

Integrated Report on Performance of mBank Group in 2017

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1. mBank

1.1. Letter of the President of the Management Board

I am extremely pleased to present to you the Integrated Report of mBank Group for 2017. Underlying the “Mobile Bank” strategy by 2020 is the idea of placing clients in the centre of the bank’s attention. This implies responding to their needs in the best way possible and enabling them to access mBank anytime and anywhere. This approach affects all areas of the bank’s operation, is a source of our competitive advantage and contributes to the generation of costs and revenues.

One of the key features which distinguish mBank from the consolidating Polish market is the ability to grow organically. Our customer acquisition in 2017 was once again satisfactory. We added 1,108 companies to our corporate customer base, which stood at 22,048 clients at the end of 2017. The number of mBank’s retail clients grew by 254 thousand in Poland and by more than 36 thousand in the Czech Republic and Slovakia. At the same time, the demographic structure of our client base, which is dominated by the young, allows us to assume that in the coming years the income-generating potential of mBank clients will develop, thus supporting profit growth.

As **we place the client in the centre of our attention**, we are aware that by offering a comprehensive range of products and services and reaching to various client groups we have a major impact on numerous consumers, including mBank clients in three countries and on their societies. We treat this impact in a responsible manner. Our products and services are provided to clients in accordance with the best market practices. In particular, we conduct regular customer satisfaction surveys. In 2017, 81% of our clients said the language we use when handling complaints was clear and as many as 100% of clients said our agreements (credit agreements, account opening agreements, etc.) were transparent and thus comprehensible. NPS, the key measure of satisfaction among corporate clients, stood at 20 in 2017 and was by 8 up compared with 2016.

We are operating in an ever-changing market environment and in a dynamically developing digital banking industry. To remain competitive and properly protect the security of data and funds entrusted to us by our clients, we must be perfectly aware of the numerous risks inherent in our operations. Consequently, we identify these risks and indicate actions taken to minimize the negative impact of our operations, and at the same time, to enhance the positive impact. In order to ensure ethical conduct of our employees, mBank’s operations are based on a number of internal and external standards and regulations, in particular our Code of Conduct, Model of Values and Behaviours of mBank Employees, CSR Strategy or the Code of Banking Ethics.

Mobility, understood as access to mBank products anytime and anywhere, is an important part of our strategy, which, among others, helps to reduce the threat of social exclusion among the inhabitants of less urbanized regions of Poland. We are relentless in our effort to constantly develop our mobile application. In April 2017, we launched a new version inspired by the opinions and habits of our users. Interestingly, July 2017 was the first month in which the number of clients logging in to their accounts via mobile devices exceeded the number of log-ins via personal computers. Our corporate clients, on

the other hand, were provided with a thoroughly overhauled transactional service CompanyNet, which reduces to a minimum the number of clicks needed to perform the basic operations. In 2017, we developed an online process for setting up a business, which has won numerous awards.

Throughout 2017, in line with the “Mobile Bank” strategy, we remained highly **efficient**, with the cost-to-income ratio at 45.9%, which is way above the banking sector average. Income in 2017 hit a historic high, driven mainly by dynamic growth in net interest income and net fee and commission income, that is income from recurring business, not one-off events. Moreover, we continued to invest in future growth, especially in the IT and security area, to continuously provide our clients with innovative and reliable digital banking solutions. At the same time, we were involved in a number of other projects, including the construction of our new headquarters in Łódź.

The last year’s changes in the composition of mBank Group and our strategic initiatives reflect mBank’s focus on **technological development** and the opportunities it creates for an even better, more effective and innovative customer service. In February 2017, we announced the launch of mAccelerator, a fund with EUR 50 million under management. The funds will be invested in new businesses offering innovative solutions for the financial sector in the fields such as cybersecurity, biometrics, robotization of processes, artificial intelligence or digital marketing.

The first transaction made as part of the mBox project was an important confirmation of the lavish praises given to our banking platform. In June 2017, French La Banque Postale purchased a licence for mBank’s online and mobile platform. We perceive the sale of Polish know-how and the transfer of local banking ideas to world markets as proof of the innovative nature of the Polish banking sector, which has started to be noticed also abroad.

As regards our corporate social responsibility activities in 2017, special attention should be paid to the continuation of the social campaign promoting online security (#uwazniwsieci) launched 2 years ago. At the same time, mBank Foundation carried out educational projects supporting children and young people in learning maths. Our corporate social responsibility activities and our guiding values support us in fulfilling our obligations assumed as a member of United Nations Global Compact.

mBank’s inclusion in the **RESPECT Index** has confirmed the effectiveness of our CSR initiatives. The index consists of 28 companies listed on the Warsaw Stock Exchange which are highly praised for their activities for the environment, society and employees.

Further pursuit of the directions set in the “Mobile Bank” strategy, i.e. development of its pillars: mobility, effectiveness and empathy towards clients based on employees’ engagement and technological agility, is our priority for the next few years. We will keep on developing our mobile application for individuals, being the basic channel of contact with the bank, and enhancing and popularizing the application among corporate clients, thus strengthening our position of the “mobility icon”. In addition, we will also work on automating internal processes inside the bank to enhance operating effectiveness, which is especially vital in today’s environment of low interest rates with banking tax pushing down the profitability of the banking sector, rising regulatory requirements and changing client behaviour.

This report is a product of many months of work involving a great number of people from both the inside and outside of the bank. Our goal was to make it the best response to the expectations of our stakeholders. I wish to express special thanks to our employees, whose continued engagement contributed to mBank Group's success last year. We are well prepared to leverage our competitive advantages and successfully meet new challenges in 2018.

I invite you to read the Report and find out more about our activities. At the same time, you are welcome to share your opinions and comments, which will allow us to continue with improving our conduct and to develop mobile, convenient and safe banking focused on the client's needs.

Kind regards,

Cezary Stypułkowski

1.2. About the bank

| Who are we? What are we like?

For years mBank has been a synonym for innovative banking solutions. We were the first fully Internet-based bank in Poland and today we are setting trends in the development of mobile banking sector. We are one of the strongest and fastest growing financial brands in Poland. As set out in our strategy, we strive to provide our clients with the best mobile banking solutions, giving them control over their finances whenever and wherever they need it. Natural associations with mobile banking triggered by the mBank brand (“m”) strongly support the mobile direction of the bank’s development.

The bank was incorporated in 1986 as Bank Rozwoju Eksportu and originally provided its services only to corporate clients. We have been present in the retail clients segment since 2000 when mBank was founded. Shortly after, in 2001, we set up MultiBank. Today we are a universal bank serving all client groups.

We are a bank having digital solutions in its genes

In 2000, we created the first truly Internet bank in Poland from scratch. It was a bank whose internal processes were digitally designed from the start and whose Internet platform, and then also mobile application, were not only additions to brick-and-mortar branches, but the primary channels of communication with clients.

We grow organically

Since the very beginning, mBank has relied on organic growth, which means that the current scale of its business has been achieved without takeovers of other banks and financial institutions. After only 17 years in business, mBank’s retail banking segment serves more than **5 million clients** and accounts for over **60% of income** generated by mBank Group. We are currently the fourth largest bank in Poland in terms of assets.

mBank is the only bank in Poland with successful track record of rolling out its domestic business model into foreign markets. Since 2007, we have been operating in the Czech Republic and Slovakia.

We are popular among the young

Our unique offer based on digital banking innovations is very popular among young people: a half of our retail clients are below 35. mBank is the second most popular bank among young people (aged up to 24). It means that the demographic structure of our clients is much more prospective than that of other banks. It is our ambition to see **one in three young people** opening their first bank account with mBank. To mBank, a maturing client base is a natural source of rising income.

Transactional and mobile solutions build our relationship with clients

We aspire to being the leading transactional bank for our clients. It means that our relationship with clients is based on a solid, long-term ground of comfortable payment and settlement solutions available on a state-of-the-art online and mobile banking platform. Compared to the clients served by our competitors, mBank clients are more fond of cashless solutions: **the share of card transactions made by mBank clients in the entire cashless payments market accounts for nearly 13%**. Having built

such a strong relationship with clients, mBank managed to get to know them well and uses advanced analytical technologies to customize its offer to perfectly suit their financial needs.

Our mobile application has been increasingly popular and highly rated (4.5 in Google Play Store based on 93 thousand reviews), and has the highest number of active users in Poland. Thanks to convenient and secure features, such as instant transfers to mobile numbers, loans available in 30 seconds or direct connection to mLine from the app, it has been used more frequently than the Internet platform.

Our distribution model is ready to face new challenges...

...or is one step ahead of them. For the majority of our new clients the Internet platform is the first channel of contact with mBank and the importance of remote channels has been constantly on the rise. A middle-sized branch network and a smoothly operating call centre are an important complement to digital channels. Thanks to the solutions developed by mBank, all individual distribution channels complement one another, thus allowing the clients to select the access channels that best suit their needs.

By taking such an approach designed to meet the challenges of digital reality and clients' needs, the bank is highly effective and will need no structural adjustments in the nearest future.

We have an established position on the corporate clients market

mBank is a trusted business partner to both small and medium-sized enterprises and the largest corporations. We provide them with advanced and convenient transactional solutions and integrate traditional credit operations with investment banking and specialist services offered by the Group subsidiaries.

We are guided by empathy

It is our goal to serve our clients the way they want it and when they want it, and to be guided by their actual needs rather than by our idea of those needs. The importance of this goal is reflected in our mission statement: "To help. Not to annoy. To delight. Anywhere." It stresses the emphatic approach of our business towards clients and the mobile direction of its development.

| mBank Group

mBank Group consists of **10 consolidated subsidiaries** with a different business profile, with the leading role of mBank S.A.

The structure of mBank Group according to operational activities:

	Retail Banking	Corporate and Investment Banking	Financial Markets	Services for subsidiaries
mFaktoring S.A.		•		
mFinanse S.A.	•			
mBank Hipoteczny S.A.	•	•	•	
mLeasing Sp. z.o.o.	•	•	•	
Garbary Sp.z.o.o.		•		
mFinance France S.A.			•	
Tele-Tech Investment Sp. z.o.o.		•		
BDH Development Sp. z.o.o.				•
mCentrum Operacji Sp. z.o.o.				•
Future Tech FIZ				•

Composition of mBank Group and main areas of its activity

mBank continued its efforts towards introducing a leaner structure of mBank Group in 2017 (started in 2015). In past year there have been significant changes in the Group structure. On June 2, 2017, mBank concluded a preliminary conditional agreement on the sale of mLocum shares to Archicom. The subject matter of the agreement was the sale of shares accounting for 79.99% of mLocum's share capital and the voting rights at the Annual General Meeting of the company for PLN 87.6 million. The transaction will be completed in two stages. The first stage consisting in the sale of a 51.0% stake in the company was completed in Q3 2017.

Closure of the second stage of the transaction, in which 28.99% of the company's shares will be sold, is planned to be finalised by the end of 2018; however, it may be postponed until June 30, 2020, on the terms and conditions stipulated in the agreement. The transaction reflects mBank Group's focus on its core business. Selling mLocum to one of the leaders of the Polish real property development industry will enable the company to better use its potential and expand in all Poland.

Q4 2017 was marked by the sale of an organised part of mFinanse, a company whose activities involved, among other things, providing insurance intermediary services in the area of group insurance. The transaction will be closed in Q1 2018 after the fulfilment of conditions precedent stipulated in the agreement.

The transaction is a continuation of the process started in 2015 with the sale of BRE Ubezpieczenia TUiR. At the same time, the bank and mFinanse will further develop the sale of individual insurance policies. The Bank perceives insurance products as a natural element of its financial product offering.

Moreover, in Q2 2017, the bank acquired 100% of investment certificates in the Future Tech FIZ Closed-End Investment Fund (the Fund) for PLN 221.2 million. At the end of 2017 mBank held 98.04% of the investment certificates. The Fund was established as an investment vehicle within the mAccelerator project, which will focus on developing and commercialising high-potential projects in the field of new technologies for the financial services sector (fin-tech) (for more information on mAccelerator see section 1.7. Key projects of mBank Group in 2017). The Fund is managed by Quercus TFI S.A.

mBank Group structure

mBank Group (including consolidated subsidiaries) as at the end of 2017 was composed as presented on the diagram below.

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, Private Banking clients and microenterprises ■ Affluent retail customers (Private Banking and Wealth Management) 	<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 ■ mFactoring 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"> ■ mCentrum Operacji Sp. z o.o. (outsourcing services provider) ■ BDH Development Sp. z o.o. (a real estate management company) ■ Future Tech FIZ 	



mBank Hipoteczny (mBH) is a mortgage bank with the longest track record of issuing covered bonds on the Polish capital market.

The main role of mBH is a ability to raise long-term financing in the form of mortgage covered bonds in order to improve the stability and diversification of financing activities of mBank Group.

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.

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.



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 17 financial entities, in more than 164 outlets across Poland.



mLeasing is one of the largest leasing companies in Poland and ranks first on the real property leasing market and fourth on the leasing market in 2017. In 2016 the company was ranked third on the market. The decrease resulted from the merger of 2 large leasing companies: PKO Leasing and Raiffeisen Leasing.

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.



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.



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

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

| mBank's Authorities



As of December 31, 2017, 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. Tomasz Bieske - Member of the Supervisory Board
4. Andre Carls – Member of the Supervisory Board
5. Marcus Chromik – Member of the Supervisory Board
6. Janusz Fiszer – Member of the Supervisory Board
7. Mirosław Godlewski - Member of the Supervisory Board
8. Jörg Hessenmüller - Member of the Supervisory Board
9. Thorsten Kanzler – Member of the Supervisory Board
10. Michael Mandel - Member of the Supervisory Board
11. Teresa Mokrysz – Member of the Supervisory Board

12. Agnieszka Słomka-Gołębiowska - Member of the Supervisory Board.

The 4 independent members of the Supervisory Board are: Tomasz Bieske, Janusz Fiszer, Mirosław Godlewski and Agnieszka Słomka-Gołębiowska.



As of December 31, 2017, the Management Board of mBank was composed as follows:

1. Cezary Stypułkowski - President of the Management Board, Chief Executive Officer
2. Adam Pers - Vice-President of the Management Board, Head of Corporate and Investment Banking (until October 25, 2017, the position was held by Przemysław Gdański)
3. Andreas Böger – Vice-President of the Management Board, Chief Financial Officer (until June 30, 2017, the position was held by Christoph Heins)
4. Lidia Jabłonowska-Luba - Vice-President of the Management Board, Chief Risk Officer
5. Frank Bock - Vice-President of the Management Board, Head of Financial Markets (until April 30, 2017, the position was held by Hans-Dieter Kemler)
6. Cezary Kocik - Vice-President of the Management Board, Head of Retail Banking
7. Krzysztof Dąbrowski - Vice-President of the Management Board, Head of Operations and Information Technology (until March 31, 2017, the position was held by Jarosław Mastalerz).

| We operate successfully in Poland, the Czech Republic and Slovakia.

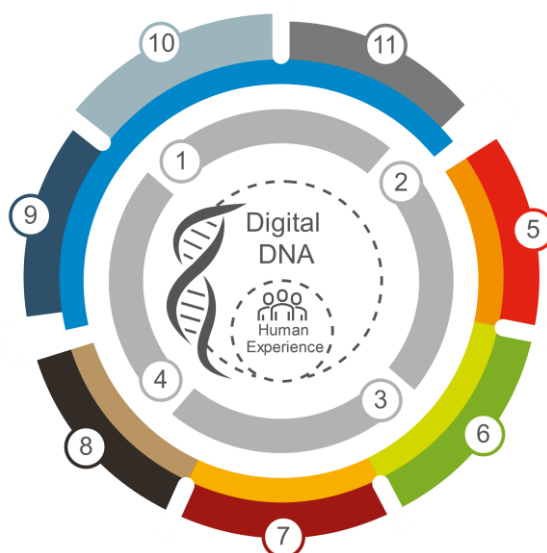
mBank is the only bank in Poland with successful track record of rolling out its domestic business model into foreign markets.

We have been operating on three markets: since 1986 in Poland, and **since 2007 in the Czech Republic and Slovakia**. In both neighboring countries, we started our operations with transactional products and deposits for retail clients. Then, on the basis of established relations we also started offering mortgage and non-mortgage loans and mobile application.

1.3. Business model

The clear advantage of mBank's business model is that it combines stability and flexibility allowing the bank to adapt to changing market conditions. In the centre of the model there is our digital DNA formed in 2000, when the first fully Internet bank in Poland was set up. It carries instructions on how to run all internal processes, develop products and tools for clients allowing them to use our services. The digital DNA is directly linked to the intellectual capital processed inside the bank. It evolves along with the regularly updated strategy, whose latest version will shape our actions by 2020.

Technology and innovations are worthless to banking if they do not take into account the interactions with people: our employees, partners and, first of all, our Clients. This element of our business model, Human Experience, is based on identifying the actual needs and designing solutions that fulfil them. It reflects the values we believe in: client-centricity, professional approach, engagement, looking forward and simplifying.



The second layer of our business model is built by solutions used to provide services to our Clients:

- (1) The bank's headquarters and distribution channels, in particular Internet banking and new generation mobile applications complemented by a network of retail branches developed in accordance with the strategy, dedicated to more conservative Clients.
- (2) Products and solutions helping clients to invest, save and finance their ventures.
- (3) Solutions protecting clients and the bank against risk, in particular continuously updated and improved technological and management solutions.
- (4) Solutions facilitating payments oriented towards developing a modern and innovative transactional bank.

The above structure allows us to serve two basic groups of clients.

mBank's corporate banking segment has the longest history: we have been serving the largest Polish companies specialising in foreign trade and export since 1986. We drew on this experience when designing an offer dedicated to small and medium-sized enterprises. At present, corporate banking solutions and products are addressed to various client segments based on annual sales. These include large enterprises (/9/ with annual sales exceeding PLN 500 million), mid-sized enterprises (/10/ with annual sales of PLN 30-500 million) and small enterprises (/11/ with annual sales below PLN 30 million).

mBank's **retail banking** is currently used by more than 5 million clients. It generates over 60% of mBank Group's income. By developing its portfolio of retail banking products and services, mBank caters for the needs of: /5/ affluent clients, /6/ micro-enterprises, /7/ senior clients and /8/ young clients. From

the point of view of the bank's development, the latter group is of vital importance. A half of our retail clients are below 35 and it is our ambition to achieve and retain the status of a bank of first choice among young people becoming adults and starting their relationship with banking.

To us, the business model described above is an element of our intellectual capital, which we successfully transfer to other markets. In 2007, the Bank launched retail operations in the Czech Republic and Slovakia.

1.4. Capitals and value creation model

Since 2016 mBank has been using integrated reporting to bring together information about its performance and growth prospects. The decision to adopt the most advanced and, at the same time, the most difficult annual reporting methodology was driven by our belief that conventional financial reporting and corporate social responsibility reporting taken out of business context were not sufficient to fully reflect the history of our Group.

A description of the previous year from the point of view of transformation of capitals - i.e. financial capital, human capital, manufactured capital, intellectual capital, social capital and natural capital - offers the greatest value to all stakeholder groups. It also allows us to put the digital DNA that is present in everything the Group does in the centre of the diagram presented below. It is at the heart of our business model, constitutes the key component of our strategy, determines the way how the bank manages its capitals and shapes tools that we use to interact with our environment, especially with our clients. With a digital factor present in everything we do, mBank maintains a Digital Value Creation Model that is our response to the vision of the banking of the future described in the "Outlook" section.

With the requirements of the international integrated reporting standard in mind, we are forward-looking, but our actions and strategy take into account events, market changes and innovations that are difficult to predict and will require flexibility in the long term.

While preparing the integrated report we do not lose sight of the expectations of the most demanding report users - our investors, representatives of financial institutions, supervisory authorities, analysts and the media. Ensuring full compliance with the IR standard, we wanted our report to provide users with the key information and enable them to analyse and compare the data with previous years' results.

At the same time, investors want to know the risks posed by the company's approach to sustainable growth and analyse this issue in combination with purely business data. Talking about what we do from the point of view of value creation seems to be the best way to respond to those expectations.

