Strategy for 2016-2020 adopted by us in late 2015. Feedback from the readers is extremely important to us. We will be grateful for your time and opinion about both the strategy and the report. Your opinion will help us improve them.

[G4-31] All those who would like to find out more about our activity or share their comments and observations about the report are encouraged to contact the coordinator of CSR activities:

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[G4-18, G4-19, G4-20, G4-21] In H1 2015 a workshop was held and attended by several dozen bank managers of key importance from the point of view of individual dimensions of social responsibility. During the workshop we identified the key areas of responsibility and the stakeholders. The approach based on the recognition of one's own responsibility in the key areas of a given organisation and the identification and engagement of stakeholders is the approach proposed in the PN-ISO 26000 standard. That is why the reorganisation of the management approach to social responsibility started with taking these measures. At the same time, from the point of view of the GRI reporting guidelines, this allowed us to comply with the principles of materiality, completeness and stakeholder inclusiveness. Moreover, the reference to the PN-ISO 26000 standard makes it possible to comply also with the principle of sustainability context.

As the impact on the environment does not change considerably year on year if there are no radical changes in the company or its environment, the key areas are the same as last year. Due to a slightly different form of the report, i.e. moving from CSR reporting to integrated reporting, during an internal expert meeting held in December 2016 attended by, among others, the representatives of the Investor Relations and Group Strategy Department and the CSR Specialist who coordinates CSR issues, it was concluded that the list of important aspects should be complemented due to a slightly different profile of the report's recipients. The integration of the report with the management board's report on the performance of mBank should increase the interest in the document on the part of investors and capital market actors. Therefore, the report puts more emphasis on aspects that are considered important from the point of view of capital markets.

Social, environmental or economic aspect	Influence aspects and GRI indicators	Relevance
Platforms of dialogue with clients	G4-26	high
Reliable, clear and transparent communication of products ¹	G4-PR1, G4-PR2, G4-PR4, G4-PR5, d. FS16,	high
Complaints ¹	G4-PR5	high
Protection of client data ¹	G4-PR8	high
Availability of financial services	FS13, FS14	high
Involvement in education	G4-SO1, d. FS16	medium
Being a responsible investor in the context of indirect economic, environmental and social influence	d. FS1, d. FS2, FS3, d. FS4	high
Corporate culture and focus on development	G4-EC5	high
Prevention of unethical behaviour	G4-SO3, G4-SO4, G4-SO5, G4-SO6, G4-SO7, G4-SO8	high
Own environmental footprint (electricity, fuels, office supplies, waste management) ¹	G4-EN1, G4-EN3, G4-EN5, G4-EN15, G4-EN16, G4-EN18, G4-EN23	medium
Responsibility management in supply chain ¹	G4-EN32, G4-LA14, G4-HR10, G4-SO11	high
Financial results ²	-	high
Share price performance ²	-	high

¹ Aspects that are important also outside the company, i.e. to business partners cooperating with the company.

² Aspects added to the report following its integration into financial reporting.

[G4-24, G4-25, G4-26, G4-27] The identification and assessment of stakeholders conducted in mid-2015 revealed the major stakeholders in the largest categories. These are:

- **Employees** (permanent employees, students and potential employees)
- **Investors** (Commerzbank - strategic investor, institutional investors, individual investors, the Warsaw Stock Exchange, rating agencies and brokerage houses)
- **Clients** (corporate clients, financial market institutions, companies, including micro-enterprises, individuals, the Financial Ombudsman, the Office of Competition and Consumer Protection (UOKiK))
- **Business partners** (key suppliers, subsidiaries in which the bank holds minority interests)
- **Society** (the Polish Financial Supervision Authority (PFSA), the Polish Bank Association (ZBP) and the National Bank of Poland (NBP), the media).

As we stressed in our previous report, in the case of mBank the emphasis on dialogue, especially with clients, goes far beyond the legal requirements and the standards adopted on the market. In addition to numerous communication channels and a set of market surveys, over years the bank has developed its own, innovative direct customer engagement solutions. The spectrum of available tools increased in 2016 when new solutions, e.g. in the area of responsible lending and partner approach to clients whose credit applications were rejected, were added. Their purpose is to help us better understand our clients and things

that matter to them on the one hand, and to help our clients understand us, on the other. Listening and empathy allowing us to think the way our clients think are the foundations of how we want to do business.

