

## 5. Business segments

Following the adoption of "management approach" of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Bank's Management Board (the chief operating decision-maker), which is responsible for allocating resources to the reportable segments and assesses their performance.

The classification by business segments is based on client groups and product groups defined by homogenous transaction characteristics. The classification is consistent with sales management and the philosophy of delivering complex products to the Bank's clients, including both standard banking products and more sophisticated investment products. The method of presentation of financial results coupled with the business management model ensures a constant focus on creating added value in relations with clients of the Bank and Group companies and should be seen as a primary division, which serves the purpose of both managing and perceiving business within the Group.

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

- The Retail Banking segment, which divides its customers into mBank customers and Private Banking customers and which offers a full range of the Bank's banking products and services as well as specialized products offered by a number of subsidiaries belonging to the Retail Banking segment. The key products in this segment include current and savings accounts (including accounts in foreign currencies), term deposits, lending products (retail mortgage loans and non-mortgage loans such as cash loans, car loans, overdrafts, credit cards and other loan products), debit cards, insurance products, investment products, brokerage and leasing services offered to both individual customers and to micro-businesses. The results of the Retail Banking segment include the results of foreign branches of mBank in the Czech Republic and Slovakia. The Retail Banking segment also includes the results of mFinanse S.A. (previously Aspiro S.A.), as well as the results of retail segments of mLeasing Sp. z o.o. and mBank Hipoteczny S.A. . Moreover, in 2016 this segment included the result of mWealth Management S.A. and retail segment of Dom Maklerski mBanku S.A. until their integration with the Bank.
- The Corporates and Financial Markets segment, which is divided into two sub-segments:
  - *Corporate and Investment Banking* sub-segment (business line), which targets small, medium and large-sized companies and public sector entities. The key products offered to these customers include transactional banking products and services including current account products, multi-functional internet banking, tailor-made cash management and trade finance services, term deposits, foreign exchange transactions, a comprehensive offer of short-term financing and investment loans, cross-border credit, project finance, structured and mezzanine finance services, investment banking products including foreign exchange options, forward contracts, interest rate derivatives and commodity swaps and options, structured deposit products with embedded options (interest on structured deposit products are directly linked to the performance of certain underlying financial instruments such as foreign exchange options, interest rate options and stock options), debt origination for corporate clients, treasury bills and bonds, non-government debt, medium-term bonds, buy sell back and sell buy back transactions and repo transactions, as well as leasing, factoring and brokerage services. The Corporate and Investment Banking sub-segment includes the results of the following subsidiaries: mFaktoring S.A., Garbary Sp. z o.o., Tele-Tech Investment Sp. z o.o. as well as the results of corporate segments of mLeasing Sp. z o. o. and mBank Hipoteczny S.A. Moreover, in 2016 this segment included the results of corporate segment of Dom Maklerski mBanku S.A. until the date of integration with the Bank.
  - *Financial Markets* sub-segment (business line) consists primarily of treasury, financial markets, and financial institutions operations, manages the liquidity, interest rate and foreign exchange risks of the Bank, its trading and investment portfolios, and conducts market making in PLN denominated cash and derivative instruments. The Bank also maintains an extensive correspondent banking network and also develops relationships with other banks providing products such as current accounts, overdrafts, stand alone and syndicated loans and loans insured by KUKE to support the Polish export market. This sub-segment also includes the results of mFinance France S.A. as well as the results of mLeasing Sp. z o.o and mBank Hipoteczny S.A. with regard to activities concerning funding.

- Operations which are not included in the Retail Banking segment and the Corporates and Financial Markets segment are reported under "Other". This segment includes the results of mCentrum Operacji Sp. z o.o., BDH Development Sp. z o.o., Future Tech Fundusz Inwestycyjny Zamknięty as well as the results of mLocum S.A. until the date of sale of the majority share of the company's shares (see Note 1).

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

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

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

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

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

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

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

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

**mBank S.A. Group**

IFRS Consolidated Financial Statements 2017

PLN (000's)