1.4.1. Financial capital

| What does financial capital mean to us?

Financial capital constitutes one of the key capitals from the point of view of a bank. To us, it means **funding** that comes from our environment, e.g. from clients, shareholders and bondholders as well as profits generated by the Group. We pay special attention to the security of funds entrusted to us.

We transform them into financial products and services. We provide clients with funding in the form of loans, grants, factoring and leasing services and through operational activities and investments. Clients can use these products to finance their ventures, manage savings, make transactions and get access to financial markets. We enable our clients to fulfil various needs - ranging from housing, consumption and investment needs to self-fulfilment.

We support the economy and the society by helping to create new jobs and contributing to economic growth whose visible expression are taxes paid by our clients and by mBank.

As a bank listed on the Warsaw Stock Exchange, we focus on creating value for our shareholders, e.g. by putting a constant emphasis on reinforcing the strength and stability of mBank Group. The current results of the Group are an effect of economic revival fuelled by consumption and consistent implementation of our business strategy.

| How do we manage financial capital?

Effectiveness is mBank's underlying operational principle. Focus on effectiveness, which has a direct impact on profitability, is one of the pillars of the **"Mobile Bank"** strategy. In 2017, we continued our efforts to generate high level of core income while maintaining cost discipline. It is our ambition to be among the three most effective listed banks in Poland.

We have diverse funding sources. We are optimising the bank's balance sheet by diversifying the funding base and increasing the share of more profitable assets.

We comply with regulations. Being an institution of public trust, we manage financial capital in accordance with regulatory requirements and internal policies and strategies.

We pay high dividends. We intend to pay an annual dividend making up at least 50% of our profit, as long as this is compliant with the expectations of the Polish Financial Supervision Authority. We are committed to increasing the security of financing our business.

1.4.2. Human capital

| What does human capital mean to us?

Special approach to relationship with employees is part of mBank's unique corporate culture. We are aware that it was this approach that enabled us to build the innovative and trusted brand of mBank. Drawing on the **expert knowledge, attitudes, motivation, skills, experience and competence of our employees - that is the human capital of mBank**, our brand has developed the greatest potential to create value among all Polish banking industry brands (source: *BrandZ Ranking 2016*, MillwardBrown). We know that this translates into growing operational results. They are directly supported by the knowledge and expertise of our people.

However, it is not only specialist knowledge that helps to build a strong brand. What is equally important is the ability of our employees to develop empathic relationships with clients. These skills are an important part of mBank's human capital. They reflect the mission of mBank, which is "To help. Not to annoy. To delight. Anywhere." Those relationships are underpinned by simple, open, friendly and empathic communication that also forms the basis for relationships inside the organisation and is a vital pillar of our organisational culture. What makes us stand out from the crowd are our people, the way we approach them and their unique competence.

This unique culture has helped us to build an innovative brand. Hence, it is our ambition to strengthen it further across the Group. This culture has secured us a special place in the banking industry.

| How do we manage human capital?

Our approach to employees is based on solid foundations - a set of internal standards and regulations. The most important internal regulations that govern employment and employee management at mBank include the "Work Rules", "Employee Remuneration Rules" and "Rules on Awarding Employee Bonuses". They are supplemented by procedures regarding employee selection and recruitment, development activities, and employee appraisal. Policies and procedures are adopted by mBank and then by its subsidiaries. As far as the characteristics of the conducted business do not require exceptions, the same solutions are applied in whole mBank Group. We ensure effective cooperation and communication across mBank Group using the Management by Objectives (MbO) System. It focuses on solidarity objectives that foster integration and drive cooperation in mBank and across the Group.

We support the development of our employees. We help them to not only gain expert skills, but also pursue their passions, many of which are really exceptional. We provide them with training courses and programmes to develop their managerial, sales and communication skills. We also support social engagement of our people and help them pursue their passions.

We want everyone to feel welcome. We want our employees, especially those who have just joined mBank, to feel well in our organisation, know the rules we adhere to and the values we cherish. This is

why new employees, including interns, undergo introductory training, during which they learn about the procedures, products, history and current activities of the bank.

We have a comprehensive approach to remuneration policy. At mBank we offer employees fair terms and conditions of employment, in every aspect. We want to provide our employees with a friendly and discrimination free workplace. All subsidiaries offer a very similar range of fringe benefits, e.g. we co-finance access to private medical care and to sports facilities. Additionally, employees have also the possibility of joining a group life insurance scheme.

We offer an attractive and innovative work environment. We strengthen motivation of our employees and encourage them to pursue their passions and interests (e.g. by joining mBank Clubs) so that they can strike a balance between their professional and private lives. We have run the “**Our People Make the Difference**” programme for many years now. The programme rewards employees who subscribe to mBank’s values through their actions and attitudes, whose ideas and way of thinking are ahead of their time, who show extraordinary engagement exceeding their basic scope of duties, and contribute to implementing innovative solutions.

The incentive system of mBank is based on the remuneration policy and intangible elements (e.g. career opportunities). The incentive system plays a vital role in developing our corporate culture and builds the competitive advantage of mBank as it helps us to acquire and retain the best employees.

1.4.3. Intellectual capital

| What does intellectual capital mean to us?

The commercial success of mBank is derivative of its exceptional approach to managing **intellectual capital**. We understand it as intangible innovative assets of our organisation and our employees. These assets affect our results and market position and will do so in the future.

Our intellectual capital is composed of:

- **intellectual property** such as patents, copyrights, licences, algorithms, digital platforms, applications and other software;
- **intangible assets** related to mBank’s brand and reputation (quality standards, brand identification standards, rules of good communication with clients).

Our intellectual capital makes mBank one of the world’s top client-centric IT organisations. We will continue on this track. Intellectual capital is the source of our present and future competitive advantage.

Development of intellectual capital is one of the pillars of our strategy for 2016-2020. Intellectual capital management is among the key topics addressed in our “**mobile Bank**” Strategy. It is also an important component of our growth strategy.

We spend a lot of money on technology. Similar to 2016, the majority of our capital expenditure in 2017 was spent on technology. We expanded our product mix with new highly innovative and convenient transactional solutions. Over the next 10 years mAccelerator (a fund set up by mBank) will invest EUR 50 million (i.e. more than PLN 200 million) in new technologies.

Our know-how comes from the best experts. At mBank innovation is the product of innovative employees. We create conditions to make employees fully engaged in the development of new products and solutions. The priority of our HR strategy is to attract and keep the best and highly motivated specialists and managers.

We develop technologies through research and development. We build a database containing sources of knowledge and inspiration. We cooperate with start-ups. mBank develops its intellectual capital based on internal resources, solutions acquired on the market and through cooperation with technology start-ups offering solutions for the financial industry. mAccelerator, for example, has invested in Digital Teammates, a company dealing with robotic automation of routine banking processes.

We anticipate the future of technology and try to be one step ahead. We estimate that by 2020 clients will initiate and perform the majority of interactions and transactions on smartphones. This is why, in 2017, we added features such as QLIK (a service that makes it possible to exchange information about invoices and bills to pay between entities issuing large amounts of invoices and payers), mobile authorisation, push notifications and Android Pay to our most important applications and platforms. For the first time in Europe, Android Pay had been offered in an entirely different model, in which cards are added to the service directly in the mobile banking application.

1.4.4. Manufactured capital

The **manufactured capital** of mBank comprises innovative digital systems, tools (procedures and policies) as well as our operational philosophy that accelerate the flow of knowledge and information within the organisation and to parties outside the organisation - to external suppliers and distribution channels.

mBank has been an icon of innovation in the Polish banking industry from the very beginning of its existence. Expanding into retail business, we created the first truly Internet-based bank in Poland focused around a modern, easily accessible and convenient online banking platform. Our strategy by 2020 puts an emphasis on mobile banking challenges and prospects. Being a digital bank is not only

about innovative product distribution tools. The organisational structure, internal processes, approach to risk management, infrastructure, including IT systems and network of retail branches, developed in accordance with a uniform philosophy are equally important.

We know that our clients notice and appreciate our organisational efficiency. Hence, efficient operational processes are just as important as innovative products and contact channels.

What makes the organisational solutions that were rolled out and are being continuously developed in Poland special is the possibility of transferring and using them elsewhere. As a result, we have been the first Polish bank to successfully transfer its business model to foreign markets - the Czech Republic and Slovakia. **In 2017 we licensed our electronic banking system to the French La Banque Postale.**

The key organisational assumption of mBank is to be present in different channels and to offer products via electronic touchpoints - applications, Internet banking, chat and call centre supported by a modern network of branches.

| How do we manage results generated by manufactured capital?

We keep optimising our structures, systems, processes and tools. We are improving our structures, centralising cost management functions, unifying systems, automating, digitalising and simplifying processes and creating process lines. We made a significant step towards digitalisation in 2017 in that we migrated the old repository containing retail banking client documents to documentation management system ECM 1.0 (Enterprise Content Management, i.e. a class of integrated systems for information resources management in an enterprise). This task, which entailed the transfer of over **30 million images**, has considerably reduced the time needed to access the documents which had earlier been archived in the paper form.

We have implemented CRM 3.0. This system optimisation allowed us to centralise sales applications and increase sales effectiveness in the call centre.

We have implemented the PaymentHUB platform, thereby significantly contributing to the centralisation of all settlement systems. We achieved fully automated file exchange between the bank and the National Clearing House (KIR). We removed process shortcomings and improved effectiveness. Thus, we provided our clients with the possibility of ordering payments one hour longer than before within individual clearing sessions.

We have created a dedicated operation management team and launched the DigitALL programme. The team's main task is to develop the digital back office of mBank. The team finds and tests top-notch solutions for effective process management and analyses the possibilities of expanding the platform for digital documentation management. The team members work on a range of small optimisations, which will make it possible to save time and money, reduce the number of printouts and minimise the risk of errors.

We are integrating our branch network - One Network. We are implementing the One Network Project to offer access to an integrated network of branches to all clients of the group. We move our branches to places with high footfall, such as shopping centres, the main streets and office parks. We

are also merging our retail and corporate outlets transforming them into advisory centres located in office buildings offering access to people with disabilities.

1.4.5. Social capital

| What does social capital mean to us?

Social capital is based on relationships with the environment, adherence to common norms and **confidence** inspired this way. Careful attention devoted to relationships bolsters people's confidence in financial institutions. This, in turn, increases the mutual willingness to cooperate, the effectiveness of such cooperation and the resulting openness of clients to new products and services. Social capital, therefore, though intangible in its nature, produces specific positive financial consequences for mBank.

We are aware that nowadays the quality of relationships, social confidence in a brand and its strong link to positive emotions translate directly into financial results.

This is one of the reasons why we exercise special care when it comes to social capital. It is clearly visible in our mission and value statement which puts the client in the centre of attention. We treat our clients as the individuals they are and see them through their individual needs, emotions and expectations. With our clients we create relationships that best suit their needs. To us social capital means confidence, which is a currency equally important as money.

We know that it is confidence that encourages our clients, not only individuals, to entrust their money to us and use our lending services. This applies also to large corporations or public sector entities, including local governments. Social capital, therefore, forms a basis for new business and social ventures, investments and infrastructure facilities used by the society as a whole. They contribute to economic growth of the country, which is beneficial to households' budgets and the general comfort of living.

| How do we manage social capital?

We label our products responsibly. This results straight from our mission statement (especially from slogans such as "To help. Not to annoy") and ethical values such as **client-centricity** and simplification.

We have been keeping a central **Products Catalogue** in which every product type has its own **Product Card** featuring detailed information such as: product description, pricing rules, target client group, product security, limits, risk profile and titles of internal regulations governing a given product. All this serves the purpose of providing responsible product information and builds confidence among clients, which underlies social capital.

We simplified agreements - Action-Renovation ("Akcja Renowacja"). Agreements signed with mBank must be comprehensible to clients. We abandoned typical, specialist legal phrasing and articles. Now, an agreement with mBank is a transparent and comprehensible table showing the terms and conditions of products with important **information** marked in colours. It is based on several questions

being of key importance for the clients, e.g.: When will I get the money? How will I repay the loan? How much interest will I pay on the loan?

We developed mCanon (“mKanon”). We communicate clearly, briefly and with empathy. mCanon conveys the universal principles of communication with our retail and corporate clients. When contacting a client, our goal is not only to provide information, but also to build a relationship putting the client in the centre of attention. Underlying mCanon there are seven communication features being of vital importance for mBank. Namely, communication must be clear, exhaustive, brief, grammatically correct, sincere, emphatic and in the first person. This way of communicating with clients allows us to enter into a **genuine, open dialogue** with various client groups.

We survey client satisfaction. In line with mBank’s mission statement, the basic principle adopted in mBank Group is to provide clients with reliable and comprehensible information on products and to adhere to respective internal regulations, e.g. **mCanon**. We regularly check whether this approach is effective by conducting annual client opinion and satisfaction surveys.

We selected a group of ambassadors of the empathy strategy from among the employees of all subsidiaries and foreign branches. They strengthen the activities that build our organisational culture focused on emphatic approach to clients. The ambassadors meet, talk, inspire and act as a catalyst for the emphatic approach and the concomitant changes in internal and external relationships, and are the authors of new solutions in the area of customer relations. Moreover, we encourage our employees to serve short “internships” in other units throughout the organisation. This allows them to see a given process from a broader perspective. mBank’s back office employees perceive their work in the context of delivering client experience.

We audit marketing materials. Out of deep concern for the reliability of communication with our clients, mBank Group audits the marketing materials available in sales outlets, such as flyers, banners, materials displayed on TV and computer screens.

We respond to the needs of the disabled. Our outlets are adjusted to the needs of people in wheelchairs. Depending on the type of their disability, clients may choose a form of contact that best suits their needs and submit instructions via the transactional system, mLine available 24/7 (an automated service or a consultant), a bank’s outlet or an online expert. What is important, clients may contact us through audio or video chat, regular chat or use the services of a sign language translator. The newly opened mBank outlets stand out for the modern technological solutions applied in them: they feature interactive store fronts reacting to motion, innovative touch screens which present mBank’s offer in an intuitive manner and interesting applications in the children’s zone.

Our Foundation supports mathematical education. The activities of mBank’s Foundation (“mFundacja”) represent the social involvement of mBank. Its mission is to support programmes designed to improve the level of education and the quality of life of the society through actions coherent with the image and policy of mBank. Since 2013, mFoundation has been pursuing the “**m for mathematics**” (“m jak matematyka”) strategy supporting schools and non-governmental organisations in implementing educational maths projects.

We raise the economic awareness of clients. We want our clients to make informed decisions, especially when they concern cash loans. To achieve this we launched the “**Responsible lending**”

("Odpowiedzialne kredytowanie") project which allowed us to make a change. We focus on comprehensible, precise and client-friendly communication of the lending process. We are constructive, i.e. we inform clients what to do if their credit applications were rejected. Our website **The ABC of Loans** ("ABC Kredytu") teaches clients about various types of loans, credit history in the Credit Information Bureau (BIK), credit-related insurance, etc.

We do not engage in ventures that breach human rights and labour law, harm the environment or support corruption. By becoming a signatory to The Ten Principles of the UN Global Compact, we made a conscious decision to break off any relationships with enterprises breaching the UN Global Compact's principles, in particular by refusing to finance their irresponsible business operations.

1.4.6. Natural capital

| What does natural capital mean to us?

Natural capital is construed as our **impact on the natural environment** and the ability to reduce it.

The direct environmental impact of mBank and its subsidiaries stems mainly from the operation of our offices and branches. It is measured by the consumption of utilities (electricity, heat and others), use of typical office supplies (paper, toners, etc.) and generation of municipal waste. For some of our locations, it also means the consumption of natural gas. Owing to the organisation of mBank Group, with its subsidiaries headquartered in Warsaw and Łódź, for a great many employees it is nothing unusual to travel every day between these two cities, to clients and to a number of other destinations. This increases the consumption of fuel by mBank's car fleet.

Smooth operation of mBank's business model requires complex IT infrastructure. Its functioning, including the operation of cooling systems, consumes a lot of electric energy. On the other hand, thanks to mBank's mobile nature there is no need for clients to visit conventional branches, which in turn reduces the production of car exhaust fumes. The reduced air pollution, although difficult to measure, cannot be omitted either.

However, our indirect impact has a far greater importance. This involves, for example, funding for industrial investments. Whether a given venture will be implemented and what technology it will employ depends indirectly on mBank, acting as a lender for the project. We do not render financial services to companies whose operations involve economic exploitation of areas of great natural interest or areas under protection or companies which violate environmental regulations.

| How do we manage natural capital?

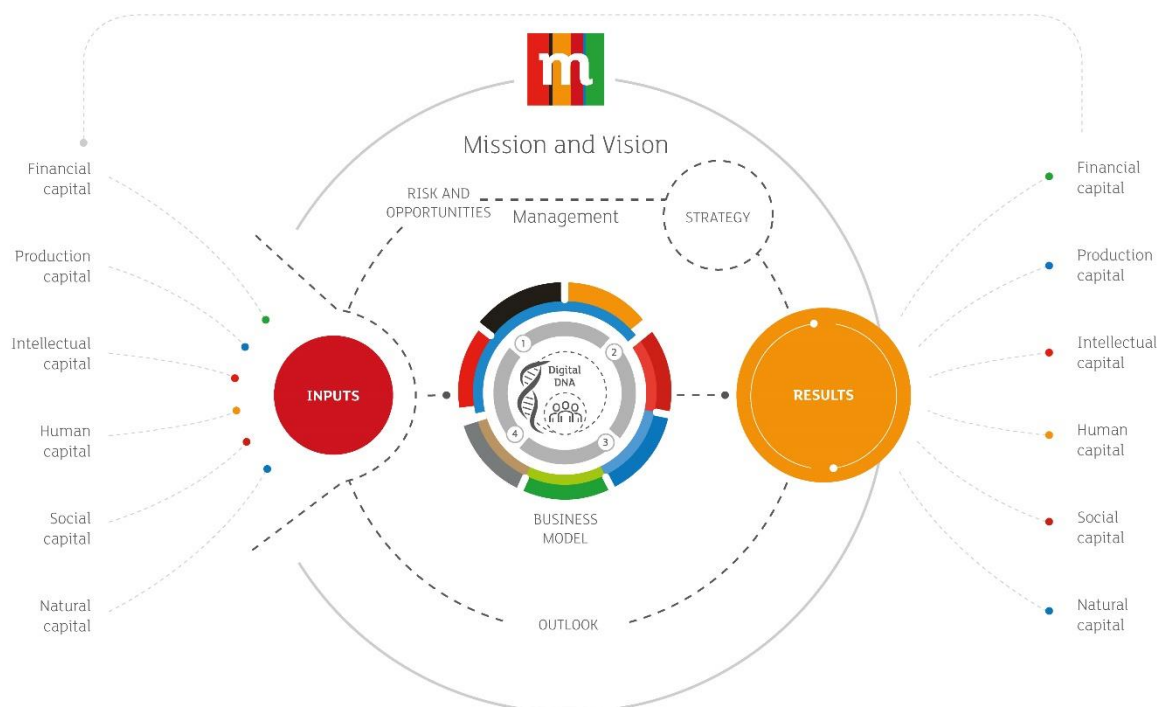
We do not serve or lend to companies violating environmental regulations. In this area we comply with our internal regulations such as the "Strategy for corporate sustainability and responsibility of

mBank S.A.” or the “List of industries and areas of operation particularly sensitive in terms of mBank's reputation risk”.

We monitor fuel consumption by company cars. Among other measures, we introduced limits on fuel consumption, refuel bans on weekends and holidays and GPS monitoring of routes and fuel consumption.

Our employees use the InOneCar application. This way we curb the amounts of fuel consumed by our car fleet and protect the environment. InOneCar allows the employees to commute to work or go on business trips together. This car-sharing app connects drivers with passengers along the route to work or to business trip destinations.

1.4.7. Value creation model



1.5. Ethics and values

| Model of values and behaviours. Always coherent

For years it has been our goal to act in coherence with the declared values. We translate them into everyday operations of the bank centred around our clients. It is no coincidence, therefore, that it was mBank that pioneered a number of solutions based on collaboration with clients.