We keep analysing the results of regular employee engagement surveys thoroughly and appraise our employees taking into account, among other things, the soft factors (attitudes). All this in turn makes the existence of the culture of dialogue possible. We promote openness, including giving formal feedback to organisational units that a given employee cooperates with. Managers, on the other hand, have the chance to get a fuller picture of the organisation. Also the internal knowledge-sharing programme contributes to the dialogue in the organisation.

The forms and frequency of the dialogue in relations with other stakeholder groups depend on the nature of a given group and the relation itself. There is a complete array of forms: from informal to highly formalized ones, from indirect forms to quantitative studies. Thanks to applying a comprehensive range of tools, we are able to thoroughly understand expectations or potential concerns. Currently, the dialogue is decentralised, which means that the responsibility for relations with individual stakeholder groups lies with competent organisational units and their managers. While compiling this report we relied on the knowledge and experience of managers regarding the expectations of stakeholders.

10. Glossary

AIRB - Advanced Internal Rating-Based

ALM - Asset and Liability Management

BaFin - Bundesanstalt für Finanzdienstleistungsaufsicht, the Federal Financial Supervisory Authority

BFG - Bank Guarantee Fund

BGK - Bank Gospodarstwa Krajowego; it is a Poland's only state-owned bank which primary business covers providing banking services for the public finance sector

BRRD - Banking Recovery and Resolution Directive

CATI - Computer Assisted Telephone Interview (survey)

CEE - Central and Eastern Europe

CET 1 - Core Tier 1 ratio, core equity capital ratio, calculated as: core funds after deductions / total risk exposure amount (from the end of March 2014, capital ratios are calculated in line with Basel III principles)

C/I ratio - Cost to Income; calculated as: (overhead costs + amortisation) / total income (including net other operating income/costs)

CNB - Czech National Bank

CRD IV - Capital Requirement Directive, a part of regulatory package CRD IV / CRR, which forms a part of Basel III

Cross-selling - a trade technique of selling a product or service combined with purchase of another product to an existing customer

CRR - Capital Requirement Regulation, EU regulation

ECB - European Central Bank

EIB - European Investment Bank

ESMA - European Securities and Markets Authority

EURIBOR - Euro Interbank Offer Rate - a daily reference rate, published by the European Money Market Institute; European equivalent of LIBOR

Fed - US Federal Reserve

FTE - Full Time Equivalent

GDP - Gross Domestic Product - a monetary measure of the value of all final goods and services produced in a country or region over a given period

Guarantee de minimis - A form of security of a loan, which dedicates funds to guaranteeing the repayment of loans in case of non-timely repayment

GUS - Polish Central Statistical Office

IBNI - Incurred but Not Identified Losses

ICAAP - Internal Capital Adequacy Assessment Process

IPO - Initial Public Offering, shares of stock in a company are sold to the general public on stock exchange market for the first time

K1 - Large enterprises (annual sales exceeding PLN 500 million)

K2 - Mid-sized enterprises (annual sales of PLN 30 - 500 million)

K3 - Small enterprises (annual sales below PLN 30 million)

PFSA - Polish Financial Supervision Authority (pol. KNF)

KSF – Financial Stability Committee

KUKE – Medium-term lending insured in Export Credit Insurance Corporation

LIBOR - London Interbank Offered Rate – the reference rate of interest on deposits and loans in the interbank market in London. Libor rates are set for the following currencies: USD, EUR, CHF, GBP, JPY, for 1 day, 1 week, 2 months, 3 months, 6 months and 1 year loans

LtV ratio – Loan to Value ratio, expressing a relation between an amount of a loan and a value of its collateral (usually mortgage)

M&A – Mergers and Acquisitions

MBA studies – Executive Master of Business Administration postgraduate studies offered in Polish and addressed to working professionals with higher education who have several years of experience in business, mainly occupying middle and higher management positions

MbO – Management by Objectives

„Mieszkanie dla Młodych” program – „Flats for Youth”, the government’s support program for people up to 35 years old in the process of purchase of their first, new flat

ML - Mortgage Loans - mortgage-secured products

MPC – Monetary Policy Council

NBP – National Bank of Poland

NBS – National Bank of Slovakia

Net interest margin – Net interest income / Average interest earning assets

NFC - Near Field Communication - technology that allows to pay using mobile phones

NFSR – Net Stable Funding Ratio

NML - Non-Mortgage Loans - unsecured products or products with collateral other than mortgage

NPL ratio – Non-Performing Loans ratio – a ratio of loans in default or close to being in default to total loans

„On-the-job” learning – Learning of new skills during work, i.e. through participation in projects, workshops, etc.