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

	Corporates & Financial Markets		Retail Banking (including Private Banking)	Other	Total figure for the Group	Statement of financial position reconciliation/ income statement reconciliation
	Corporate and Investment Banking	Financial Markets				
<b>Net interest income</b>	<b>832 749</b>	<b>282 176</b>	<b>2 013 103</b>	<b>7 632</b>	<b>3 135 660</b>	<b>3 135 660</b>
- sales to external clients	897 740	595 308	1 638 103	4 509	3 135 660	
- sales to other segments	(64 991)	(313 132)	375 000	3 123	-	
<b>Net fee and commission income</b>	<b>406 289</b>	<b>(7 602)</b>	<b>582 321</b>	<b>11 150</b>	<b>992 158</b>	<b>992 158</b>
<b>Dividend income</b>	<b>-</b>	<b>11</b>	<b>-</b>	<b>3 417</b>	<b>3 428</b>	<b>3 428</b>
<b>Trading income</b>	<b>246 341</b>	<b>(64 902)</b>	<b>114 184</b>	<b>(1 560)</b>	<b>294 063</b>	<b>294 063</b>
<b>Gains less losses from investment securities, investments in subsidiaries and associates</b>	<b>(6 050)</b>	<b>20 783</b>	<b>-</b>	<b>(18 670)</b>	<b>(3 937)</b>	<b>(3 937)</b>
<b>Other operating income</b>	<b>58 067</b>	<b>877</b>	<b>55 871</b>	<b>127 545</b>	<b>242 360</b>	<b>242 360</b>
<b>Net impairment losses on loans and advances</b>	<b>(168 099)</b>	<b>2 119</b>	<b>(342 625)</b>	<b>884</b>	<b>(507 721)</b>	<b>(507 721)</b>
<b>Overhead costs</b>	<b>(607 721)</b>	<b>(111 090)</b>	<b>(1 074 961)</b>	<b>(25 177)</b>	<b>(1 818 949)</b>	<b>(1 818 949)</b>
<b>Amortisation</b>	<b>(74 088)</b>	<b>(9 849)</b>	<b>(137 278)</b>	<b>(3 004)</b>	<b>(224 219)</b>	<b>(224 219)</b>
<b>Other operating expenses</b>	<b>(40 138)</b>	<b>(1 147)</b>	<b>(89 603)</b>	<b>(79 283)</b>	<b>(210 171)</b>	<b>(210 171)</b>
<b>Operating profit</b>	<b>647 350</b>	<b>111 376</b>	<b>1 121 012</b>	<b>22 934</b>	<b>1 902 672</b>	<b>1 902 672</b>
<b>Taxes on the Group's balance sheet items</b>	<b>(141 748)</b>	<b>(32 264)</b>	<b>(195 832)</b>	<b>(5 412)</b>	<b>(375 256)</b>	<b>(375 256)</b>
<b>Share in profits (losses) of entities under the equity method</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>486</b>	<b>486</b>	<b>486</b>
<b>Gross profit of the segment</b>	<b>505 602</b>	<b>79 112</b>	<b>925 180</b>	<b>18 008</b>	<b>1 527 902</b>	<b>1 527 902</b>
Income tax					(432 832)	(432 832)
Net profit attributable to Owners of mBank S.A.					1 091 530	1 091 530
Net profit attributable to non-controlling interests					3 540	3 540
<b>Assets of the segment</b>	<b>37 438 110</b>	<b>41 469 251</b>	<b>50 963 246</b>	<b>1 553 412</b>	<b>131 424 019</b>	<b>131 424 019</b>
<b>Liabilities of the segment</b>	<b>31 408 233</b>	<b>27 320 647</b>	<b>57 764 732</b>	<b>638 851</b>	<b>117 132 463</b>	<b>117 132 463</b>
<b>Other items of the segment</b>						
Expenditures incurred on fixed assets and intangible assets	199 415	19 834	260 484	25 084	504 817	

**mBank S.A. Group**

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for the period from 1 January to 31 December 2016  
(PLN'000)**

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

**mBank S.A. Group**

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Geographical areas reporting on the activities of mBank Group for the period from 1 January to 31 December	2017			2016		
	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total
<b>Net interest income</b>	2 980 836	154 824	<b>3 135 660</b>	2 688 897	143 946	<b>2 832 843</b>
<b>Net fee and commission income</b>	985 828	6 330	<b>992 158</b>	897 425	9 020	<b>906 445</b>
<b>Dividend income</b>	3 428	-	<b>3 428</b>	3 327	-	<b>3 327</b>
<b>Trading income</b>	286 125	7 938	<b>294 063</b>	238 867	5 764	<b>244 631</b>
<b>Gains less losses from investment securities, investments in subsidiaries and associates</b>	(3 937)	-	<b>(3 937)</b>	216 977	44 304	<b>261 281</b>
<b>Investments in joint ventures</b>	-	-	<b>-</b>	(107)	-	<b>(107)</b>
<b>Other operating income</b>	239 157	3 203	<b>242 360</b>	235 153	8 596	<b>243 749</b>
<b>Net impairment losses on loans and advances</b>	(497 246)	(10 475)	<b>(507 721)</b>	(359 198)	(6 196)	<b>(365 394)</b>
<b>Overhead costs</b>	(1 689 882)	(129 067)	<b>(1 818 949)</b>	(1 618 554)	(121 089)	<b>(1 739 643)</b>
<b>Amortisation</b>	(219 946)	(4 273)	<b>(224 219)</b>	(219 558)	(4 083)	<b>(223 641)</b>
<b>Other operating expenses</b>	(207 598)	(2 573)	<b>(210 171)</b>	(193 995)	(2 820)	<b>(196 815)</b>
<b>Operating profit</b>	1 876 765	25 907	<b>1 902 672</b>	1 889 234	77 442	<b>1 966 676</b>
<b>Taxes on the Group's balance sheet items</b>	(352 524)	(22 732)	<b>(375 256)</b>	(308 055)	(20 884)	<b>(328 939)</b>
<b>Share in profits (losses) of entities under the equity method</b>	486	-	<b>486</b>	-	-	<b>-</b>
<b>Gross profit of the segment</b>	<b>1 524 727</b>	<b>3 175</b>	<b>1 527 902</b>	<b>1 581 179</b>	<b>56 558</b>	<b>1 637 737</b>
Income tax			(432 832)			(415 513)
Net profit attributable to Owners of mBank S.A.			1 091 530			1 219 282
Net profit attributable to non-controlling interests			3 540			2 942
<b>Assets of the segment, including:</b>	125 313 613	6 110 406	<b>131 424 019</b>	128 304 364	5 439 138	<b>133 743 502</b>
- tangible assets	1 458 141	11 239	<b>1 469 380</b>	1 327 824	12 210	<b>1 340 034</b>
- deferred income tax assets	626 903	2 347	<b>629 250</b>	538 184	2 572	<b>540 756</b>
<b>Liabilities of the segment</b>	108 200 503	8 931 960	<b>117 132 463</b>	112 706 515	7 985 826	<b>120 692 341</b>