What makes mBank unique is its **genuine openness to dialogue** that stems from our philosophy of doing business. It derives from five values: **> client-centricity, > looking forward, > simplifying, > engagement and > professionalism** that underlie the culture of our organisation and act as a driver

for its continuous growth. The coherence between the declared values and our actual actions bolsters clients' confidence in our bank and its credibility.

The detailed model of values and behaviours reflects the internal cohesion of our organisation. It governs internal relationships among our employees and between the employees and the management board. In addition, the model provides a point of reference for making decisions and shaping workplace relationships on a daily basis.



What attitudes and behaviours arise from the five values cherished by mBank?

Cooperation and lasting relationships forged with our clients enable us to understand their needs and provide them with the results of our work and top-notch solutions.

We are open to change and innovative, always looking for new, intriguing solutions that stay ahead of emerging trends.

We are an advocate for simple and comprehensible approach to doing business and communicating with clients. This way we respect their time and strive after mutual benefits.

Being highly motivated and always aspiring to fully achieve our goals, we contribute to the growth of our organisation and to creating value for our stakeholders.

We put emphasis on knowledge and competence, which is reflected in our professional approach to work and endless quest for development opportunities.

Code of Conduct

The Code of Conduct is binding on all employees, managerial staff and members of the management board. It is mBank's code of good practices. It defines the basic rules regarding the permitted and prohibited business and financial practices, appropriate behaviour in the workplace and social responsibility. The code governs both relations inside the company and with suppliers and external counterparties.

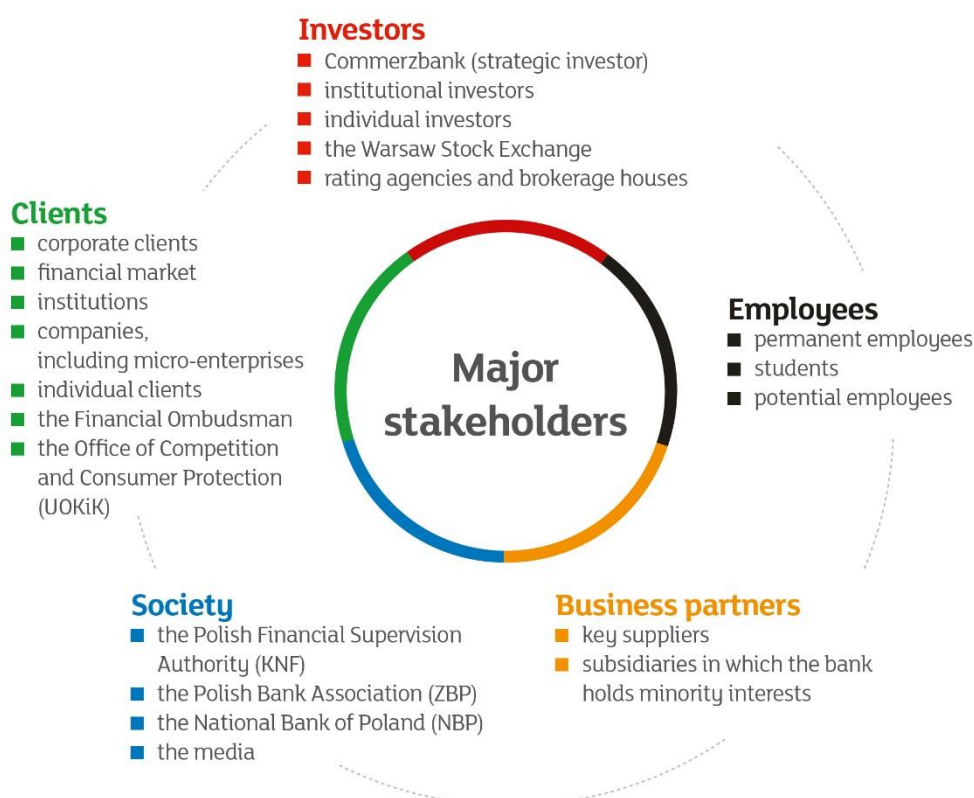
1.6. mBank's stakeholders

| Who we have relations with? Our stakeholders

Major groups of stakeholders 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).

Map of mBank Group's stakeholders



We undertake a real dialogue with our stakeholders and we do much more than is required by legal regulations. We choose methods of building relationships which are adequate to the needs of a particular group - these are both strongly formalized and indirect forms or quantitative studies. We always care for mutual benefits in relations with our partners and, regardless of their nature, for open and transparent communication.

How did we care for relationships with our stakeholders in 2017?

- We provide and exchange information with capital market participants through the website of mBank's investor relations,
- we conduct regular market researches,
- we conduct regular employee engagement surveys,
- we conduct an employee appraisal process, including the assessment of attitudes towards clients,
- we develop multi-channel contact with clients, which gives us the opportunity to deeply understand their needs, problems and expectations.

2. Our environment

2.1. Introduction

The environment influences the opportunities for development and functioning of the organization. It creates opportunities, but also barriers and threats. Mutual relationships with the bank's shareholders also influence the possibilities of functioning and development. As an institution of public trust, we pay a lot of attention to honesty in business relations and treat our partners and clients in a responsible way.

We look closely at the context of changes in the world and in the area of banking. We are aware of the fact, that no business operates in isolation, and as bankers we can not only follow numbers.

The "mobile Bank" strategy is the answer to the changing environment and challenges facing mBank, with empathy as its first pillar - adopted for implementation in 2016. The new strategy is based on the following pillars: the client era, the mobility era and the efficiency era.

2.2. mBank with reference to the sector

2.2.1. Macroeconomic environment (by countries)

mBank Group operates not only in Poland, but also in the Czech Republic and Slovakia, where we continue to strengthen our position as a mobile banking leader. Therefore, a continuous analysis of changes in the macro-environment of these markets allows us to identify opportunities and threats.

The condition of the Polish, Czech and Slovak economies remains largely related to the situation on global markets. And this one was characterized in 2017 by a marked improvement in moods, both in the economy and in global politics. From the perspective of the world economy, 2017 was the most prosperous year since 2011, with particularly strong synchronization of economic cycles in all major economies. Such positive developments were attributable to fiscal and credit stimulation in China, returning investment demand in the euro zone, better consumer sentiment in the USA and economic revival in the emerging markets.

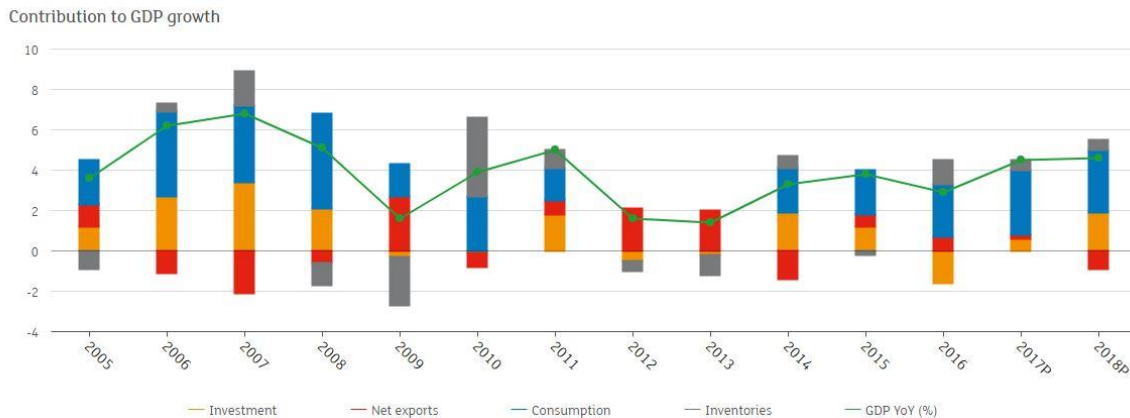
Development of economy and banking sector in in Poland

Key macroeconomic parameters	2017	Banking sector indicators	2017
Real GDP growth rate (forecast)	4.5%	Base interest rate	1.5%
Nominal GDP per capita (EUR)	11,100*	Loan to Deposit ratio	97.7%
GDP per capita in PPS (EU-28=100)	68%*	Non-performing loans ratio	6.8%
Average annual inflation rate	2.0%	Total Capital Ratio (TCR)	18.6%**
Average annual unemployment rate	4.9%	Return on Assets (ROA) net	0.8%*
Population	38 M	Return on Equity (ROE) net	7.1%*

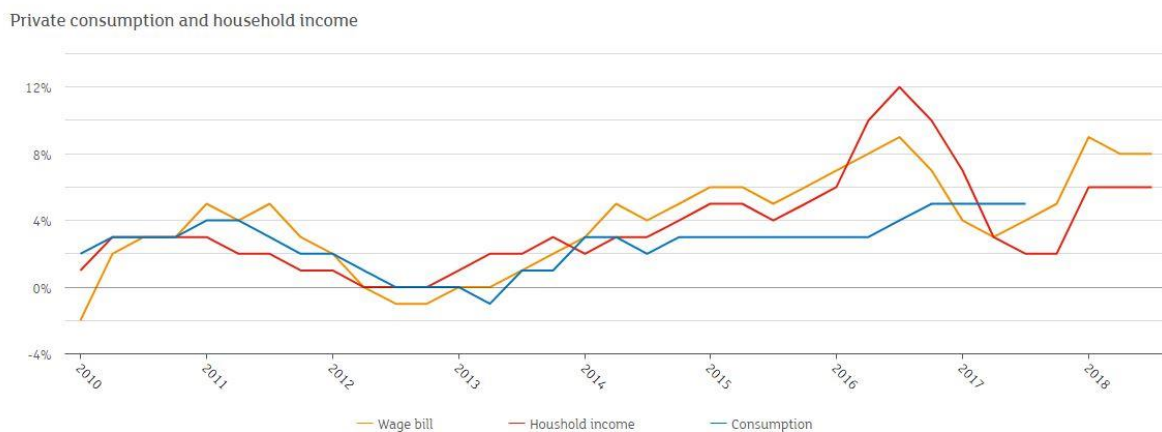
Source: Central Statistical Office (GUS), Eurostat, Polish Financial Supervision Authority.

* Data as of the end of 2016.

** Cumulative data for 9 months (as of September 30, 2017) or latest available.



The year 2017 ended with high economic growth and turned out to be one of the best years for the economy in the post-crisis period looking at it *ex post*. Each quarter surpassed the expectations formulated both a few months before the publication and at the moment of publication. In 2018, GDP will accelerate further, and investments will join the consumption growth.



Private consumption is still the main driver for the economic growth. The high increase in this area stems from a combination of factors:

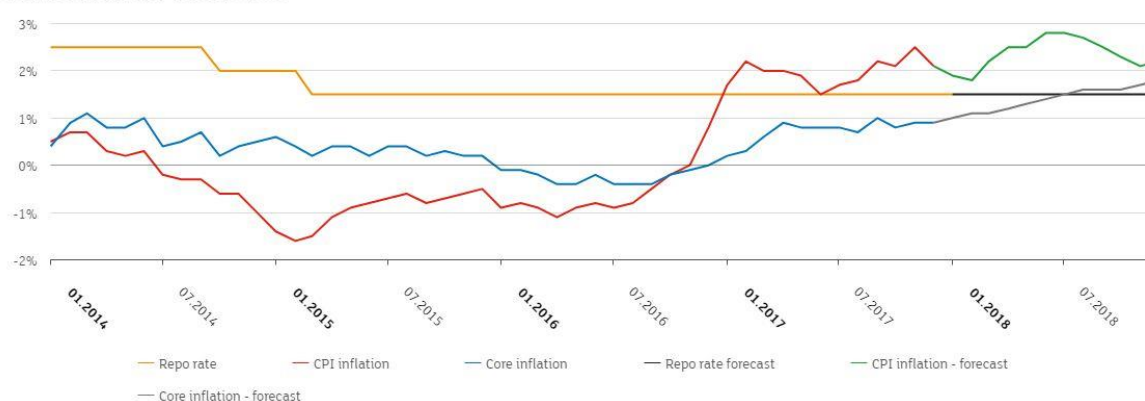
- record-high consumer sentiment in 2017 (for the first time in the history, the share of optimists exceeded the share of pessimists);
- substantial increase in household incomes stimulated primarily by higher salaries;
- unprecedented tightening of the labour market, with the unemployment rate hitting a new 25-year low every month (currently, it is 1 bp lower than in the best month of 2008);
- positive effects of the 500+ programme, which eliminated liquidity constraints of a part of relatively poorer households.

Construction output and investment in buildings and structures



The 2017 investment performance should be considered disappointing. The rebound in this sphere took place later and was weaker than expected at the beginning of the year, and only Q3 reversed the stagnation trend observed from Q2 2016 until mid-2017. Investments increased by 3.3% year-on-year and can be almost solely attributed to local governments' outlays. Private investment remained stagnant for many quarters, but in 2018 they should return to growth. The catalyst that the private sector was looking for could be EU funds.

CPI inflation and NBP reference rate



The year 2017 was marked by normalization of inflation. After an abrupt increase at the turn of 2016 and 2017 (the annual inflation rate exceeded 2%), consumer prices stabilized within the acceptable volatility range, but below the NBP's 2.5% inflation target. The rise was at first caused by higher fuel prices, and then, by higher food prices. The growth in the latter category stood at over 6% in the last months of the year, marking one of the highest rates in recent years.

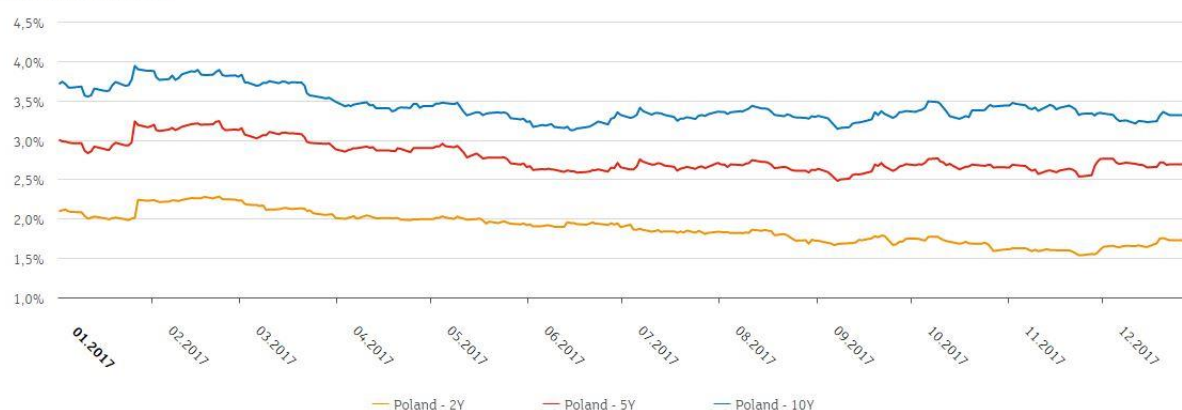
With GDP gaining momentum and stable inflation, the Monetary Policy Council remained dovish and, at the same time, optimistic in its assessments of the economic situation in Poland. Dismissing the possibility of inflation growth, the Council systematically postponed the first interest rate increase in Poland in its announcements. Eventually, interest rates remained unchanged in 2017, and the last announcements imply that the monetary tightening will start only at the beginning of 2019. The Council's decisions in 2017 were limited to technical changes in the mandatory reserve system, which aimed at matching the mandatory reserve rates on long-term deposits of domestic and foreign banks and decreasing the mandatory reserve interest to the level of the deposit rate.

Currency exchange rates in 2017



The year 2017 was marked by the strengthening of the zloty. The appreciation against the euro amounted to ca. PLN 0.25 (from PLN 4.40 to PLN 4.16), against the Swiss franc to over PLN 0.50 (from PLN 4.10 to PLN 3.55) and against the American dollar to nearly PLN 0.70 (from PLN 4.10 to PLN 3.40 at the end of the year). The changes in USDPLN and CHFPLN derive, to a large extent, from the euro strengthening in basket terms in 2017, whereas the appreciation of the zloty against the euro is discussed below in detail. It can be attributed to the improvement in prospects for the Polish economy (the investor sentiment for Polish assets went up alongside the revisions of GDP growth forecasts), inflows of portfolio capital into the emerging markets as well as very good fiscal and domestic risk indicators (stabilization of the political situation and falling risk premium). Occasional increases in EURPLN (i.e. occasional depreciations of the zloty against the euro) can be blamed on the dovish rhetoric of the Monetary Policy Council, geopolitical tensions in the Korean Peninsula and temporary escalation of political risk in Poland in July 2017. However, the general trend remained positive. The zloty's overall strengthening in relation to the currency basket was substantial and will affect the inflation prospects for the coming quarters. To some extent, the PLN strengthening proved to be a substitute of active monetary tightening on the part of the Monetary Policy Council.

Bond yields in Poland

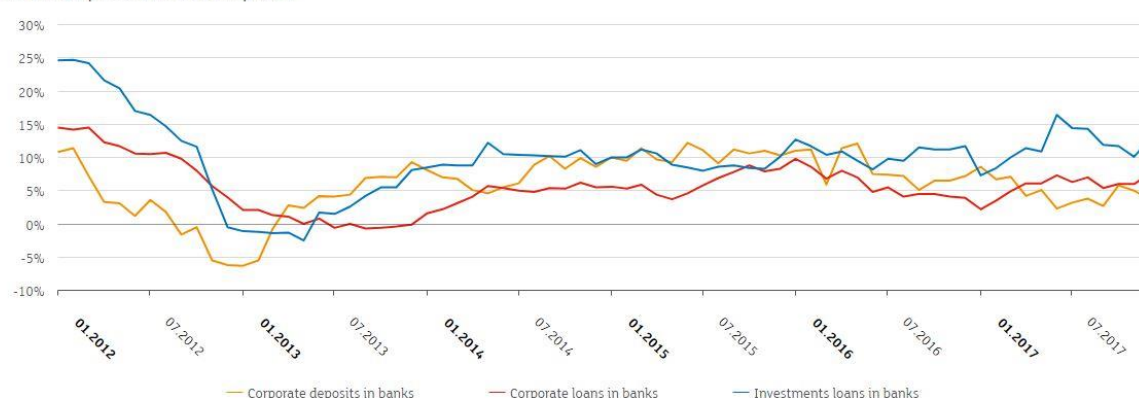


Lower domestic political risk was also visible in the Treasury securities market, mostly in the segment of long-term bonds (over 7 years). Yields dropped from 3.80% at the beginning of the year to 3.25%, approaching the level of 3.10% in some periods (in June and September 2017). Yields on short-end bonds did not report such a considerable drop: for 2-year Treasury securities, it was only ca. 30 bps, but remained virtually unchanged throughout 2017. Consequently, the yield curve stopped flattening in mid-2017, giving place to a slight steepening trend. The interbank market rates were stable in 2017.

Banking sector

Banking sector

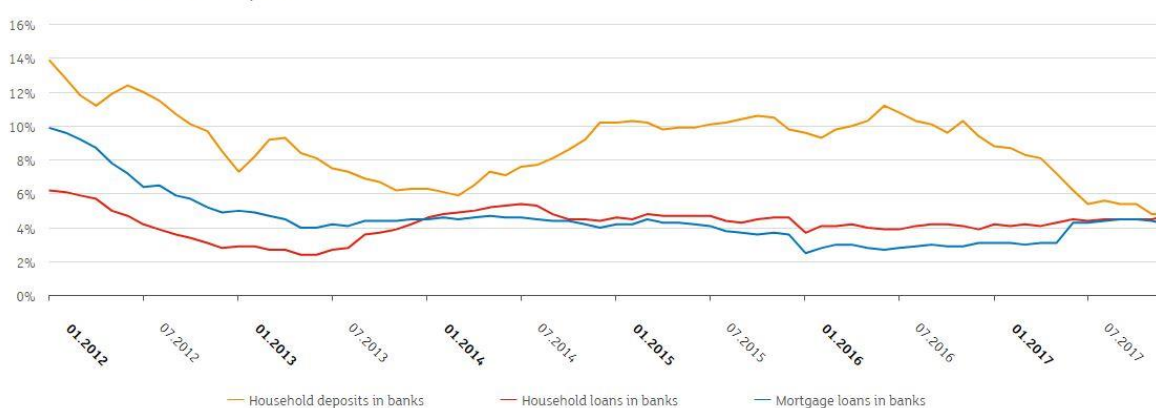
Poland: Corporate loans and deposits



Worse liquidity of the enterprises sector (also noticeable in the data on non-financial enterprises' finances published by the Central Statistical Office), which was connected both with a dynamic increase in salaries and the effects of the tightening of the tax system, contributed to lower dynamics of corporate deposits. Their slower growth (3.7% in 2017 against 7.2% year on year in 2016) was also a consequence of the strengthening of the zloty, which reduced the value of exporters' profits in the zloty. The increase in corporate deposits in 2018 should be supported by the expiration of the effects of strong zloty and the tightening of the tax system.