P/BV ratio – Price / Book value

PD – Probability of Default

P/E ratio – Price / Earnings

PPS – purchasing power standards

ROA net – Net profit attributable to owners of the Bank / average total assets

ROE gross – Profit before income tax/ average total equity net of the year’s result

ROE net - Net profit attributable to owners of the Bank / average total equity net of the year’s result

RWA – Risk Weighted Assets

RWD – Responsive Web Design – a technology enabling to adapt website layouts to the screen of a device displaying the content

SME – Small and Medium Enterprises

SoFFin - Germany's Financial Market Stabilisation Fund

SREP Guideline – Guidelines on Supervisory Review and Evaluation

Total income - Net interest income + Net fee and commission income + Dividend income + Net trading income + Gains less losses from investment securities, investments in subsidiaries and associates + The share in profits (losses) of joint ventures + Other operating income - Other operating expenses

TREA – Total Risk Exposure Amount

WIBOR - Warsaw Interbank Offered Rate; Polish equivalent of LIBOR

WIG – Warsaw Stock Exchange Index

WSE – Warsaw Stock Exchange

ZBP – The Polish Bank Association

11. Statements of the Management Board

True and fair picture in the presented reports

The Management Board of mBank S.A. declares that according to their best knowledge:

- The annual consolidated financial statements and the comparative figures were prepared in compliance with the binding accounting principles and present a true, fair and clear picture of the financial position and the condition of the assets of mBank S.A. Group as well as its financial performance.
- The report of the Management Board on the business of mBank Group in 2016 presents a true picture of the developments, achievements, and situation of the mBank S.A. Group, including a description of the main risks and threats.

Appointment of the auditor

The Auditor authorised to audit financial statements and performing the audit of the annual financial statements of mBank S.A. Group for 2016 – PricewaterhouseCoopers Spółka z ograniczoną odpowiedzialnością - was appointed in compliance with legal regulations. The audit company and its auditors fulfilled the conditions necessary for an impartial and independent audit report in compliance with respective provisions of Polish law and professional standards.

Signatures of the Management Board of mBank S.A.

Date	First and last name	Position	Signature
01.03.2017	Cezary Stypułkowski	President of the Management Board	
01.03.2017	Lidia Jabłonowska-Luba	Deputy President of the Management Board, Chief Risk Officer	
01.03.2017	Przemysław Gdański	Deputy President of the Management Board, Head of Corporate and Investment Banking	
01.03.2017	Christoph Heins	Deputy President of the Management Board, Chief Financial Officer	
01.03.2017	Hans-Dieter Kemler	Deputy President of the Management Board, Head of Financial Markets	
01.03.2017	Cezary Kocik	Deputy President of the Management Board, Head of Retail Banking	
01.03.2017	Jarosław Mastalerz	Deputy President of the Management Board, Head of Operations and Information Technology	

GRI index

Indicator	Scope ● - entire ◐ - partial ○ - not reported/ not applicable	Page	Audit	GRI guidelines	Area according to ISO 26000	UN Global Compact principle	SDGs	Comment / Description
Strategy and analysis								
G4-1	●			The statement of the top management (e.g. executive officer, president of the management board or other persons holding an equivalent position) about the relevance of sustainability to the organisation and the organization's strategy for addressing sustainability	4,7 6.2. 7,4,2 6.2.			[Letter of the President of the Management Board]
G4-2	●			Description of key impacts, opportunities and risks				[Letter of the President of the Management Board]
Organisation Profile								
G4-3	●			Name of the organisation	6.3.10 6.4.1 6.4.2 6.4.3 6.4.4 6.4.5 6.8.5 7.8	7 1-10	1-10	mBank S.A. / mBank Group
G4-4	●			The primary brands, products and/or services				[Business model] [Key projects and innovations of mBank Group] [Retail Banking] [Corporates and Financial Markets] [Subsidiaries of mBank Group]
G4-5	●			Location of the organisation's head office				ul. Senatorska 18, 00-950 Warszawa
G4-6	●			The list and number of countries where an organisation operates, where its main operation is located or of those which are particularly important in the context of the report				[mBank Group geographical presence] [Business model]
G4-7	●			The form of ownership and the legal structure of an organisation				[Information for investors] Joint-stock company (Spółka Akcyjna), listed on the WSE
G4-8	●			The markets served, including the geographical scope of sectors served, characteristic of clients/consumers and beneficiaries				[About mBank Group] [Composition of mBank Group] [Retail Banking] [Corporates and Financial Markets] [Subsidiaries of mBank Group]
G4-9	●			Business Scale				[About mBank Group] [Financial position of mBank Group in 2016] [Changes in the consolidated statment of financial position] [Retail Banking] [Corporates and Financial Markets] [Subsidiaries of mBank Group]
G4-10	●			The number of own employees and those under the supervision of a subsidiary by gender and the type of contract			8	[Tables with non-financial data]
G4-11	●			Percentage of employees covered by collective bargaining agreements			8	[Tables with non-financial data]

