

## 50. Prudential consolidation

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

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

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

### Basis of the preparation of the consolidated financial data

mBank S.A. Group consolidated financial data based on the rules of prudential consolidation specified by the CRR Regulation ("Consolidated prudentially financial data") have been prepared for the 12-month period ended 31 December 2017 and for the 12-month period ended 31 December 2016.

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

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

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

Company	31.12.2017		31.12.2016	
	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method
mFinanse S.A.	100%	full	100%	full
mBank Hipoteczny S.A.	100%	full	100%	full
mCentrum Operacji Sp. z o.o.	100%	full	100%	full
mFaktoring S.A.	100%	full	100%	full
mLeasing Sp. z o.o.	100%	full	100%	full
Tele-Tech Investment Sp. z o.o.	100%	full	100%	full
Future Tech Fundusz Inwestycyjny Zamknięty	98.04%	full	-	-
mFinance France S.A.	99.998%	full	99.998%	full

Beginning from June 2017, the Group started to consolidate the Fund Future Tech Fundusz Inwestycyjny Zamknięty. Information about the Fund has been included under Note 1.

The companies Dom Maklerski mBanku S.A. and mWealth Management S.A. were consolidated until their division which took place on 20 May 2016. The detailed rules for the division of these companies were described under Note 1 of mBank S.A. Group Consolidated Financial Statements for the year 2016, published on 1 March 2017.

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

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

The consolidated financial data combine items of assets, liabilities, equity, income and expenses of the parent with those of its subsidiaries eliminating the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary. Thus arises goodwill. If goodwill has negative value, it is recognised directly in the income statement. The profit or loss and

each component of other comprehensive income is attributed to the Group's owners and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. If the Group loses control of a subsidiary, it shall account for all amounts previously recognised in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Group had directly disposed of the related assets or liabilities

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

### Consolidated prudentially income statement

	Period from 01.01.2017 to 31.12.2017	Period from 01.01.2016 to 31.12.2016
Interest income	4 051 986	3 872 570
Interest expense	(915 789)	(1 039 997)
<b>Net interest income</b>	<b>3 136 197</b>	<b>2 832 573</b>
Fee and commission income	1 659 673	1 550 843
Fee and commission expense	(667 140)	(643 864)
<b>Net fee and commission income</b>	<b>992 533</b>	<b>906 979</b>
Dividend income	25 354	35 921
Net trading income, including:	294 063	244 636
<i>Foreign exchange result</i>	<i>289 112</i>	<i>270 451</i>
<i>Other net trading income and result on hedge accounting</i>	<i>4 951</i>	<i>(25 815)</i>
Gains less losses from investment securities, investments in subsidiaries and associates, including:	(45 185)	241 026
<i>Gains less losses from investment securities</i>	<i>9 982</i>	<i>261 487</i>
<i>Gains less losses from investments in subsidiaries and associates</i>	<i>(55 167)</i>	<i>(20 461)</i>
Other operating income	177 902	120 888
Net impairment losses on loans and advances	(507 721)	(365 394)
Overhead costs	(1 811 970)	(1 728 033)
Amortisation	(224 062)	(223 338)
Other operating expenses	(142 257)	(106 077)
<b>Operating profit</b>	<b>1 894 854</b>	<b>1 959 181</b>
Taxes on the Group balance sheet items	(375 256)	(328 939)
<b>Profit before income tax</b>	<b>1 519 598</b>	<b>1 630 242</b>
Income tax expense	(428 097)	(410 960)
<b>Net profit</b>	<b>1 091 501</b>	<b>1 219 282</b>
<b>Net profit attributable to:</b>		
- Owners of mBank S.A.	1 091 530	1 219 282
- Non-controlling interests	(29)	-

**Consolidated prudentially statement of financial position**

<b>ASSETS</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
Cash and balances with the Central Bank	7 384 869	9 164 281
Loans and advances to banks	1 707 518	3 082 040
Trading securities	1 525 382	3 800 634
Derivative financial instruments	1 236 303	1 808 847
Loans and advances to customers	84 507 454	81 787 015
Investment securities	32 235 490	31 617 735
Investments in associates	28 680	-
Intangible assets	710 642	582 663
Tangible assets	758 735	752 910
Current income tax assets	9 688	1 314
Deferred income tax assets	629 250	540 392
Other assets	719 405	554 962
<b>Total assets</b>	<b>131 453 416</b>	<b>133 692 793</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities</b>		
Amounts due to the Central Bank	-	-
Amounts due to other banks	5 073 351	8 486 752
Derivative financial instruments	1 095 365	1 599 265
Amounts due to customers	91 526 016	91 462 396
Debt securities in issue	14 322 852	12 660 388
Hedge accounting adjustments related to fair value of hedged items	44 854	116 871
Other liabilities	2 570 538	2 111 223
Current income tax liabilities	179 685	104 878
Provisions for deferred income tax	81	1 208
Provisions	190 975	182 707
Subordinated liabilities	2 158 143	3 943 349
<b>Total liabilities</b>	<b>117 161 860</b>	<b>120 669 037</b>
<b>Equity</b>		
<b>Equity attributable to Owners of mBank S.A.</b>	<b>14 289 370</b>	<b>13 023 756</b>
<b>Share capital:</b>	<b>3 564 176</b>	<b>3 551 096</b>
- Registered share capital	169 248	169 121
- Share premium	3 394 928	3 381 975
<b>Retained earnings:</b>	<b>10 574 294</b>	<b>9 486 979</b>
- Profit from the previous years	9 482 764	8 267 697
- Profit for the current year	1 091 530	1 219 282
<b>Other components of equity</b>	<b>150 900</b>	<b>(14 319)</b>
<b>Non-controlling interests</b>	<b>2 186</b>	<b>-</b>
<b>Total equity</b>	<b>14 291 556</b>	<b>13 023 756</b>
<b>Total liabilities and equity</b>	<b>131 453 416</b>	<b>133 692 793</b>