In the case of corporate loans, the rebound was significant – their growth rate went up from 3.9% to 7.5% year on year, the main driver being the category of current loans (the dynamics of investment loans remained at ca. 10%).

Poland: Household loans and deposits



The growth rate of retail deposits was dropping systematically in 2017 - at the end of the year, it amounted to 4.8% year on year, which is significantly below the level of 9.4% year on year reported in December 2016. The slowdown in household deposits is the mirror image of the increase in consumption and the fact that households are looking for alternative forms of capital investment.

The growth rate of loans to households net of strong FX effects increased from 3.9% year on year in December 2016 to 4.7% year on year in December 2017. The hike in lending to households was, in particular, attributable to housing loans - according to data from AMRON, their production at the level

of approximately PLN 45 billion was the highest since 2011. In 2017, the growth rate of consumer loans and other categories of non-mortgage loans was similar to that recorded in 2016 (5.5% year on year).

Development of economy and banking sector in the Czech Republic

Key macroeconomic parameters	2017	Banking sector indicators	2017
Real GDP growth rate (forecast)	4.3%	Base interest rate	0.50%
Nominal GDP per capita (EUR)	16,700*	Loan to Deposit ratio	74.0%
GDP per capita in PPS (EU-28=100)	88%*	Non-performing loans ratio	4.0%
Average annual inflation rate	2.4%	Total Capital Ratio (TCR)	18.5%*
Unemployment rate	3.0%	Return on Assets (ROA)	1.2%*
Population	10.6 M	Return on Equity (ROE)	14.7%*

Source: Eurostat, Česká národní banka (ČNB).

* Cumulative data for 9 months (as of September 30, 2017) or latest available.

GDP, inflation, interest and FX rates

The economic growth in the Czech Republic is estimated to have accelerated to 4.3% in 2017 from 2.6% a year earlier driven mainly by a strong increase in consumption and a positive contribution of public and private investment. Due to the strong commercial links to the euro zone and its export-oriented nature, the Czech economy has been profiting from the ongoing revival in the global economy. A tightening labour market (the Czech Republic has the lowest unemployment rate in whole EU) and considerable growth in salaries bode well for private consumption. The Czech GDP is expected to grow by an average of 3% in 2018-2019, which will still be above the potential GDP growth rate.

The dynamic increase in salaries and relatively fast economic growth (compared with the potential GDP growth rate) keep inflation high. The average annual inflation rate stood at 2.4% in 2017 with even higher core inflation measures. In view of the mounting risk of the inflation target being exceeded permanently in the medium term, the Czech National Bank (CNB) decided to start monetary policy normalisation in 2017. On April 6, 2017, the Czech National Bank withdrew its earlier commitment to sell any amount of korunas to prevent the currency from appreciation. On August 3, 2017, the central bank raised the reference rate by 20 basis points starting a cycle of modest rate hikes. The bank increased the rates once again on November 2, 2017 following further positive surprises in macro-economic data. Consequently, CNB's reference rate stood at 0.5% at the year-end. As the external environment of the Czech economy was in equilibrium, the start of monetary policy normalisation did not cause rapid appreciation of the koruna.

Banking sector

The favourable developments recorded in the Czech financial sector in past years continued into 2017. Good economic conditions were reflected in growth of the assets of the banking sector, which

managed to maintain high profitability and strong capital position. For most of 2017, Czech banks faced a prolonged pressure on core income stemming from low interest rate environment, but the long-lasting decline in interest margins halted in the final quarter of the year. At the same time, exceptionally low risk costs were recorded thanks to a decrease of default rate. Funding and liquidity profiles continued to be solid with the sector's loan-to-deposit ratio of 74.0%. Asset quality remained very resilient as demonstrated by a further decrease of NPL ratio to 4.0% at the end of 2017 from 4.8% 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 situation was also supported by the sales of impaired receivables concluded by some banks and rapid growth in the stock of loans.

The Czech Republic: Household Loans and Deposits



The growth in total retail lending was predominantly driven by mortgage loans, which expanded by 9.7% in 2017, while the volume of consumer and other loans showed a slower increase of 3.9% during the same period. The share of non-performing loans in the total volume of loans to households was 2.5% in December 2017, declining from 3.2% at the end of 2016. The annual growth pace of household deposits decelerated slightly in the second half of 2017 and reached 7.3% in December. However, the maturity structure of deposit base has been evolving significantly over the last four years, with demand deposits rising at double-digit rate and term deposits falling on average by 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. Expansion of the outstanding portfolio slowed down slightly in the second half of 2017 and reached 4.8% in December. 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 4.2% at the end of 2017, compared to 5.2% a year earlier. Corporate deposits decelerated visibly in 2016, while dynamics rebounded to high single-digit levels in 2017.

Development of economy and banking sector in Slovakia

Key macroeconomic parameters	2017	Banking sector indicators	2017
Real GDP growth rate (forecast)	3.3%	Base interest rate	0.0%
Nominal GDP per capita (EUR)	14,900*	Loan to Deposit ratio	103.8%
GDP per capita in PPS (EU-28=100)	77%*	Non-performing loans ratio	3.2%
Average annual inflation rate	1.4%	Total Capital Ratio (TCR)	18.8%*
Unemployment rate	8.2%	Return on Assets (ROA)	0.8%
Population	5.4 M	Return on Equity (ROE)	7.7%

Source: Eurostat, Národná banka Slovenska (NBS).

* Cumulative data for 9 months (as of September 30, 2017) or latest available.

GDP, inflation, interest and FX rates

The Slovak economy continues to grow steadily. After a 3.3% increase in GDP in 2016, the country's economy is estimated to have grown by another 3.3% in 2017 thanks to stronger private consumption and a higher net contribution of exports. Even though the increase in private investment is unlikely to have fully offset the considerable decrease in public investment in 2017 related to the spending cycle of EU funds, solid growth in total investment is expected in 2018 and 2019 thanks to considerable investment in the car industry and higher spending on big infrastructure projects. Private consumption was on an upward trajectory throughout 2016 and 2017 profiting from an improving labour market, modest inflation and the resulting growth in real wages.

As a eurozone member, the country has main interest rate set by the European Central Bank (ECB). The reference rate did not change in 2017.

The inflation rate stood at 2.0% in December 2017, up from 0.2% at the end of 2016. The reading was inflated by some components of the core part of the inflation basket. The average annual inflation rate was 1.4% in 2017, which represents an increase of 1.9 percentage points on the previous year.

The unemployment rate has been falling gradually since 2014 thanks to a growing economy and creation of new jobs. The seasonally adjusted unemployment rate stood at 8.2% in December 2017 and decreased by 1.5 percentage points year on year.

Banking sector

Slovak banks have operated in a relatively strong economic environment, but their profitability net of extraordinary income (in particular the sale of holdings in Visa in June 2016) fell slightly in the last two years. Continuing interest margin compression was moderated by the increasing credit growth and declining loan impairment losses. The modest drop in return on equity resulted predominantly from the strengthening of banks' capitalisation through earnings retention. With strong lending growth, the overall loan-to-deposit ratio has been gradually increasing and exceeded 100% in 2017. 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 dynamic expansion in retail loans and small decline in the stock of non-performing loans. The NPL ratio for Slovakia is the lowest in the CEE region at 3.2% at the end of December 2017, dropping from 3.8% a year earlier.

Slovakia: Household Loans and Deposits



Further growth in employment and wages, accompanied by low interest rates, have remained important preconditions for the increase in consumer demand for 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 12% in 2017. Also, non-mortgage portfolio has expanded at a fast, albeit lessening, pace. The share of non-performing loans in the total volume of loans to households declined to 3.2% in December 2017 from 3.7% at the end of 2016. Development of retail deposits showed clearly upward trend from Q1 2014, with the annual dynamics oscillating around 8-9% in 2016. Client inflows decelerated in 2017 and the annual growth pace declined to below 5% in December. 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 11% in 2017.

Slovakia: Corporate Loans and Deposits



The corporate credit market is in the expansionary phase of its cycle, with the average annual growth rate remaining at around 7-8% in 2017. This increase has been broad-based across virtually all loan categories, including purpose, maturity, economic sector and borrower size. The share of non-performing loans in the total volume of loans to non-financial corporations decreased to 5.0% at the end of 2017 from 6.3% in 2016. 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. In the second half of 2017, the annual growth rebounded to high single-digit figures.

2.2.2. Regulatory environment

The Polish banking system is subject to special legal regulations. Its legal framework is contained in the Banking Law Act dated on August 29, 1997. This Act sets out, inter alia the principles of establishing and conducting banking activities, as well as the principles of executing banking supervision, resolution proceedings, liquidation and bankruptcy of banks.

The activities of banks in Poland are regulated by among others the Act on the National Bank of Poland, on covered bonds and mortgage banks, on the Bank Guarantee Fund, on the deposit guarantee system and on forced restructuring.













Since 2008 the banking supervision in Poland is executed by the Polish Financial Supervision Authority.













mBank is also subject to European regulations, among others on the PSD and MiFID directives - adopted by the European Parliament and the European Council - and the EMIR Regulation.

















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 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	
Act on the Bank Guarantee Fund, Deposit Guarantee Scheme and Forced Restructuring, and accompanying regulations	2017		
	<p>October 9, 2016</p> <p>In 2017 banks for the first time paid contributions to the BFG in line with the rules introduced by the Act and accompanying regulations. The main amendments referred to the modification of the basis for determining contributions to the bank guarantee fund and the resolution fund, and inclusion of the risk profile of particular institutions in the calculation of individual contributions, as well as procedures applied to make a part of contribution in the form of payment commitments.</p> <p>In line with the provisions of the Act, in 2017 banks worked on the preparation of recovery plans approved by the PFSA, and provided the BFG with certain information on the basis of which the BFG drew up resolution plans for them, taking account of minimum requirements for own funds and eligible liabilities (MREL), stipulated in line with the methodology published by the BFG.</p> <p>Under the Act and accompanying regulations, banks are working on the implementation of the requirements concerning the provision of specific data and information to the BFG, used in the process of forced restructuring, thus significantly expanding the reporting requirements applicable hitherto.</p>	<ul style="list-style-type: none"> Capital base IT & HR Financial result (excluding IT/HR costs) Clients and offer 	<p>YES</p> <p>YES</p> <p>YES</p> <p>YES</p>
Regulation of the Minister of Development and Finance of 6 March 2017 on the Risk Management System, Internal Control System, Remuneration Policy as well as Detailed Method for Banks' Internal Capital Assessment	<p>May 2017</p> <p>The Regulation governs the risk management system, remuneration policy, the internal control system and internal capital adequacy assessment. The Regulation defines the rules for determination of fixed and variable components of remuneration of risk takers. Other important provisions of the Regulation refer to the obligation imposed on banks to implement comprehensive violation reporting systems.</p>	<ul style="list-style-type: none"> Capital base IT & HR Financial result (excluding IT/HR costs) Clients and offer 	<p>NO</p> <p>NO</p> <p>NO</p> <p>NO</p>

Act on Trading in Financial Instruments and Certain Other Acts	May 2017	<p>As a result of the implementation of the Market Abuse Directive (MAD) and in connection with the Market Abuse Regulation (MAR), the Amendments to the Act on Trading in Financial Instruments and Certain Other Acts entered into force in May 2017. They refer to the procedures of detecting and preventing the use of confidential information and anonymous reporting of violations of the law, procedures and ethical standards in investment firms, as well as sanctions imposed by the PFSA. Another purpose of the Amendments was to adjust the regulations applicable hitherto to MAR. Another amendment, which came into force in April 2017, replaces the notions of the stock exchange market and the OTC with the single term “regulated market” and stipulates the rules of obtaining the permit for carrying out the activity on the regulated market and participating in the market.</p>	<ul style="list-style-type: none"> ▪ Capital base ▪ IT & HR ▪ Financial result (excluding IT/HR costs) ▪ Clients and offer 	<p>NO</p> <p>YES</p> <p>NO</p> <p>NO</p>	   
Act on Mortgage Credit and Supervision of Mortgage Credit Intermediaries and Agents	July 2017	<p>The Act regulates in detail the issues concerning the conclusion of mortgage loan agreements, i.e. granting such a loan only in the currency in which the client receives most of his/her income, limiting the entities authorised to grant mortgage loans only to those supervised by the PSFA (ban on loan companies) and the obligation to provide the borrower with detailed information prior to conclusion of the agreement, as well as the possibility of earlier loan settlement by the client during the agreement term and solutions for debt restructuring in justified cases.</p>	<ul style="list-style-type: none"> ▪ Capital base ▪ IT & HR ▪ Financial result (excluding IT/HR costs) ▪ Clients and offer 	<p>NO</p> <p>NO</p> <p>NO</p> <p>YES</p>	   
Regulation of the Minister of Development and Finance of 25 May 2017 on the Higher Risk Weight for Exposures Secured by Mortgage on Real Property	December 2, 2017	<p>The regulation assigns the risk weight of 150% to exposures secured by mortgage on residential real property for which the amount of the principal and/or interest instalment depends on fluctuations of the exchange rate of a currency or currencies other than the currencies of the debtor's income, and the risk weight of 100% to exposures secured with mortgage on office premises or other types of commercial real property located on the territory of the Republic of Poland. On September 19, 2017, the PFSA announced that it is necessary to apply the indicated risk weights to the entire exposure, and not only to the fully secured part.</p>	<ul style="list-style-type: none"> ▪ Capital base ▪ IT & HR ▪ Financial result (excluding IT/HR costs) ▪ Clients and offer 	<p>YES</p> <p>NO</p> <p>NO</p> <p>NO</p>	   





IFRS 9	<div>2018</div> <p>Starting from 2018, the banks applying IFRS will be obliged to apply new rules for classifying, recognizing and evaluating financial instruments, among others, loans granted to clients. Apart from methodological and system changes, adjusting banks to the IFRS 9 requirements has a tangible impact on the capital and financial results due to the manner in which particular items of balance sheet are priced. In line with Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December 2017 amending Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposures treatment of certain public sector exposures denominated in the domestic currency of any Member State, banks, upon agreeing it with the regulator, will have five years (starting from 2018) to include expected credit loss provisions arising from IFRS 9 in equity.</p> <div>January 2018</div> <ul style="list-style-type: none"> Capital base YES  IT & HR YES  Financial result (excluding IT/HR costs) YES  Clients and offer NO 
Regulation of the Minister of Development and Finance of 1 September 2017 on the System Risk Buffer	<div>01.01.2018</div> <p>The Regulation introduces the system risk buffer at the level of 3% of the total exposure amount with respect to exposures located on the territory of the Republic of Poland. The requirement applies both at a stand-alone and consolidated level.</p> <ul style="list-style-type: none"> Capital base YES  IT & HR NO  Financial result (excluding IT/HR costs) NO  Clients and offer NO 
Standpoint of the PFSA on minimal capital ratios	<div>January 1, 2018</div> <p>Following the publication of the Regulation of the Minister of Development and Finance on the system risk buffer, the Polish Financial Supervision Authority defined minimal capital ratios for banks in 2018. They include: capital requirement arising from CRR (6% for Tier I and 8% for TCR), additional capital requirement arising from the mortgage loans portfolio and combined buffer requirement, being the total of the capital conservation buffer (1.875% in 2018 and 2.5 % from 2019), a countercyclical capital buffer (0% in 2018), an O-SII buffer (individual for particular banks, its values were revised and published by the PFSA after the meeting on December 19, 2017) and a systemic risk buffer (3%), which replaced the capital requirements recommended so far by the PFSA, which were higher than those arising from CRR.</p> <ul style="list-style-type: none"> Capital base YES  IT & HR NO  Financial result (excluding IT/HR costs) NO  Clients and offer NO 

Dividend Policy	2018	The PFSA's standpoint of November 24, 2017, on the dividend policy of commercial banks in 2018 addresses in particular the criteria for the payment of dividend by banks with a significant exposure to FX loans. Apart from the criteria applied so far: lack of recovery plan activation, positive result of supervisory review and evaluation process (BION score), adequate level of financial leverage and fulfilment of relevant capital requirements, banks will be obliged to observe an individual "stress-test add-on" and adjust the dividend rate for the indicators arising from the scale of exposure to FX housing loans.	<ul style="list-style-type: none"> Capital base IT & HR Financial result (excluding IT/HR costs) Clients and offer 	YES NO NO NO	   
Recommendation H	January 2018	Recommendation H published by the PFSA in April 2017 addresses the issue of good practices concerning the internal control system. Pursuant to the recommendation, the internal control system, separated from the risk management system, has to be based on three lines of defence. In addition, the recommendation introduces the concept of control function and puts greater emphasis on the role of internal audit and the compliance unit in banks' operations.	<ul style="list-style-type: none"> Capital base IT & HR Financial result (excluding IT/HR costs) Clients and offer 	NO NO NO NO	   
Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (GDPR)	May 2018	The Regulation applies to all organisations processing personal data and pursuing operations on the territory of the European Union. The Regulation standardizes the rules of personal data protection between countries, introduces severe penalties and sanctions for the violation of the rules and establishes responsibility for the security of personal data processing. The obligation to inform clients in an intelligible and clearly legible manner about their rights and to acquire their consent to personal data processing impacts the possibility of using these data in the business practice. One of the examples for the implementation of the regulation is the appointment of the Data Protection Inspector responsible, among others, for processing of sensitive data; the Inspector reports directly to the top management in the organisation.	<ul style="list-style-type: none"> Capital base IT & HR Financial result (excluding IT/HR costs) Clients and offer 	NO YES NO YES	   
Regulatory reform of interest rate indices	2018	In line with Regulation (EU) 2016/1011, since January 1, 2018, new rules of fixing, documentation and control of reference rates have been applied on the market. The adjustment to the reform in the long term has resulted, among others, in the takeover by GPW Benchmark of the reference rate fixing obligation in Poland from ACI (the Financial Markets Association). From February 1, 2018, GPW Benchmark, banks being fixing participants and reference rate users will be obliged to follow the principles of the New Reference Rate Documentation.	<ul style="list-style-type: none"> Capital base IT & HR Financial result (excluding IT/HR costs) Clients and offer 	NO YES NO NO	   

MIFID II

January 2018

At the beginning of 2018, the regulations of the ESMA on the transparency requirements applied to trading venues and investment firms came into force. Their aim is to offer clients products that are better adjusted to their risk profile and provide them with a wide range of information about concluded transactions.

■ Capital base	NO	
■ IT & HR	YES	
■ Financial result (excluding IT/HR costs)	NO	
■ Clients and offer	YES	

In 2017, work was ongoing to amend CRD IV/CRR and BRRD, and the amendments were consulted within the Basel IV Package. In December 2017, the Basel Committee on Banking Supervision published final regulations on the reform of calculating risk-weighted assets and so-called capital floors. Additionally, at the level of the European Union institutions, work is underway to adjust the EU law to the Basel regulations and supplement the provisions in force, among others, in the scope of introducing a new category of unsecured debt in the hierarchy of claims, considered one of the instruments that qualify to MREL and TLAC.

Impact of the appreciation of the Swiss franc on the position of borrowers, the banking sector, and mBank

Proposal of the Polish Bank 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", was 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,
- resignation of 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), and
- 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 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 plus 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 PSFA, 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 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. PSFA recommended that the Minister of Finance, PSFA and BFG take actions aimed at encouraging the banking system to convert exposures in foreign currencies into the Polish zloty.