G4-12	●			Value chain description				[Responsibility in the supply chain]
G4-13	●			Significant changes in the reported period concerning the scale, structure, ownership form or value chain				[Composition of mBank Group] [[Key projects and innovations of mBank Group]
G4-14	●			Explanation whether and in what way an organisation applies the precautionary principle.				Taking into account the small direct environmental footprint of the bank, the precautionary principle is applied at the bank to a limited extent. However, in the case of loans, mainly large syndicated loans, maybe the principle should be applied by advisors that support the bank(s).
G4-15	●			List of externally developed economic, environmental and social charters, principles and other initiatives, adopted or approved by an organisation.				[About mBank Group]
G4-16	●			Membership of associations (such as industry associations) and/or of domestic/international organisations				[About mBank Group]
Identification of material aspects and boundaries								
G4-17	●			Economic entities recognised in the consolidated financial statements	5.2 7.3.2 7.3.3 7.3.4			[Public reporting on social responsibility] [Tables with non-financial data]
G4-18	●			Process of defining the report content				[Parameters of a non-financial report]
G4-19	●			Identified material aspects of social and environmental impact				[Parameters of a non-financial report]
G4-20	●			Significance of identified aspects of social and environmental impact to particular business entities				[Parameters of a non-financial report]
G4-21	●			Boundaries limiting the report in relation to material aspects of social and environmental impact, including entities outside an organisation				[Parameters of a non-financial report]
G4-22	●			Explanations concerning the effect of any restatements of information provided in previous reports, and the reasons for such restatements (e.g. mergers and acquisitions, change of the year/ base period, business profile, measurement methods)				No significant changes. The changes arise from a larger number of companies subject to reporting.
G4-23	●			Significant changes concerning the scope, the scale or the measurement methods applied in the report compared with the previous report				No significant changes.
Stakeholder engagement								
G4-24	●			The list of stakeholder groups engaged by the organisation	5.3			[Parameters of a non-financial report]
G4-25	●			The basis for identification and selection of stakeholders with whom to be involved				[Parameters of a non-financial report]
G4-26	●			An approach to stakeholder engagement including the frequency of engagement by type and stakeholder group				[Map of stakeholders] [Dialogue with Clients] [Parameters of a non-financial report]
G4-27	●			Key topics and concerns addressed by stakeholders and how the organization has responded to them, including through its reporting				[Parameters of a non-financial report]

Report profile								
G4-28	●			The reporting period (e.g. financial/calendar year)	5.3 7.5.3 7.6.2.			Financial/calendar year: 01.01.2016-31.12.2016
G4-29	●			The publication date of the previous report (if published)				2016 (the last such report covered 2014-2015)
G4-30	●			Reporting cycle (annual, every two years)				annual
G4-31	●			Contact person				[Parameters of a non-financial report]
G4-32	●			CSR index				[GRI index]
G4-33	●			Policy and current practices regarding external verification of the report. If no such data were included in an independent certifying report, explanation of the scope and grounds for external verification and relation between an organisation and external certifying entity should be provided				[Parameters of a non-financial report]
Governance, obligations and commitment								
G4-34	●			The supervisory structure of an organisation including committees that report to the highest supervisory body and are responsible for particular tasks, such as for example creating strategies or supervision over the organisation	6.2 7.4.3 7.7.5	1-10	16	[CSR Strategy] [Statement of mBank on application of corporate governance principles in 2016]
Ethics and integrity								
G4-56	●			Organisation values, rules, codes, standards of conduct and ethics.	4.4 6.6.3	1-10	16	[Values and model of behaviour of mBank Group] [Organisation and its culture] [Prevention of unethical behaviour] [Statement of mBank on application of corporate governance principles in 2016]
ECONOMY								
Economic performance								
G4-EC1	●			Direct economic value generated and distributed	6.8 6.8.3 6.8.7 6.8.9	-	2, 8, 9	[Creating value]
Market presence								
G4-EC5	●			Remuneration of the lowest level staff in the significant locations of an organisation compared with the minimum wage on a given market	6.3.7 6.3.10 6.4.3 6.4.4 6.8.1 6.8.2	1	1, 5, 8	[Tables with non-financial data]
ENVIRONMENT								
Materials and raw materials								
EN DMA				Management approach	6, 7.3.1, 7.4.3, 7.7.3, 7.7.5	7, 8, 9		[Goal 4: We want to reduce our environmental footprint] [Refusal to finance an irresponsible business activity]
G4-EN1	●			Used materials/raw materials by weight and volume	6.5.4	8	8, 12	[Tables with non-financial data]
Energy								
EN DMA				Management approach	6, 7.3.1,	7, 8, 9		[Goal 4: We want to reduce our environmental footprint]

				7.4.3, 7.7.3, 7.7.5			[Refusal to finance an irresponsible business activity]
G4-EN3	●		Direct and indirect consumption of energy by primary energy sources	6.5.4	8	7, 8, 12, 13	[Tables with non-financial data]
G4-EN5	●		Efficiency			7, 8, 12, 13	[Tables with non-financial data]
Emissions							
EN DMA			Management approach	6, 7.3.1, 7.4.3, 7.7.3, 7.7.5	7, 8, 9 8	8	[Goal 4: We want to reduce our environmental footprint] [Refusal to finance an irresponsible business activity]
G4-EN15	●		Total direct greenhouse gasses emissions by weight (Scope 1)	6.5.5		3, 12, 13, 14, 15	[Tables with non-financial data]
G4-EN16	●		Total indirect greenhouse gasses emissions by weight (Scope 2)	6.5.5		3, 12, 13, 14, 15	[Tables with non-financial data]
G4-EN18	●		Effectiveness related to greenhouse gasses emissions	6.5.5		13, 14, 15	[Tables with non-financial data]
Environmental assessment of suppliers							
EN DMA			Management approach	6, 7.3.1, 7.4.3, 7.7.3, 7.7.5	7, 8, 9		[Goal 4: We want to reduce our environmental footprint]
G4-EN32	●		Percentage of suppliers subject to environmental criteria assessment	6.3.5 6.6.6 7.3.1			[Responsibility in the supply chain]
SOCIAL							
Workplace: employment							
LA DMA			Management approach	6.2 6.4 6.3.10	1, 3, 6	-	[Goal 3: We want to build an exceptional team, competence and skills.] We want to share what's best about us with others. We want to be unique]
G4-LA1	●		Total number of employees who left the organisation and employee fluctuation by age groups, gender and region	6.4.3		5, 8	[Tables with non-financial data]
G4-LA2	●		Additional benefits granted to full-time employees, which are not provided to part-time employees or employees employed for a specified period of time by the main organisational units	6.4.4 6.8.7			[Organisation and its culture]
G4-LA3	●		The percentage of employees who returned to work after maternity/parental leave and the retention ratio by gender	6.4.4		8	[Tables with non-financial data]
Workplace: occupational health and safety							
LA DMA			Management approach (to occupational health and safety)	6, 7.3.1, 7.4.3, 7.7.3, 7.7.5	1, 3, 6	1	[Ergonomics and safety]

G4-LA6	◐			Ratio of injuries, occupational diseases, days lost and days off from work, including the number of work-related fatalities by regions	6.4.6 6.8.8		3, 8	[Tables with non-financial data]
Workplace: training								
G4-LA9	◐			Average number of training hours per employee		1, 6	4, 5, 8	[Tables with non-financial data]
G4-LA10	●			Development programmes	6.3.7. 6.3.10. 6.4. 6.4.3.		8	[Organisation and its culture]
Workplace: diversity and equal opportunity								
G4-LA12	●			Composition of governance bodies and personnel according to gender, age group, minority group membership, and other indicators of diversity	6.2.3 6.3.7 6.3.10 6.4.3	1, 6	5, 8	[Tables with non-financial data]
G4-LA13	◐			Relation of basic remuneration of women to men by the position held	6.3.7 6.3.10 6.4.3 6.4.4	1, 6	5, 8, 10	[Tables with non-financial data]
Assessment of suppliers								
G4-LA14	●			Percentage of suppliers subject to employee-criteria assessment	6.3.5 6.4.3 6.6.6 7.3.1		5, 8, 16	[Responsibility in the supply chain]
Human rights: procedures concerning orders and investments								
HR DMA				Management approach	6, 7.3.1, 7.4.3, 7.7.3, 7.7.5	1-6		[Responsibility in the supply chain] [Refusal to finance an irresponsible business activity]
G4-HR10	●			Percentage of suppliers subject to human rights-criteria assessment	6.3.3 6.3.4 6.3.5			[Responsibility in the supply chain]
Local communities								
SO DMA				Management approach	6, 7.3.1, 7.4.3, 7.7.3, 7.7.5	10		[Educational activities]
G4-SO1	◐			The nature, scale and effectiveness of programmes and practices in the scope of assessment and management of the organisation impact on local communities, including impact related to entering, operating and ceasing operation on a given market	6.3.9 6.5.1 6.5.2 6.5.3 6.8	-		[Educational activities]
Anti-corruption measures								
SO DMA				Management approach	6, 7.3.1, 7.4.3, 7.7.3, 7.7.5	10 10	10 10	[Prevention of unethical behaviour]