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 PSFA:

- Updating the supervisory review and evaluation process (Polish: BION) methodology and expanding it with rules, which will make it possible to assign 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 banks' guarantee fund.

Presidential Bill on Amending the Act on Assistance to Home Borrowers in a Difficult Financial Situation

Owing to insignificant utilization of the Borrower Support Fund, on August 2, 2017, the Chancellery of the President presented a bill aiming to modify the mechanism of providing financial support to borrowers who took out a housing loan heavily burdening their household budget, and to introduce a new instrument supporting voluntary restructuring of loans in foreign currencies.

The draft act provides for setting up two special funds within the Borrower Support Fund: Supporting and Restructuring Fund. The Supporting Fund would take over the current functions of the Borrower Support Fund, and the Restructuring Fund would support a voluntary conversion of housing loans in foreign currencies.

The bill also includes the proposals for increasing the limit of subsidies from the Supporting Fund up to PLN 2,000, decreasing the DtL ratio from 60% to 50% and increasing the income threshold up to which the borrower is entitled to support. Contributions to the Bank Guarantee Fund made by banks with FX housing loans portfolios would total up to 1% of the value of the portfolio of loans with overdue above 90 days.

The maximum contributions of banks to the new Restructuring Fund were defined at 2% of exposures to mortgage loans in foreign currencies p.a. Banks would have six months to propose their clients loan conversion, and contributions made by banks to the fund would cover the loss in the balance sheet value of the loan before and after the voluntary restructuring. The funds that have not been used would be provided to other banks proportionally to their contributions. The value of contributions would be defined by the Financial Stability Committee, and the Polish Financial Supervision Authority may issue a recommendation stipulating the order in which particular housing loans would be subject to restructuring.

On October 13, 2017, the Sejm discussed the bill for the first time.

mBank Group's portfolio of FX mortgage loans

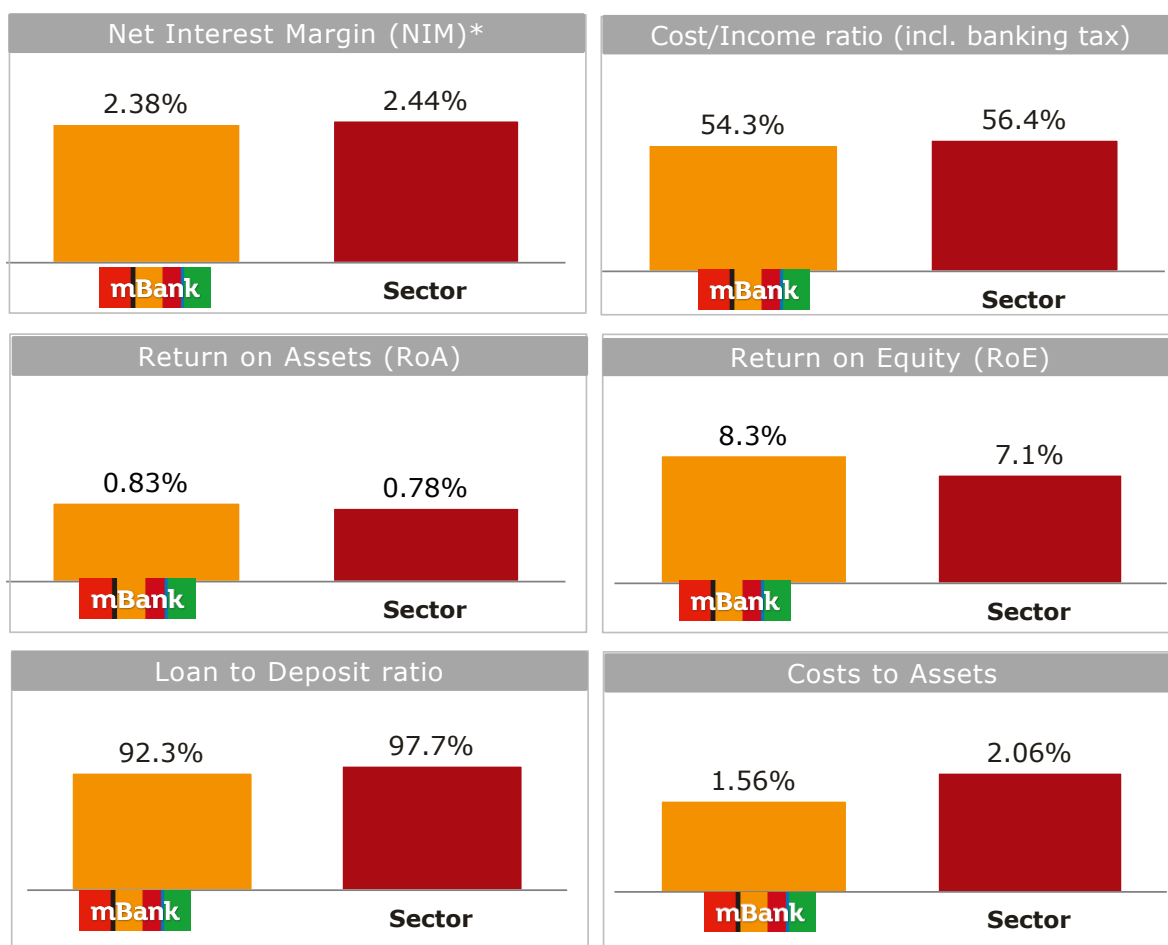
In response to market demand, based on funding provided by its parent entity in the form of medium-term and long-term loans, mBank offered mortgage loans in foreign currencies, mainly the Swiss franc

(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, the sale of CHF loans was discontinued in August 2011. Consequently, the CHF mortgage loan portfolio has been falling steadily, by ca. CHF 350 million p.a., with a part of this amount being repaid in the form of early payments. At the end of 2017, the value of the portfolio of CHF mortgage loans granted to individual clients stood at CHF 4.2 billion (PLN 14.9 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 3.3% at the end of 2017, while for the entire sector it stood at 6.8%.

mBank is a party to lawsuits over foreign currency loans brought against it by clients who took out such loans. It should be stressed that courts have not been unanimous when settling FX loan cases, yet the vast majority of final and binding rulings issued so far have been in favour of the bank. All final and binding rulings are followed by the bank. The Office of Competition and Consumer Protection (UOKiK) has been pursuing a number of preliminary investigations into mBank, in particular with regard to the so-called durable medium, low down payment insurance and foreign exchange risk notification for clients. Some of these investigations are carried out with regard to several banks simultaneously. mBank has been cooperating with UOKiK and other authorities as well, providing them with all necessary information.

2.2.3. mBank Group with reference to the sector

mBank Group with reference to the Polish banking sector performance in 2017



2.2.4. mBank Group's market position of segments

mBank Group's market position of segments

At the end of 2017, mBank was among the largest Polish banks across all relevant market segments.

Most of the Group subsidiaries also rank high in their respective financial services market segments. The table below presents the market share and the position of mBank and of selected subsidiaries at the end of 2017 compared to 2016 and 2015:

Business category	Market position in 2017*	Market share		
		2015	2016	2017
Corporate Banking				
Corporate loans		6.3%	6.1%	6.4%
Corporate deposits		9.8%	10.1%	6.9%
Leasing	4	7.6%	6.9%	7.4%
Factoring	8	7.8%	7.3%	7.4%
Retail Banking in Poland				
Total loans		6.5%	6.5%	6.3%
of which mortgage loans		7.7%	7.5%	6.9%
Non-mortgage loans		4.7%	5.0%	5.4%
Deposits		5.7%	6.1%	5.9%
Retail Banking in the Czech Republic				
Total loans		1.4%	1.4%	1.4%
Of which mortgage loans		1.8%	1.8%	1.7%
Non-mortgage loans		0.6%	0.7%	0.8%
Deposits		1.4%	1.6%	1.6%

Retail Banking in Slovakia				
Total loans		0.8%	0.7%	0.6%
Of which mortgage loans		1.0%	0.8%	0.6%
Non-mortgage loans		0.4%	0.4%	0.6%
Deposits		1.4%	1.6%	1.7%
Investment Banking				
Financial markets				
Treasury bills and bonds		12.8%	16.2%	14,8%
IRS/FRA		15.4%	11.5%	12,5%
Non-Treasury securities (the value of debt)				
Short-term debt securities	3	6.8%	9.8%	7.4%
Corporate bonds	3	12.4%	11.5%	12.9%
Bank debt securities**	1	36.4%	34.6%	31.2%
Brokerage				
Equities trading	6	5.0%	4.4%	5.3%
Futures	3	16.1%	12.3%	11.9%
Options	4	12.8%	9.7%	12.8%

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).

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 1.72% at the end of 2017. 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. 2017 was the first year when banks paid tax for 12 months.
- 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 currently ongoing work on the President’s bill changing the act on the support of troubled borrowers who have taken out a mortgage loan. It assumes the creation of two funds, of which one would support the voluntary conversion of mortgage loans in foreign currency (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 47.8% at the end of 2017 (according to PFSA).
- Challenges related to the management and storage of personal data and deposits security in the Internet – so-called cyber risk.
- Spreading technological solutions and demographic processes change clients’ behaviour. 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 (FinTechs) 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 (Poland will implement the EU law in Q1 2018).

2.3. Shareholders and capital market

2.3.1. Capitalization and performance of mBank shares

Key characteristic of mBank shares:

- Nominal value per share: PLN 4.00;
- Registered share capital: PLN **169,248.5 thou., fully paid up**;
- 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.

Key share price data for mBank in 2016-2017

mBank share price data	2016	2017
Total number of shares*	42,280,127	42,312,122
Nominal value per share (PLN)	4	4
Registered share capital (PLN)	169,120,508	169,248,488
Share price at closing of the year's last trading session (PLN)	335.25	465.00
P/E ratio	11.6	18.0
P/BV ratio	1.1	1.4
Maximum share price (PLN)	393.0	487.80
Minimum share price (PLN)	268.15	338.00
Company capitalisation at the year-end (PLN billion)	14.2	19.7
Average traded volume (PLN million)	8.8	8.7
Dividend per share	-	-

**In 2017, the number of mBank shares increased by 31,995. Consequently, the registered share capital increased by PLN 128 thousand. New shares have been issued within the incentive/employee programme.*

mBank shares have been listed on the Warsaw Stock Exchange (WSE) since 1992. The closing price of mBank's shares on the last trading day in 2017 stood at PLN 465.00 and was 38.7% higher than a year before. The company's capitalisation increased by PLN 5.5 billion and at the end of 2017 and stood at PLN 19.7 billion. Among the banks listed on the WSE, only 3 banks performed better in 2017: Millennium, PKO BP and Alior. The P/BV (price/book value) ratio for mBank Group stood at 1.4 at the end of 2017 compared with 1.1 a year before. The P/E (price/earnings per share) ratio was at 18.0 compared with 11.6 in 2016.

The year brought very good news for the shareholders of largest companies.

In 2017, the WIG index increased by 23.2%, while the WIG-20 index gained 26.4% over that time. 18 companies from WIG-20 reported positive rates of return. The mWIG40 index, made up of medium-sized companies, went up by 15.0%, while sWIG80, comprising 80 small-sized companies listed on the main market of the WSE, rose by 2.4%. Against this background, the WIG-Banks index, which at the end of 2017 increased by 35.4% year on year, performed very well.

The chart below presents relative changes in mBank's share prices compared with the WIG and WIG-Banks indices over the last five years.

The chart below presents relative changes in mBank's share prices compared with the WIG and WIG-Banks indices over the last five years.



Banks Index Changes in mBank's share prices compared with WIG-Banks and EURO STOXX Banks Index

Change	2013	2014	2015	2016	2017
mBank	+53.4%	-0.4%	-36.9%	+6.8%	+38.7%
WIG-Banks Index	+20.5%	-0.7%	-23.5%	+2.9%	+35.4%
EURO STOXX Banks Index	+25.9%	-4.9%	-4.9%	-8.1%	+10.9%

In 2017, investors' sentiment changed following different revelations. In Q1 2017, the share prices of banks were helped by the reduced probability of conversion of CHF-denominated mortgage loans and growing expectations of interest rate hike in Poland. In Q2, the possibility of interest rates being raised in the following quarters became significantly less likely. A decrease in share prices of banks with FX mortgages loans portfolios after August 2, 2017, was connected with the fact that the presidential bill amending the act on assistance to home loan borrowers in a difficult financial situations was submitted to the Sejm. In Q4 2017 banks' share prices were helped by the macroeconomic situation, higher probability of dividend payouts and belief that the potential legal acts on FX mortgage loans, which the parliament is still working on, would only have a limited impact on banks' earnings.

2.3.2. Investor Relations at mBank

mBank shares have been listed on the Warsaw Stock Exchange since 1992. Since the debut on the stock exchange, mBank has paid close attention to ensuring effective communication to its investors and analysts. Open, transparent and reliable information policy builds trust and loyalty of investors.

In accordance with the information policy, mBank applies the requirements resulting from the rules related to confidentiality and information security, which it must fulfill as a public company and a supervised institution.

Investor relations are part of the responsibilities of the Analysis and Investor Relations 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.

Feedback from investors is the basis for drawing conclusions regarding future activities in the area of investor relations, including - the scope of information materials. We make every effort to ensure that every interested group in the field of providing information is treated with equal care and attention.

Meetings with investors and analysts

In 2017, investors and stock market analysts participated in four conferences on mBank's quarterly 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.

Conferences held in Poland and abroad

Relations with analysts, shareholders and potential investors are also strengthened through meetings at conferences held in Poland and abroad. In 2017, mBank participated in three conferences in Warsaw, five conferences held abroad and organised one-on-one meetings with representatives of the Management Board for institutional investors after publication of Q1 2017 results. Moreover, the bank organised two roadshows: in the United States, and in Europe. 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.

Meetings with individual investors

mBank makes every effort ensuring that individual investors, as well as institutional investors, will be provided with quick access to relevant information about the company. In 2017, as part of activities for individual investors, mBank participated in the WallStreet conference in Karpacz - the largest meeting of individual investors in Poland.

Meetings with rating agencies

In 2017 two sessions were organised as part of regular meetings with the bank's rating agencies and a number of teleconferences with the rating agencies were held.

Electronic channels of communications

> **The website of the bank's investor relations.** 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.

> Newsletter. Analysts and investors of mBank are kept informed about important events related to mBank Group via monthly newsletters. Messages sent electronically are a supplement to the newsletter.

Awards and distinctions in the area of Investor Relations

The efforts taken by mBank to ensure the highest standards of communication are appreciated by the participants of the capital market. In 2017, for the fifth time in a row, and for the sixth time in history, mBank received the special prize "The Best of The Best" in the "Best Annual Report" contest, organized by the Tax and Accounting Institute. mBank is among companies applying the highest reporting standards. The aim of the competition is to promote annual reports of the highest utility value for shareholders and investors. /Read more at/ Awards and distinctions

2.3.3. mBank's share in the WSE indices

mBank shares are part of the following WSE indices: GPW: WIG, WIG Poland, WIG20, WIG30 and WIG-Banks. Moreover, on December 15, 2017, mBank shares were added by the Warsaw Stock Exchange to an index of socially responsible companies, the Respect Index. The shares are also included in derivative indices based on WIG20.

WIG

WIG index comprises all companies listed at WSE Main List that meet eligibility criteria for participation in indices. mBank's share in the WIG index stood at 1.93%.

WIG20

WIG 20 index is calculated based on the value of portfolio with shares in 20 major and most liquid companies in WSE Main List. mBank's share in the WIG20 index stood at 2.94%. mBank has been included in the WIG20 index since 1994, i.e. since the beginning.

WIG30

WIG 30 index comprises 30 largest and most liquid companies listed on WSE Main List. mBank's share in the WIG30 index stood at 2.72%.

WIG-Banks

WIG-Banks sector index base date is December 31, 1998. It consists of companies that are classified to the WIG index and at the same time are part of the banking sector. mBank's share in the WIG-Banks index stood at 6.47%.

WIG Poland

WIG Poland index comprises exclusively shares in domestic companies listed at WSE Main List. The companies must also meet the basic criteria that determine their presence in the indices. Possible changes in the index are made at the end of each quarter, and the index is calculated from December 22, 2003.

EURO STOXX Banks Index

The index is based on share price quotations of 32 European listed companies that originate from European Monetary Union (EMU) countries and their main source of income are banking activities.

RESPECT Index

mBank was among 28 companies, which were included in the Respect Index. The index consists of companies with the highest liquidity, conducting socially responsible activities towards the environment, community and employees.

RESPECT Index was established in 2009 on the initiative of the Warsaw Stock Exchange. The companies' research and the composition of the index is done in the second half of each year. The assessment is carried out by Deloitte.

2.3.4. Recommendations

mBank Group and its performance are monitored by analysts representing various financial institutions, banks and brokers. At present, mBank is observed by more than a dozen domestic and international institutions whose analysts recommend mBank's shares.

The table below presents recommendations as of February 15, 2018.

Firm	Recommendation	Target price (PLN)
Citi Research	Sell	388
Deutsche Bank	Sell	430
DM BOŚ	Sell	458
Dom Maklerski BZ WBK	Sell	402
Dom Maklerski PKO BP	Sell	425
Erste Group	Hold	473,8
Haitong Bank	Sell	431
IPOPEMA	Sell	353,7

J.P. Morgan	Underweight	462
Keefe, Bruyette & Woods	Neutral	351
BofA Merrill Lynch	Neutral	427
Pekao Investment Banking	Sell	362
Raiffeisen Centrobank	Reduce	472
Societe Generale	Hold	533
Trigon Dom Maklerski	Sell	418,6
Vestor Dom Maklerski	Sell	443
Wood&Company	Buy	502

2.3.5. Ratings of mBank and mBank Hipoteczny

mBank has ratings, i.e., assessment of credibility and solvency, from four rating agencies: Fitch Ratings, S&P Global Ratings, Moody's Investors Service and Capital Intelligence Ratings.

Ratings of Poland, mBank and Commerzbank

The table below compares the long-term ratings of Poland, mBank and Commerzbank assigned by the three major agencies, as at the end of 2017.

Rating agency	Poland	mBank S.A.	Commerzbank AG
Fitch Ratings	A- (stab.)	BBB (stab.)	BBB+ (stab.)
S&P Global Ratings	BBB+ (stab.)	BBB+(neg.)	A- (neg.)
Moody's Investors Service	A2 (stab.)	Baa1* (pos.)	A2* (pos.)

* Long-term deposit rating.

Rating outlook in brackets: pos. – positive, stab. – stable, neg. – negative

Fitch and S&P ratings have been assigned at mBank's request, which means that they are based on detailed information provided to the agencies and talks between agencies' analysts and mBank's representatives. The Fitch rating of mBank Hipoteczny and the covered bonds it issues has also been assigned at its request.

Ratings of mBank and mBank Hipoteczny assigned by Fitch Ratings

In 2017, Fitch Ratings did not change the ratings and rating outlooks of mBank and mBank Hipoteczny. The latest rating change took place on March 7, 2016, when 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. On December 8, 2017, Fitch affirmed all the ratings and the outlook on the long-term rating of mBank and mBank Hipoteczny.

Fitch Ratings	Ratings of mBank	Ratings of mBank Hipoteczny
Long-term IDR	BBB (stable outlook)	BBB (stable outlook)
Short-term IDR	F2	F2
Viability rating	bbb-	
Support rating	2	2
Rating of unsecured debt issued under the Euro Medium Term Note Programme (EMTN)	BBB	
Ratings of mortgage covered bonds issued by mBank Hipoteczny		A (positive outlook)

Rating of mBank assigned by S&P Global Ratings

On March 28, 2017, S&P Global Ratings upgraded mBank’s long-term rating from “BBB” to “BBB+” as a result of upgrading the rating of Commerzbank AG from “BBB+” to “A-”. The long-term rating outlook for mBank after the upgrade is negative and so is Commerzbank’s long-term rating outlook. Together with the upgrade of mBank’s rating, the rating of bonds issued by mFinance France under the Euro Medium Term Note Programme (EMTN) was also upgraded to “BBB+”.

S&P Global Ratings	Ratings of mBank
Long-term Deposit Rating	BBB+ (negative outlook)
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+

Other ratings of mBank

Rating assigned by Moody’s Investors Service

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.

On December 18, 2017, Moody’s upgraded the following ratings: mBank’s long-term deposit rating from Baa2 to Baa1, counterparty risk assessment (CRA) from Baa1(cr) to A3(cr), baseline credit assessment (BCA) from ba2 to ba1 and adjusted BCA from ba1 to baa3. The long-term rating outlook was changed from stable to positive. As the agency communicated, the main reasons for the rating

change included greater clarity of legislation proposals concerning FX mortgage loans and the belief that the potential conversion of FX mortgage loans would not undermine mBank's capital position and that the bank would be able to manage the costs related to draft legal acts on FX mortgage loans.

Moody's Investors Service	Ratings of mBank
Long-term deposit rating	Baa1 (positive outlook)
Short-Term Rating	Prime-2
Counterparty risk assessment (CRA)	A3 (cr)/ P-2 (cr)
Baseline credit assessment (BCA)	ba1
Adjusted BCA	baa3

Rating assigned by Capital Intelligence Ratings (CI Ratings)

mBank's rating assigned by CI Ratings is based solely on publicly available information. In 2017, mBank's ratings remained unchanged and on June 6, 2017, they were confirmed by the agency.

Capital Intelligence Ratings	Ratings of mBank
Long-Term Rating	BBB+ (stable outlook)
Short-Term Rating	A2
Financial strength rating (FSR)	BBB
Support rating	2

2.3.6. Dividend

The intention of mBank is the annual dividend payment of at least 50% of the profit. Such a policy is a part of the Mobile Bank Strategy of mBank Group for 2016-2020, however, when deciding on recommending a 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 2017, 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%;
- with Tier 1 ratio is not lower than the minimum value set for this ratio increased by 1.5%: 6% + 75%*add-on + the combined buffer requirement + 1.5%;
- with Total Capital Ratio not lower than the minimum set for this value increased by 1.5%: 8% + add-on + the combined buffer requirement + 1.5%.

It is recommended that banks which meet all the above criteria can pay out up to 50% of the generated profit in 2017.

Moreover, it is recommended to pay out dividend up to:

- 75% of the profit generated in 2017 by banks meeting all of the above criteria, as well as the requirement for a buffer at the target level, i.e. 2.5% of the total risk exposure,
- 100% of the profit generated in 2017 by banks meeting all of the above criteria (including Conservation Capital Buffer at the required level), taking into account, within capital criteria, the bank's sensitivity to an unfavorable macroeconomic scenario (ST - an individual add-on measuring bank's sensitivity for unfavorable macroeconomic scenario defined as: the difference between TCR in the reference scenario and TCR in the shock scenario including supervisory adjustments (in stress tests conducted by the PFSA).

For banks with exposure to FX housing loans for households the dividend rate should be adjusted based on following criteria:

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

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

Criterion 2 – based on the share of FX housing loans granted in 2007 and 2008 in the portfolio of FX housing loans for households:

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

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
2013	17.0	717.0	67
2014	-	-	-
2015	-	-	-
2016	-	-	-

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

2.3.7. Contact for investors

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2.4. Clients

| The era in which we operate

Our observations and research show that mBank's market environment is dominated by three trends determining its present and future actions. These include: client era, mobility era and efficiency era.

Client era

The banking industry and other sectors have moved into the era of clients. Nowadays the client is in the centre of attention and efforts of any business present on the market. The most innovative market players, such as Uber or Airbnb, focus primarily on meeting consumers' needs and solving their problems. **Consequently, consumers have started to perceive special treatment, e.g. in the customer service process, as a standard practice.** The era of clients means that offers should be designed to satisfy the genuine needs of clients, who, in turn, should be able to understand them and choose what is best for them with minimum time and effort. Only products and features that demonstrate practical usefulness to clients should be developed and offered on the market in the era of clients.

Mobility era

Smartphone, called by some the first truly personal computer, is the life management centre for our clients. **We spend an average of three hours per day with our smartphones, while millennials and their smartphones are inseparable day and night.** The recent rise in popularity of mobile solutions does not mean, however, that the market has already reached its peak. We expect that within the next few years the world will witness a smartphone revolution with mobile solutions touching every aspect of our lives and determining our lifestyles or even the way we live.

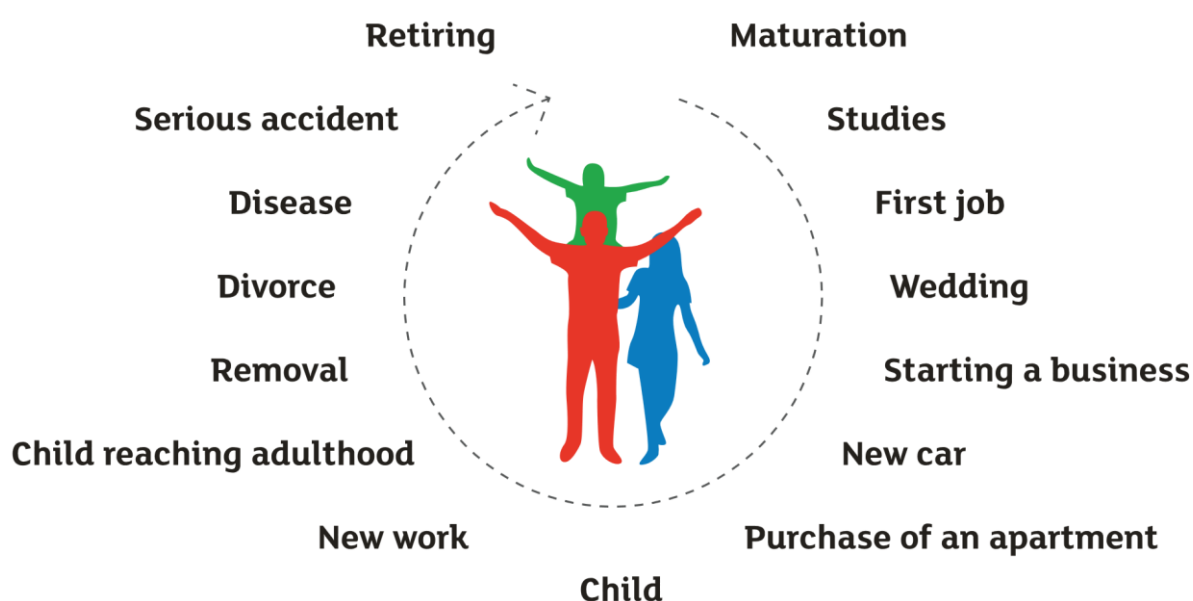
Efficiency era

Our focus on efficiency supports mBank's profitability in times of mounting pressure on the rates of return offered by the banking industry in Poland. The return on capital entrusted by investors to an institution still remains the core measure of efficiency of its operations, being of key importance for the shareholders.

mBank has secured a good starting position thanks to its **effective business model based on many distribution channels** with a particular focus on electronic channels and relatively small number of brick-and-mortar branches. At the same time, we are not facing any structural cost problems forcing us to introduce cost adjustments on a scale observed in a great many other banks in Poland and abroad. Moreover, we manage credit risk in an effective and predictable manner.

2.4.1. Our clients | Who are our clients?

We serve different client groups. It is our task to learn and name their actual needs and respond to them in the best way possible. This is why we have been raising interest in clients at different stages in their lives from adolescence to retirement. We enable them to meet their housing, consumption and investment needs and to achieve self-fulfilment through the key milestones in life.



Most of our clients are young (aged below 35) and live in large cities. They are enthusiasts for technological innovations and mobile banking. This group accounts for more than half of all our clients. We also target our offer towards Generation Z, i.e. people aged 13-24, who do not know the world without the Internet. It is our goal to acquire 500 thousand Generation Z clients by 2020.

We provide our clients with intuitive and convenient solutions that naturally integrate into their lives. These include products and services offering genuine mobile experience, which meets the preferences of our clients. Our fresh, dynamic brand has been successfully attracting new generations of consumers and entrepreneurs focused on developing, acting and making their plans and dreams a reality.

2.4.2. Dialogue with clients | How do we talk to clients?

Being aware of the fact that mBank is operating in the era of clients, we adopted three principles applicable to every interaction with clients:

- satisfaction of needs - a genuine need of a client will be satisfied;
- client-friendliness - in a simple, friendly and almost imperceptible manner;
- client experience follows mBank's brand - we create positive emotions in line with the brand positioning. mBank is a true icon of mobility available to everyone and everywhere.

mKanon. Communication principles

Communication in mBank is defined by an internal set of principles known to every employee, called mKanon. In our opinion, good and effective communication should be: clear, exhaustive, concise, written in the first person, empathetic, honest and correct (language-wise). Simplifying the language used is important not only in day-to-day communication with clients, which we establish via various channels, but also in the way we formulate bank agreements.

Practical application of mKanon principles

We want our clients to feel, with every message they receive from us, that we are there for them and help them develop. Our communication method reflects the personality and values of our brand. mKanon conveys universal principles of communicating with retail and corporate clients.

Clear

Communication is transparent and comprehensible to its addressee. The structure of the message is clear. Sentences are simple and do not contain any banking jargon.

Exhaustive

Communication is complete and fully explains the reasons and consequences of processes. It highlights the issues of key importance to clients.

Concise

Communication is brief. Sentences are short, but remember: we should eliminate unnecessary elements, but include the reasons explaining our decision, indicate further steps and show empathy.

Correct (language-wise)

Communication complies with the rules of the Polish language. It does not include English phrases and specialist terms unless it is absolutely necessary.

Honest

Communication is based on partnership and contains all the key information. It shows that our intentions are honest. Small print can only be used for additional information, including legally required information.

Empathetic

Communication is polite and helpful. It emphasizes that we identify with a client. It is client-friendly and shows openness to dialogue. We do our best to sympathize with a client and prove that we understand his/her situation and emotions. If we do have to refuse, we can use phrases such as “I/We am/are sorry”, “Unfortunately”.

Written in the first person

The use of the first person shows that mBank is a team of people who work together for the benefit of their clients. Thus, we should not use the third-person style when describing our actions. By writing in the first person, we convince the client that we take responsibility for our bank’s actions.

We talk about satisfaction. NPS System

We aspire to be a bank which accurately defines and foresees the needs of its clients and precisely knows how to respond to them. To get to know and understand our clients’ preferences better, we use the Net Promoter Score (NPS) system, which makes it possible to verify customer satisfaction in an organised way. As our marketing philosophy goes: **instead of taking expensive marketing measures, we should simply make our clients happy**. We thus strive to ensure satisfaction of as many clients as possible so that they become the ambassadors of our brand. What we need to achieve this goal is a thorough analysis of factors contributing to the satisfaction level. In this context, NPS figures as such do not present a value added for mBank. Instead we take every effort to gain in-depth knowledge of critical moments in our relationship with the client, which we still need to improve.

2.5. mBank Foundation

| Our foundation. Adding opportunities, multiplying talents

In 2017, we spent PLN 3.6 million on supporting mathematical education in Poland.

mBank Foundation focuses on supporting the development of mathematical education. The “M for Maths” (“m jak matematyka”) strategy defines the foundation’s goals until 2020 and addresses the ever growing gap in science education. The foundation’s mission is to help children and teenagers learn mathematics. Our actions in this field are best summed up by the slogan: “Adding opportunities, multiplying talents”.

mBank Foundation's mission

The Foundation's mission is to support the development of mathematics education in Poland. We strongly believe that mathematics provides the foundation for logical thinking and is vital to understanding the world around us. Mastering it helps us take informed financial decisions or follow the academic path in scientific subjects, and thus contributes to the economic development and achievement of professional success.

In 2017, we pursued our mission by e.g.:

- providing subsidies to development projects in the area of mathematics education, **the "mPower" ("mPotęga") subsidy programme, the competition for the best maths thesis called "Step into the Future" ("Krok w przyszłość"), the "Holiday with Mathematics" ("Wakacje z matematyką") grant competition and the "Masters of Mathematics" ("Mistrzowie matematyki") scholarship programme;**
- **surveying** Polish parents' attitudes to their children learning mathematics and the methods used to support children in developing their mathematical skills;
- **publishing the book** "Maths is Everywhere. Family adventures with mathematics" ("Matematyka jest wszędzie. Rodzinne przygody z matematyką"), which is a collection of inspirations for parents to help them creatively develop children's mathematical skills, in ways adjusted to their needs.

| mPower. We support innovations in mathematical education

- > In 2017, the mPower grant programme contributed nearly **PLN 1.5 million** to mathematics education. It exceeded the 2016 result by PLN 0.3 million and marked a four-year record.
- > we supported **259 projects** with the total of 35,000 participants: pupils, teachers and parents.

The projects we finance within the programme promote mathematics among young people in an innovative way. They show them that mathematics is an adventure and a subject which can be extremely useful in everyday life.

Within the mPower programme, we want to encourage teachers, parents and math enthusiasts to overcome the routine and go off the beaten track in mathematics education. Since 2014, we have been continuously learning through our experiences that creative and attractive teaching methods are a very effective way to present the world of mathematics and logic to children and youngsters. This way, young people are more willing to study these subjects. They can also use them more easily and gain satisfaction from it in their everyday lives.

The mPower grant programme won the **Golden Banker** award in the competition organised by *Bankier* and *Puls Biznesu* in the category **"Socially responsible bank"** for 2016.

As part of the programme, we finance **unconventional educational measures** addressed to children from at least 4th grade of primary school and from middle schools (until 2017) or high schools. In the fourth edition of the programme, the grants could be applied for by primary schools, middle schools, secondary schools, universities, NGOs, libraries and non-formal groups across Poland. We award grants ranging from PLN 2,000 to PLN 8,000.

*We financed, among other things, the project called “Let’s learn maths outdoors” (“Uczymy się matematyki w terenie”) organised by School and Kindergarten No. 2 (Zespół Szkolno-Przedszkolny) in Czechowice-Dziedzice. Children were invited to join outdoor activities which focused on e.g. scale (garden plan), symmetry (floral patterns, measuring trees), spatial figures in the nature and **using mathematics in weather forecasting**. We also supported the project “Mathematics at night” (“Matematyka nocą”) addressed to school children and their parents in Łapy, who learnt how mathematics can help them design and construct building models, sew, play games, have fun and even take part in an **Oxford debate**.*

Every year, we sum up the current and announce the next edition of the programme during the Math Picnic at the Copernicus Science Centre. **In 2017, the main attraction of the picnic was the official beating of the Polish Record in representing the number Pi digits. It was attended by 360 pupils and teachers** from over 30 schools participating in the third edition of the mPower programme.

| “Step into the Future”. Awards for innovative student theses

We also support students and graduates in mathematics in the “Step into the Future” competition. We reward student theses describing innovative solutions in the field or new trends and research methods. We accept master or bachelor theses or theses in mathematics written independently and published in international scientific journals.

The theses are evaluated by a seven-person jury, headed by Prof. Paweł Strzelecki, dean of the Faculty of Mathematics, Informatics and Mechanics, University of Warsaw.

> The laureates of the first edition (which was announced in 2016) were presented and given the awards during the grand gala organised in **March 2017**. The first edition was won by Wojciech Górny from the University of Warsaw, who received **PLN 20,000 and the “STEFICIO” statuette**. His thesis was dedicated to the smallest gradient issues (Polish title: “Zagadnienia najmniejszego gradientu”) and written under the supervision of professor Piotr Rybka.

> **In April 2017**, we opened the second edition of the competition.

| “Holiday with Mathematics” on a larger scale

The “Holiday with Mathematics” grant competition aims at providing children with attractive forms of spending holidays in the city, which are combined with learning mathematics. The projects of organisations and libraries that apply for grants should promote mathematics and show its usefulness

in everyday life. By organising the programme, we wanted to give children access to free-of-charge activities, which are not only useful, but also allow them to relax, meet peers with similar interests and, at the same time, learn something new.

The pilot edition of the programme was carried out in Łódź. The second edition announced in May 2017 was open to NGOs and public libraries from six largest cities in Poland.

In 2017, we co-financed the total of **18 projects addressed to children and youngsters** from Gdańsk, Łódź, Kraków, Poznań, Warsaw and Wrocław. The overall pool of funds granted to NGOs and libraries amounted to **PLN 87,000. Over 1,500 children and youngsters took part in various activities.**

*We awarded funding to e.g. the “Holiday acrobatics in mathematics” (“Wakacyjne wygibasy matematyczne”) project created by a public library in Bałuty, Łódź. The project was addressed to 250 children aged 7-12, who took part in workshops dedicated to **robotics**: they learnt the basics of programming, practiced logical thinking, basic mathematical calculations and observation skills. Another project “No maths? No way!” (“Bez matmy ani rusz”) created by Fundacja Dzieci Czytają from Wilanów, Warsaw, made it possible for children to check **how their calculations can be put in practice** and find out how **mathematics can be used in art and architecture** through outdoor activities.*

| Parents consider mathematics the most important subject. Our research

In September 2017, we published the results of the research conducted for us by Kantar MillwardBrown. It clearly shows that **parents consider mathematics the most important subject in the education of their children.** What requires improvement in the eyes of children themselves, however, is the way in which parents support their development in the field.

The purpose of the research was to obtain information on the habits of Polish families as regards learning mathematics together and supporting school-age children in mastering the subject. We wanted to find out which mathematics learning tools are most often selected by parents and children. The research has revealed, for example, that parents lack inspiration to show their children, in an interesting way, how common and useful mathematics is. Addressing the results of the research, mFoundation published its very first book titled “Maths is Everywhere. Family Adventures with Mathematics”.

Research results:



Polish parents help their children study

On average children and parents spend over **1.5 hours a day** on homework

95%

of parents help their children study.

83%

of parents consider it an obligation to help children with their lessons.



Math is the most important

Polish parents have a **positive attitude towards math**. They place more importance on learning it than on learning foreign languages!

61%

place particular importance on math.

40 min

they devote daily to math.



Parents' methods are traditional

94% of parents provide **help in math personally**. They apply traditional methods:

77%

explaining the rules of mathematics

73%

checking homework

70%

solving problems together

41%

using math games or toys

53%

using shared entertainment

Most commonly used tools:

74%

parent's own knowledge

53%

textbooks and exercises



Children would rather learn differently

Children like the most:

46%

board games

43%

math games on the computer

32%

programs and apps for tablets and smartphones

The percentage of children who don't like math grows with age.

5%

of 5–6-year-olds don't like math

22%

of 10–12-year-olds don't like math

| Inspiring mathematics. Our book

At the end of 2017, we published an innovative book titled “**Maths is Everywhere. Family Adventures with Mathematics**”, dedicated to children aged 4-12 and their parents. It is a collection of inspiring ideas, which guide parents through the ways of spending time with their children and opening their minds to mathematical correlations in the real world. “Maths is Everywhere” was written by Maja Krämer in response to the results from the research “Parental support in learning mathematics” carried out for our foundation in 2017. The book addresses dynamically changing educational needs of children and helps parents follow them.

3. Strategy of mBank Group

3.1. Introduction | Our strategy. Mobile Bank

To help. Not to annoy. To delight....anywhere.

Mission of mBank Group

mBank's mission and business strategy until 2020 – **mobile Bank** comes as a direct response to the challenges of contemporary banking.

We live in the era of the client, era of mobility and era of efficiency. That is why we based the **mobile Bank** strategy on **three pillars** which address these trends. They determine mBank's business model – our current and future actions. The pillars are:



Pillar 1. Empathy towards clients means that we always strive to learn clients' behaviours and to meet their needs and preferences. In order to strengthen client relationships based on empathy, we follow four approaches defined in mBank's mission:

> **To help.** We offer clients what they really need and when they need it. We respect their time and thus, construct and simplify our offer so that clients do not have to spend more time than needed to understand it. mBank's application makes it possible to take out a loan within 30 seconds.

> **Not to annoy clients.** We facilitate cooperation with mBank by minimising the effort and potential difficulties in contacting us. This is possible thanks to our communication method – we resolve issues reported by clients during their first contact with mBank, regardless of the communication channel. We make their lives easier.

> **To delight clients** means making them feel special during their cooperation with mBank. They thus become the ambassadors of our services. We also know that employees who are satisfied with mBank's offer are natural and authentic advocates of our brand. Therefore, we promote our services, especially mobile ones, among them as well.