G4-SO3	●			Percentage and the total number of business units assessed in terms of risk related to corruption	6.6.1 6.6.2 6.6.3		16	[Prevention of unethical behaviour]
G4-SO4	●			Percentage of employees trained in anti-corruption policies and procedures applied at the organisation	6.6.1 6.6.2 6.6.3 6.6.6		16	[Prevention of unethical behaviour]
G4-SO5	●			Actions taken as a response to corruption incidents	6.6.1 6.6.2 6.6.3		16	[Prevention of unethical behaviour]
Participation in public life								
G4-SO6	●			Total value of financial and in-kind donations to political parties, politicians and institutions of similar type by countries	6.6.1 6.6.2 6.6.4.	10	16	PLN 0 (in line with the applicable law, mBank made no donations to political parties) [Prevention of unethical behaviour]
Compliance with regulations								
G4-SO7	●			The total number of legal actions taken against an organisation due to anti-competitive behaviour and monopoly practices and their outcomes	6.6.1 6.6.2 6.6.5 6.6.7	-	16	[Compliance with regulations]
G4-SO8	●			The amount of penalties and the total number of non-financial sanctions for non-compliance with laws and regulations	4.6		16	[Compliance with regulations]
Responsibility for the product: client's health and safety								
PR DMA				Management approach	6, 7.3.1, 7.4.3, 7.7.3, 7.7.5	1, 8 1	1 -	[Reliable, clear and transparent communication of products] [Security of clients and their data]
G4-PR1	●			Product life cycle stages at which the impact of products and services on health and safety is assessed in order to improve ratios, and the percentage of important categories of products and services covered by such procedures	6.7.1 6.7.2 6.7.4 6.7.5 6.8.8			[Reliable, clear and transparent communication of products]
G4-PR2	●			The total number of incidents of non-compliance with regulations and voluntary codes regarding the impact of products and services on health and safety at each life cycle stage, including types of outcomes	4.6 6.7.1 6.7.2 6.7.4 6.7.5 6.8.8		16	[Compliance with regulations]
G4-PR4				Incidents of non-compliance with regulations with regard to the information about products and services			16	[Compliance with regulations]
G4-PR5	●			Practices ensuring customer satisfaction measurement, including the outcome of the customer satisfaction measurement	6.7.1 6.7.2 6.7.6			[Dialogue with Clients]
Responsibility for the product: compliance with regulations								
G4-PR9	●			Monetary value of significant penalties due to non-compliance with laws and regulations concerning the provision and use of products and services.	4.6 6.7.1 6.7.2 6.7.6.	-	16	[Compliance with regulations]
Sector-specific indicators								

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f. FS1	●			Social and environmental policies			10	[Refusal to finance an irresponsible business activity]
f. FS2	●			Procedures for screening social and environmental risks			10	[Refusal to finance an irresponsible business activity]
f. FS3	●			Process of monitoring the implementation of social and environmental recommendations by clients			10	[Refusal to finance an irresponsible business activity]
FS6	●			Portfolio structure by region and the type of client			1, 8, 9	[Retail Banking] [Corporates and Financial Markets] [Subsidiaries of mBank Group]
FS13	●			Availability of financial services in scarcely populated or economically disadvantaged areas			1, 8, 10	[Banking without borders]
FS14	●			Availability of banking services to the disadvantaged			1, 8, 10	[Banking without borders]