> **Anywhere.** We give our clients control over their finances whenever and wherever they need it.

Pillar 2. Development of mobility. When designing new services, we focus on needs of clients in the era of mobility, that is convenience, usefulness and simplicity. This lets mBank remain the synonym and leader of mobile banking. We bolster our position thanks to continuous development of innovative solutions, some of which stay ahead of clients' preferences:

> **Mobile Hub – everything just one click away.** Mobile Hub is a platform for multi-channel communication with clients. We do our best to ensure that every distribution channel: ATM, branch, online channel, helpline, can be reached by a client **by only one click in the mobile application or smartphone**. We estimate that by 2020 most clients will be initiating interactions with mBank on their smartphones (MobileFirst). Smartphones will, to a larger extent than now, serve as a tool thanks to which clients will be able to smoothly switch between different operations.

> **We are strengthening mobile banking's role as a contact channel.** This means that even more banking services and their functionalities will be available online. We want to make the mobile channel more independent. We will extend its functionalities to include those of ATMs, branches, online channel (PC) and helpline, at the same time simplifying them. The process has already begun: remote channels (Internet / online channels and application) play the key part in contacts with clients supported by branches and phone/video consultants. Our distribution model is ready to face new challenges.

> **Customer engagement: shaping new habits.** We engage our clients through innovative mobile functions. This way, we form and strengthen the habit of using mobile banking among them. Mobile functions also give us new opportunities of reaching clients and presenting our offer.

July 2017 was the first month in mBank's history with the number of logins in the mobile channels exceeding the number of logins in the internet banking platform. The share of clients accessing their bank accounts via mobile devices stood at **55%** at the end of 2017 compared with 37% a year before and 28% in 2015.

Our mobile application

The application made its debut in 2014 and now boasts over 1.3 million users. Every user uses the app **22 times a month** on average. The current 3.0 version offers a number of convenient solutions, such as:

- Android Pay implemented in mBank's application. It enables payments directly via phone. This is the first such solution in Europe.
- Possibility of obtaining the decision on granting a revolving or cash loan within 30 seconds. The solution already generates approx. 18% of cash loan sales.
- The "mLine in a click" ("mLinia na klik") service, which allows clients to connect with mLine consultants directly from the application, without the need to use one's ID and telecode; **20% of mLine calls are those from the application.**
- 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, 30% of travel insurance policies are bought via the application).
- Mobile Authorisation - a service allowing users to authorise transactions made in the transaction system via the mobile application. Instead of typing SMS passwords, all that a client needs to do is to log into the application and accept (or reject) a given transaction with one click.
- The "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 (all a client needs to do is accept the payment).
- Purchase and sale of currencies online.
- Possibility of contacting a consultant via chat.
- A convenient message box via which mBank communicates with its clients.
- Functionalities such as "Spending Rate" and transaction notifications, which ensure better control of household budget.
- Businessman's Task Centre (Centrum Zadań Przedsiębiorcy), which makes it possible to manage accounting tasks by business clients.
- Mobile eBroker (eMakler), which ensures full transactional effectiveness of a brokerage account.
- My goals (Moje cele) with the option of defining goals and option of full management of savings in the application.
- Possibility of ordering and activating the card to the account and obtaining PIN directly in the application.
- Upcoming payments – enhanced with the option of full management of the planned operations.

Our recent app enhancement supports the Great Orchestra of Christmas Charity (WOŚP). It relies on a quick pre-defined transfer and doubling of amounts transferred based on the rule: "transfer PLN 10/20/50/100 and mBank will double it".

mBank's mobile application received several national and international awards in 2017. Awards and distinctions included: the Special Award in the **Mobile Trend Awards 2016** competition and the second

place in the “**Golden Banker 2017**” competition for mobile authorisation; our application was also ranked the second best application in Europe by **Forrester Research**. In addition, mBank’s mobile banking was ranked third in the “**Newsweek's Friendly Bank**” ranking.

Pillar 3. Efficiency. We focus on continuous improvement of our effectiveness in a broad sense according to the **Lean management philosophy**. We are developing our business while maintaining the current employment level. We take every effort to increase the average revenue per client every year. We improve the profitability of assets by flexible balance-sheet management. We bolster financing sources thanks to higher volumes of covered bonds and transactional deposits. We simplify, automate and digitize all the processes – **we want to become a paperless bank**.

| Foundations of the **mobile Bank** strategy

The foundations of our strategy include strong team commitment and mBank’s technology agility, which is of key importance in maintaining its competitive advantage.

Foundation 1. Team commitment. Friendly working environment and possibility of self-development are strong motivators for our employees to be fully dedicated to their work. Our priority is to attract and keep the best and highly motivated specialists and managers.

Foundation 2. Technological advantage. We create top-notch and client-centric IT organisation. It continues to be the source of our competitive advantage.



3.3. Assumptions and implementation of mBank's CSR Strategy

It is mBank's ambition to become one of the leaders of corporate social responsibility among Polish banks.

We consistently strive to achieve this goal. In December 2017, mBank was added to the **RESPECT Index** portfolio of socially responsible companies. It includes companies with the greatest liquidity which, at the same time, undertake socially responsible initiatives concerning the environment, community and employees. The commendation of the Warsaw Stock Exchange confirms the effectiveness of our CSR actions.

| Our CSR Strategy

mBank's key goals for 2016-2020 regarding CSR and sustainable development are as follows:

- Building stable and long-term customer relationships – Goal no. 1: “We want to understand, respect and share the values of our clients. We want to be open. We want to think and feel like they do”.
- Pursuing a socially responsible credit policy – Goal no. 2: “We want to be a responsible lender”.
- Building an exceptional team – Goal no. 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”.
- Limiting the bank's environmental footprint – Goal no. 4: “We want to reduce our environmental footprint”.
- Enhancing the mechanisms of responsible corporate management in the organisation, including supply chain management – Goal no. 5: “We want to improve our management approach”.

GOAL NO. 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.

| How do we achieve this goal?

- > We maintain continuous dialogue with our clients
- > Client's friend. It is clients who create the best solutions
- > We are active in social media 24 hours a day
- > Poles like Messenger, so we are there
- > Tomorrow belongs to women. A series of seminars
- > Face to face with entrepreneurs. Meetings, webinars, blog
- > We survey customer satisfaction. NPS = 20.
- > Our product communication is reliable, clear and transparent
- > How do we simplify agreements? Action Renovation

- > We ensure best quality of contact and customer satisfaction in the complaint process
- > We prevent complaints
- > Book of Quality Standards for Complaint Handling in the Corporate and Investment Banking Area (Księga Standardów Jakości Obsługi Reklamacji w Obszarze Bankowości Korporacyjnej i Inwestycyjnej)
- > We ensure security of clients and their data
- > “Be cautious online” (“Uważni w sieci”) campaign
- > We offer banking without borders
- > Trusted Profile. We facilitate contact with the government
- > BLIK
- “You’re either like everybody else or you were born in ‘99” (“Albo jak wszyscy, albo jesteś ‘99”), “Card Battle” (“Starcie w karcie”). mBank’s offer for Generation Z
- > We are accessible for persons with disabilities
- > One Network (“Jedna Sieć”)

A. We maintain continuous dialogue with our clients

Along with mobility, dialogue with clients is one of the key elements of mBank’s mission: “To help, not to annoy, to delight. Anywhere”. “Client-centricity” is among our five ethical values, and “empathy towards clients” is a pillar of our business strategy until 2020. Consequently, we intentionally place clients in the centre of mBank’s actions and plans.

We know how to build and maintain satisfactory, sustainable relationships based on trust. To do this, it is necessary to be able to enter into actual dialogue with clients. For us, this translates into openness to the clients’ perspective, their opinions, ideas, and problems. Our solutions include forms of institutionalised dialogue, online communication solutions and cyclical meetings with individual client groups.

Client’s friend. It is clients who create the best solutions

The “Client’s friend” project is a response to our clients’ and employees’ willingness to help shape mBank. We collect their ideas, propositions of changes and suggestions regarding mBank’s offer. We analyse each request in order to identify the changes that they wish for the most. We do not reject any request without looking into it.

In 2017, we analysed over 5,000 clients’ ideas concerning cooperation with the bank and more than 11,000 opinions regarding the transactional system.

*Clients inform us how they want their problems to be solved and which tools or products they would like to use. They suggest solutions they find most comfortable. This **often gives rise to excellent, very concrete ideas**, which we then implement. Following the implementation of a solution proposed by a given client or client group, we inform them about it.*

They can bring forward their suggestions using the applications available in the transactional system and via each service channel (mLinia, outlets, mail, chat, video, audio) as well as on social media (Facebook, Twitter). To offer their ideas, they do not have to undergo identification - they do not even have to be our clients at all. Employees can submit their ideas, remarks and expectations in mBank's intranet.

Face to face with entrepreneurs. Meetings, webinars, blog and book

- Each month, employees of the Enterprises Department meet with entrepreneurs as part of the **EYE to EYE ("OKO w OKO") initiative**. During the meetings, we discuss the needs, barriers and challenges that small companies face on a daily basis. This is a chance for us to obtain information on how this client group would like mBank's services and products to be enhanced. As a result of these meetings, the following changes were introduced in 2017:
 - > *in the mobile application, we introduced the Task Centre, i.e. a planner for businessmen with reminders about recurring payments (e.g. ZUS transfers), which is included in the online banking dashboard. Thus, clients obtained access to reminders in the form of push notifications.*
 - > *we launched a service consisting in accepting clients' payments using the Planet Pay terminal. Thanks to the service, consumers may now easily and conveniently accept an agreement on provision of services in the transactional system.*
 - > *we implemented a fully electronic process of applying for mobile as well as traditional portable terminals.*
 - > *on FX mPlatform (mPlatforma Walutowa), we launched a service for exchanging currencies 24/7 for micro-enterprises, retail and Private Banking clients.*
- *In 2017, we started a **company blog**, where we regularly post materials containing information which is useful for new and experienced entrepreneurs. It includes more than 80 articles and infographics. We explain step by step how to establish and run a company.*
- *We organised **webinars**, i.e. online seminars held by experts, dedicated to issues which are important to entrepreneurs. The formula allows them to ask questions live. The last webinar organised in 2017, which concerned changes to the ZUS transfer to be implemented in 2018, was watched by almost **124,000 persons**.*
- ***We published a book** for entrepreneurs entitled "**First business**" ("**Pierwszy biznes**") in cooperation with "My Company Polska" magazine.*

For start-ups: account bundled with an office. Based on information on the needs of entrepreneurs, we have been running a joint project with the co-working network Business Link since 2016. We offer start-ups a bank account on preferential terms, bundled with access to a co-

working office. More than 1,400 entrepreneurs who established quickly developing start-ups and thus need office space have already taken advantage of this offer.

Our solutions for small and medium-sized companies are appreciated. In 2017, mBank's Enterprises Department received, among others, four prizes in the International Business Awards competition, including one for **mAccounting** ("mKsięgowość") and one for the **Task Centre** in the transactional system. mBank was also hailed as **the Best Bank for Companies** by Forbes and awarded in EFMA Accenture Innovation competition for developing a fully online process for establishing a company. Moreover, mBank received the **Trustworthy Brand** ("Marka Godna Zaufania") title.

We survey client satisfaction

We listen to our clients actively. We strive to understand their expectations and difficulties and treat them as a source of information. Thanks to that, we can develop and implement solutions which really address the clients' needs. At mBank, clients' opinions lead to significant systemic or organisational changes, which positively translate into operational results.

Retail Clients' Satisfaction Survey

We actively listen to our retail clients by engaging in the following actions:

- We obtain feedback. We contact clients to ask for their opinions about service quality and the functioning of processes and products on an ongoing basis. This way, we ensure vast feedback.
- We monitor clients' comments and opinions on the internet - in forums and social media other than mBank's website. We then base our remedial action on the obtained information.

Corporate Clients' Satisfaction Survey

We actively listen to corporate clients by engaging in the following actions:

- We carry out an annual comprehensive satisfaction survey among all corporate clients of mBank.
- We regularly check corporate clients' level of satisfaction as regards their cooperation with mLeasing and mFactoring.
- We ask our clients about their satisfaction with processes and products on an ongoing basis.
- We provide customer advisors with clients' feedback directly after the completion of the survey so they can take necessary actions.

mSatysfakcja ("mSatisfaction") NPS = 20 in the retail area and NPS = 34 in the corporate area
At least once a year, we survey our corporate and retail clients' satisfaction. Net Promoter Score (NPS), i.e. a recommendation indicator, is the key indicator which we focus on in satisfaction surveys.

We measure satisfaction among corporate and retail clients in two types of surveys that use this indicator - a relationship-dedicated survey and a transaction-dedicated survey.

In the relationship-dedicated survey, we measure the NPS indicator in relation to the general assessment of the bank. In the case of retail clients, we select the sample so that it reflects the percentage share of individual client segments (mass clients, affluent clients, businesses, young clients). When surveying clients, we ask them how likely they are to recommend mBank (NPS), we request them to assess selected areas and their most recent experience with mBank's services. After the survey, we do not contact the clients anymore. We use information gathered in this way for further analyses and for strategy development.

In 2017, mBank's NPS in the relationship-dedicated survey for the retail area amounted to 20 (against NPS of 12 in 2016). Among corporate clients, NPS stood at 34 (NPS = 30 in 2016).

In the **transactional survey**, we gauge NPS **after specific events in a given area, i.e. in the so-called touchpoints**, such as meetings in outlets, contact with the call centre, completion of the credit application process, closed complaint, experience related to the use of the transactional system or mobile application. In the survey, we also ask clients about their willingness to recommend mBank's services (NPS). In the case of negative assessment, we contact the clients in order to understand the reasons behind their dissatisfaction.

In 2017, we conducted **two transactional surveys** in different touchpoints in the retail banking area.

Within the scope of the mSatisfaction project, we additionally gauge customer satisfaction throughout the entire survey process.

As regards the corporate clients segment, the main objective of the project is to **increase the usefulness of satisfaction surveys**. We want their results to translate even more into remedial actions and measures enhancing our internal processes and products. The project also aims at promoting pro-customer behaviours, i.e. listening to clients, among mBank's employees.

From the point of view of building a business based on customer satisfaction, the key element of the mSatisfaction project in this area is the closed loop process.

"Closed loop". What do we do with the customer satisfaction survey results?

The results of all surveys - the collected opinions, feedback, clients' needs and expectations - help us understand what can be changed and optimised. In the subsequent cycle of the survey we assess whether the obtained results are complete, i.e. whether the information we gathered allows us to understand what requires improvement. The survey ends when we know exactly what and how we should change.

We ensure that the survey results are as comprehensive as possible:

- We not only analyse statistics, but also scrutinise each questionnaire.
- Relationship managers can view the results of the assessment in the application developed by TNS or in the CRM system, which allows them to conduct more detailed interviews and assist in finding a solution to identified problems. Getting back in touch with a client who filled in a survey is referred to as the **closed loop** process.
- If the need arises, we contact corporate clients' employees, e.g. product specialists, who were directly involved in the cooperation with mBank and in a particular issue.

The attention we dedicate to analysing business clients' opinions is perceived positively by them. Therefore, with every year, the number of corporate clients willing to participate in the NPS survey increases.

Regular mystery shopping. *Mystery shopping is cyclically conducted in the outlets, mLine and the Online Expert channel. The auditors assess service quality in face-to-face conversations, acting as potential and actual clients. Sometimes, they also contact the call centre, write e-mails and use the Online Expert service to obtain information about the offer. After every audit, the level of compliance with mBank's customer service standards is assessed. Moreover, when surveying customer satisfaction with our services, we employ less conventional methods, such as **eye tracking** (i.e. we check how clients read agreements) or **ethnography**.*

B. Our product communication is reliable, clear and transparent

Since 2016, under our **Action Renovation** project, we have followed a new approach to formulating agreements. In accordance with the project principles, agreements signed with mBank must be comprehensible to clients as this lays the foundations for our long-standing relationships with them. The qualitative research conducted confirmed that the language used in the agreements was often too difficult, and the specialist banking terminology and rigid document structure discouraged clients from reading agreements carefully.

For this reason, 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 that is of particular interest to them. Hence, our new agreements do not include e.g. typical legal terms.

We have prepared new, simplified versions of 7 bank products.

How do we simplify agreements?

mBank's new agreements have the form of a comprehensible table showing the terms and conditions of products. The agreements still contain necessary information, but we have removed difficult, specialist terms and paragraphs. The content of the new documents is 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 are. 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 which clients may find difficult to understand, e.g. WIBOR or BOK.

*In 2017, our clients who use Trusted Profile and selected company loans received **new product rules**, prepared in line with the assumptions of Action Renovation. Last year, we also simplified the following:*

- > **account agreements,***
- > **content of the letter sent to SME clients together with a debit card,***
- > **the debit card activation instruction.***

The new form of agreements and documents received a very warm welcome from our clients. In surveys, they described the new agreements as transparent or rather transparent and none of the clients assessed them negatively.

C. We ensure best quality of contact and customer satisfaction in the complaint process

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 on preventing reasons behind complaints.

How do we prevent complaints?

- We analyse the potential risk of complaints when developing a new product and ensure that its construction is as user-friendly as possible;
- We analyse reasons behind complaints filed by clients and improve other processes on the basis of the conclusions drawn;
- We minimise the scale of complaints filed in emergency situations;
- We build "client-centric" attitude among the bank's employees.

Once a complaint has been filed, we try to satisfy the most important expectations of our client within the first contact, i.e. solve the problem and provide a clear answer in a friendly manner.

In 2017, we handled more than 50% of all complaints in up to one business day.

We also survey clients' satisfaction with customer service during the complaint process.

We obtain feedback on the complaint process

Upon solving a complaint, we send the respective client a questionnaire form with 5 questions about our process, e.g., how long it took us to handle the problem, whether the reply to the complaint was exhaustive and whether the problem was eliminated effectively. We also ask our clients for their comments and proposals for process optimisations.

The response rate is as much as 10%, which gives us access to over **1,200 client opinions** monthly. Normally, the response rate for e-mail questionnaires is approximately 3%.

Thanks to the monitoring of results and the implementation of optimisation measures, **65% of clients** give positive or even enthusiastic opinions about our bank.

In 2017, we improved more than **2,000 forms and complaint templates** and communications regarding product sales in accordance with mKanon assumptions. As a result, **81% of clients** confirmed that the language we used when responding to complaints was clear. Our employees use an algorithm which automatically verifies the communications prepared by them against mKanon.

A corporate banking client may lodge a complaint by phone, e-mail, in writing or in person at an mBank branch. The mBank **CompanyNet** system makes it possible to file complaints concerning products and services electronically. The complaints directly reach the respective branch which maintains a given client's account. Via mBank CompanyNet, we inform the client that we have received their complaint and we indicate the employee who will handle the matter. Then, we also provide the client with our reply to the complaint using this channel. As in the case of retail clients, satisfaction with the complaint process is surveyed by mBank.

In the first half of 2017, we presented businesses and corporates with a new version of the system, designed in line with the newest user experience standards.

Book of Quality Standards for Complaint Handling in the Corporate and Investment Banking Area

We compiled the book and distributed it among mBank employees in 2017. It provides instructions on how we should communicate with corporate clients in matters regarding complaints. The innovation behind the book consists in replacing the official and complicated banking vocabulary with a simpler, clear and comprehensible language suitable for this client group. The book provides guidance on how to use mCanon to build empathic and equal relationships with corporate clients.

D. We ensure security of clients and their data

mBank did not report any complaints about personal data leaks in 2017.

We regularly update and upgrade the technological solutions that allow us to protect transaction systems, mobile applications, as well as other electronic resources against hostile attacks and unauthorised access. We monitor unusual behaviour, e.g. unusual card transactions, and perform internal checks and audits.

At the same time, we are aware that our clients also play a vital role in keeping them and their data secure. We run social and educational campaigns to make our clients aware of risks and teach them how to bank online safely. Our campaigns:

***“Be cautious online” (“Uważni w sieci”)** - the first social campaign run by a bank dedicated to online security. For the third time, we tried to teach internet users how to stay safe on the Internet. We used radio, TV and Internet advertising. The spots entitled “Be cautious! Be careful on the Internet!” presented the most common Internet threats, such as e-mails infected with viruses and dangerous Wi-Fi networks. We encouraged the audience to visit our dedicated website mBank.pl/uwazniwsieci. It contains valuable advice, including an Online Security Code - a set of rules on how to use the Internet safely. The campaign has been run on a cyclical basis.*

E. We offer banking without borders

Thanks to mobility we are available to everyone and everywhere

We are a true icon of mobility - available to everyone and everywhere. Internet connection is all you need to use mBank. mBank is digital and mobile, which makes it a **social innovator** providing convenient access to banking regardless of where one lives. This model is our response to the risk of social exclusion of people living in less urbanized areas.

Digital banking has increased access to banking services for many people with disabilities. Since February 2014, our clients have been able to use a unique mobile application. We keep upgrading it taking into account the needs of our users, including those with different disabilities. We are aware that **4.8 million people** in Poland need dedicated features to be able to use banking services.

We are continuously improving our services to make them ever more accessible and less time consuming. We develop and implement practical solutions to make the everyday life and business activities of our clients easier. This is why we not only provide everyone with user-friendly and convenient banking experience available from anywhere, but also offer our clients **access to government services** regarding matters that involve both banks and public authorities.

Trusted Profile. We are an access point to government services

In 2017, we enabled our clients to create a **Trusted Profile** in mBank’s Internet banking. A client who activates the Trusted Profile with the help of their bank can access government services without the need to apply for a special login and password.

60 thousand clients created a Trusted Profile within six months from the launch of the service.

In 2017, we worked on using the Trusted Profile to create a fully electronic company set-up process. Since February 2018, our clients have been able to set up a business, open a bank account and create a Trusted Profile using one online application form. The process is fully integrated with the Central

Registration and Information on Business (CEIDG) and the E-PUAP e-government platform providing company owners with a single point of access to the majority of government services without leaving home. Support of a professional accountant is another service that our clients can select when submitting the application form. In addition, we offer intuitive accounting software and PLN 500 to those who start a business.

Applying for 500+ child benefit via mBank's Internet banking

Available from anywhere, the Internet banking platform of mBank was used by thousands of families to apply for the 500+ child benefit in 2016 in a convenient and easy way. The application form can be submitted via mBank's Internet banking upon logging in.

We significantly simplified the form and added interactive sections to it in 2017 to make it easier to complete. We have amended the form to enable visually impaired people to submit it without others' help. mBank sends the applications to the Emp@tia government system, where they are processed. The option to apply for the child benefit via mBank's Internet banking was introduced as a result of an agreement signed by mBank and the Ministry of Family, Labour and Social Policy concerning the "Family 500+" programme.

More than 100 thousand clients have applied for the benefit via mBank's platform since 1 August 2017, i.e. the starting date of the current benefit period.

We launched one-click online payments by BLIK in 2017.

BLIK. One-click online payments

*Users of mBank's mobile application can now make **payments without having to enter a BLIK code**. To use this option, the client has to save the Internet browser or website which they use to make online purchases at the time of making a BLIK payment. When they make a payment again, they will receive a notification on their mobile device asking them to confirm the transaction. Once confirmed, the payment is executed.*

We are the first-choice bank for the young. We help the young to learn the world of banking.

According to a 2017 GFK study, mBank was the first-choice bank for people aged 17-24 thinking of opening a bank account. What makes us so popular with the young are our exceptional solutions that are our response to their needs and way of thinking. Thanks to this, we reported two-digit growth in this client group in 2017. mBank plans to acquire **500 thousand new clients belonging to the Generation Z** (aged 13-24) by 2020.

You're either like everybody else or you were born in '99. mBank's offer for Generation Z

In 2017, we launched a campaign directed at young people who turned 18 in 2017 under the motto: "You're either like everybody else or you were born in '99". We prepared a TV spot containing elements and experiences characteristic of young people born in 1999 (e.g. Tamagotchi, junior high schools, old mobile phones). Everybody was able to personalise the spot on Facebook by adding their own photos. Those who did received a special "Born in 1999" T-shirt.

Young people share one common feature: they have no or little money, but their consumption needs are enormous. Our offer for young clients includes special accounts and discounts on cinema tickets and purchases in online shops as well as a unique payment card with a personal touch. www.albo99.pl

We reached all Facebook profiles of people born in 1999 as part of the campaign. The campaign received **17 thousand** reactions in the social media, all of which were positive; we sent a total of **12 thousand** T-shirts.

Card Battle. Young people sent us 60 thousand personalised card designs

People aged 18-24 who open an account with mBank get a PLN 100 bonus. In the “Card Battle” (“Starcie w karcie”) competition, they could win an additional PLN 500 and take part in a video of a popular youtuber. All they needed to do was to design a personalised payment card. Almost 90% of young people who open an “eKonto m” select a debit card with their own photo. We cooperated with the YouTube personalities Ajgor and Blowek. In a competition called “Card Battle” they promoted payment cards among young people and asked them to design personalised cards and join Ajgor’s or Blowek’s teams. More people joined Blowek’s team. 12 cards designed by the winners were included in mBank’s card template gallery.

As part of the “Card Battle”:

- > we reached **92%** of people aged 18-24 in all social media channels;
- > we received **60 thousand card designs** from nearly 20 thousand clients;
- > the competition got **180 thousand reactions** in the social media.

We are accessible to persons with disabilities

We have changed our branches and the way we communicate with our clients to suit the needs of people with disabilities.

Since 2016, our clients have been able to choose the form of contact that they find the most convenient, depending on the type of their disability. They can submit instructions via Internet banking, mLine (automated service and consultants available round the clock), in branches or by using the services of our online experts. Online experts are available on chat and via voice and video calls, including communication in **sign language**.

Clients with hearing impairment may use our Internet banking to have an online video chat with a bank expert who knows the Polish sign language or use translation services available in every outlet. The communication is supported by an online translator from the Polish Association of the Deaf. The initiative is the most comprehensive solution of this kind on the financial services market. Apart from the sign language, our consultants know the characteristics of the deaf community.

76% of our outlets can be accessed by persons in wheelchairs. Bank tellers do not serve clients in wheelchairs at the counter, but at a table low enough to allow the clients to talk comfortably to our employees.

Visually impaired people can use mBank's Internet banking. The most important sections were designed in accordance with the Web Content Accessibility Guidelines (WCAG). Clients who wish to use the service must install dedicated software, e.g. NVDA. With the use of a synthetic voice, the software tells the user what is displayed on the screen. In 2017, we were working on optimising the mobile application to adjust it to the type of screens used by visually impaired people.

Clients who are not able to sign documents may place their fingerprint on written instructions, agreements and applications in the presence of an mBank employee. They can also send documents by post instead of visiting our branch. However, such documents must be certified by a notary. Every client can authorise a person they trust to access their bank account.

One Network. Branches available to everyone, everywhere.

We have been reorganising our branch network in cities across Poland since 2012. We have been moving our retail outlets to places that are most frequently visited by our clients. Some of our retail outlets, operating in the form of the so-called light branches, are now located in shopping malls with the highest footfall. Our new branches stand out for their modern design, digital sources of information and the possibility of having a video chat with mBank's online experts and sign language translators. We are also merging our retail and corporate outlets, transforming them into advisory centres located in modern office buildings offering access to people with disabilities.

Our network is complemented by approx. 120 mKiosks operated by mFinanse. They are located in shopping malls. In addition, mFinanse operates approx. 45 outlets located in the most important streets and office districts. People who work there meet with clients also outside mFinanse branches.

We train our employees in how they should communicate and work with people with disabilities:

- > **100% of people employed** in our branches, contact centre, and financial services centres completed an e-learning course making them sensitive to the needs of people with disabilities;
- > We set up **a team of Contact Centre advisors** who are responsible for empathic service of people with disabilities;
- > More than **90 employees** participated in workshops organised by Fundacja Integracja (Integration Foundation), where they had direct contact with a blind person and a guide dog.

GOAL 2: WE WANT TO BE A RESPONSIBLE LENDER

| How do we achieve this goal?

- > We communicate our credit decisions in a constructive way.
- > The ABC of Loans. We are ethical when informing clients about the terms and conditions of loans.
- > We follow the "Good Practices on Consumer Loan Advertising Standards" ("Dobre praktyki w zakresie standardów reklamowania kredytu konsumenckiego").
- > We do not finance irresponsible business activities.

We want our clients to make informed decisions, especially when they concern cash loans. This is why we created and implemented the “Responsible Lending” (“Odpowiedzialne kredytowanie”) project that involved the following three key changes:

A. We communicate our credit decisions in a constructive way

The change relates to how we inform our clients about our refusal to grant a loan. Before the change, such notifications were laconic. We replaced them with open and precise information stating the reasons behind our credit decisions in 2015. We tell clients what they can do to pass the next creditworthiness assessment (e.g. cancel a credit card they do not use or clarify their credit history with the Credit Information Bureau) and who they should contact. We promote clear and friendly communication throughout the credit process, e.g. regarding individual process stages.

B. The ABC of Loans. We are ethical when informing clients about the terms and conditions of loans.

We have launched a website dedicated to responsible lending. It features a credit capacity calculator that is highly popular with our potential and existing clients. The website navigates clients through the decision-making process and educates them on loan types, personal credit history in the Credit Information Bureau, different scenarios depending on whether the bank’s decision is positive or negative, things to pay attention to before taking out a loan, loan insurance etc.

We follow the “Good Practices on Consumer Loan Advertising Standards.” The practices are a set of recommendations for financial sector entities on how to prepare advertising communication. They provide for a uniform set of information that should be contained in advertising materials, making it easier for clients to compare products. The recommendations focus on three aspects: the manner of presenting the legal guidance, general guidelines for creating advertising materials and the specification of what a loan advertisement should look like depending on the information carrier, in order to be understandable and transparent to recipients. The recommendations have been compiled by the Polish Bank Association (Związek Banków Polskich), the Conference of Financial Enterprises (Konferencja Przedsiębiorstw Finansowych) and the Association of Lenders (Związek Firm Pożyczkowych).

Adoption of the “Good Practices” resulted in the implementation of the rules and procedure for the introduction of new products in 2017. The procedure provides guidance on how to initiate the introduction of new products, conduct risk analyses, carry out internal consultations, prepare internal regulations and roll out new products at mBank.

The advertising materials displayed in branches are analysed on an ongoing basis by the Internal Audit Department to ensure that they are up-to-date.

C. We do not finance irresponsible business activities.

We have been a signatory to the [Ten Principles of UN Global Compact](#) since 2015. We intentionally limited our relationships with companies that break those principles. We also 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 companies that conduct business activity:

- using child labour or forced labour or otherwise resort to gross violation of human rights;
- involving economic exploitation of areas of great natural interest;
- that threatens world heritage sites.

The restrictions apply to the credit process and bank account opening. They entered into force in 2016 and refer to new clients and new financing provided to existing clients.

We try to eliminate legal risk when financing investments - we check whether investment projects have all required permissions and decisions of relevant 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.

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.

| How do we achieve this goal?

- > We motivate our team.
- > We have a comprehensive approach to remuneration policy.
- > We offer an employee benefits fund and medical care.
- > We offer development opportunities:
 - > Development Days
 - > Participation in various development activities and programmes
 - > Access to mobile development tools – LinkedIn Learning, etc.
 - > Employee appraisal
- > We try to ensure work-life balance. mBank clubs
- > We offer development opportunities to our potential employees. A dedicated programme at the University of Łódź, Young Talents Development Programme, Hack'n'go.
- > We create safe and comfortable work environment.

- > We promote the culture of openness oriented toward knowledge sharing.
- > Our people make the difference. We appreciate engagement and openness of innovators.
- > We encourage our people to share their knowledge.

- > We respect differences and do not accept discrimination.

- > We encourage employees to take part in volunteering programmes.
- > “Let’s do something good together” (“Zróbmy razem coś dobrego”) and “Let’s Run Together for Others” (“Biegnijmy razem dla innych”) programmes.

We offer employees fair terms and conditions of employment, in every aspect.

Employment and employee management at mBank are governed by the “Work Rules”, “Employee Remuneration Rules” and “Rules on Awarding Employee Bonuses”. They are supplemented by procedures regarding employee selection and recruitment, development activities, and employee appraisal. Policies and procedures are adopted by mBank and then by its subsidiaries.

A. How do we motivate our team?

The incentive system of mBank is based on the remuneration policy and intangible elements, including career opportunities. The incentive system plays a vital role in developing our corporate culture and builds the competitive advantage of mBank as it helps us to acquire and retain the best employees.

We have a comprehensive approach to remuneration policy

Remuneration policy reflects an approach based on overall remuneration, which consists of basic remuneration, commissions, annual bonuses and performance-related bonuses. The amount of the variable part of remuneration depends on performance of the entire company and individual employees. In particular subsidiaries, we offer our employees a very similar range of employee benefits, e.g. we co-finance access to private medical care and to sports facilities. Additionally, employees have the possibility of joining group life insurance.

In 2017, **incentive programmes** were implemented at mBank Group both for the management board members and key managers of mBank Group. More information on incentive programmes in section 5.1.8 Composition, powers and procedures of the Management Board and the Supervisory Board.

Employee benefits fund and medical care

The employee benefits fund is available to those employed for a trial period, for a fixed term, for a fixed term of substitution as well as to trainees and interns. The employee benefits fund encompasses the following:

- It supports current employees and those who have retired, for whom mBank was the last employer. Such support is available to persons in a difficult life situation (e.g. sickness; it applies also to their immediate family).
- In justified cases, we finance periodic medical care (medical pre-paid package) for mBank's retired employees.
- We grant home repair loans, holiday benefits and finance sports and recreation as well as cultural and educational activities.

All permanent employees are entitled to use the benefits fund. Any benefits under the fund are paid in the amount proportionate to the working time. Additionally, all permanent employees are entitled to private medical care – employees employed on less than 0.5 FTE basis are offered a package with a limited range of services.

B. Development opportunities

We wish to encourage our employees to develop their professional competences and those not directly related to work. Therefore, we provide our employees with internal and external training sessions and programmes, which develop their skills and competences and extend their expertise. We also support social engagement of our people and help them pursue their passions.

- It is important to us that induction of our new employees takes place in a friendly atmosphere. New employees undergo induction training, during which they may familiarise themselves with the bank's procedures, history and the way of its operation. Before entering the premises of our company, a new employee is provided with essential information about mBank, guidelines on how to prepare for the first day of work and s/he may take a 3D virtual tour of mBank's head offices in Warsaw and Łódź. Before the first day of work of a new employee, his/her manager is informed about this fact, so that the entire team may get prepared to welcome their new team member. We conduct various training sessions that help optimise work of mBank's teams and cooperation of their members. We organise off-site training sessions to facilitate communication and build organisational culture.
- At the same time, employees are sent to specialist training, courses and certified exams (e.g. ACCA, CFA, CIA, brokerage exams), postgraduate studies, MBA studies, training for legal advisers.
- Our employees are provided with coaching and mentoring.
- We offer internal development and recruitment consultations.
- We share our knowledge with the use of professional tools.

Development Days

*The objective of the Development Days is to provide employees with inspiration for self-development. During an event which took place in October 2017 we offered its participants more than 60 different activities, including meetings, consultations, webinars, photo sessions and games, which were held at the same time in Warsaw and Łódź. More than **750 employees** took part in all activities. Additionally, **1 thousand employees** used mobile development tools, such as LinkedIn learning, HRBP, eTutor, COFFEE NOIR, Legimi and Nasbi.*

Employee appraisal

mBank Group has a planning and employee appraisal system, being the part of MbO (Management by Objectives). **Management by Objectives assumes that employee motivation, initiative and activity constitute the most valuable assets of the company, which have a decisive impact on the company's performance.** We are aware that employees are more engaged when they work together. Therefore, managers and employees jointly determine and negotiate the objectives and indicators of desired results as well as jointly assess their achievement. Taking into account the achievement of the above-mentioned results, an employee is assessed during a face-to-face conversation with his/her manager taking place every year. The employee receives feedback from the manager about the effects of his/her work and the manner of performing tasks. The manager appreciates the employee's strengths and identifies areas that require development. The appraisal includes also employees' behaviours and attitudes, which are defined in the Model of Values and Behaviours of mBank Group.

Work-life balance is important to us

Our employees are offered mobile and flexible type of work, which is ensured thanks to the following solutions:

- Flexible working hours. mBank's employees may start their work at a predefined (by them) time, between 7 am and 9 am.
- Lunch break. Employees may take a break from work, not counted as working time, to have lunch or run personal errands.
- Flexible working time systems. We offer our employees the possibility of adjusting their rhythm of work to the number of their tasks and their needs by ensuring them a balanced working time system. Our employees may work longer when they have to deal with a greater number of tasks and leave work earlier the other day (or take a day off).
- Extra days off for child care. Working parents may take two extra days off.
- Telework. Employees may regularly work from home on two selected days of a week.
- Home office. In 2017, we provided our employees with the possibility of working remotely, i.e. with home-office. At the time being, they may work outside the office five days a month.

mBank Clubs. We encourage our staff to pursue their passions and interests, which enables them to strike a balance between their professional and private life. Therefore, almost 20 years ago, mBank

launched the activity of mBank Clubs. This initiative has been continuously developed and brings together people interested in skiing, tennis, triathlon, volleyball, cooking, board games, fishing, etc. The clubs' members are ever more willing to get involved in charity work, e.g. take part in charity runs.

We offer development opportunities to our potential employees

Banking Talents 2017

The Banking Talents Campaign constitutes a part of the Young Talents Development Programme. It follows a multi-channel model, using both offline and online means of communication. The campaign promotes our rotational traineeship and internship during career and talent days at various universities in Poland. In 2017, the campaign's slogan was: "Discover mBank's Colours in Yourself" ("Odkryj w sobie kolory mBanku"), and its effectiveness has been confirmed by 1,300 CVs filed with the bank.

*Each participant of the **Young Talents Development Programme** is assigned a mentor and an HR partner. Our trainees work on a full-time basis in various areas of the company for as long as from 6 to 12 months. mBank's internships, in turn, account for 0.5 to 1 FTE, and take place in one area only and last from 3-12 months. Trainees and interns are hired **on the basis of an employment contract**. They are entitled to employee benefits. In 2017, we hired **31 trainees and 97 interns**, and after the programme, we employed 18 trainees and 35 inters on various positions in mBank Group.*

Our hackathon We are looking for programming enthusiasts

mBank is one of the largest software houses in Poland. We decided to exploit our potential by organising charitable hackathon Hack'n'go. It had a form of a weekend-long marathon for software developers, who developed applications for many foundations and associations. This event allowed mBank to find programming enthusiasts and make them familiar with our brand.

We create safe and comfortable work environment

We believe that the provision of development opportunities to our employees is tantamount to creating safe and comfortable work environment. 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 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.

We have equipped 10 mBank's branches with defibrillators. In addition, we have conducted first aid training.

C. We promote culture of openness oriented toward knowledge sharing

The culture of openness arises from our values, such as engagement, simplifying and client-centricity. It is enhanced by internal programmes addressed to our employees. mBank's employees share their knowledge with students of the University of Lodz.

We appreciate engagement and openness of innovators

We have also been running the **"Our People Make the Difference"** ("Wyróżniają Nas Ludzie") programme for a long time. In this programme, we appreciate people who stand out because of:

- professionalism of their operations,
- collaborative attitude,
- open communication.

The programme allows us to recognise and promote employees who subscribe to mBank's values through their action and attitudes and are ahead of time because of the way they think. Additionally, these employees show extraordinary commitment, exceeding their basic scope of duties, and contribute to implementing innovative solutions. **The "Our People Make the Difference" programme has been specifically designed to notice and find such people among 6,000 mBank's employees and to appreciate them.** The programme is addressed to employees from Poland, the Czech Republic and Slovakia.

Employees are nominated for the programme once a year. Every employee may nominate an outstanding employee in seven individual and team categories, such as: Manager, Debutant, Support Team, Innovation, Product, Transaction And Top Employee. Then all employees may vote for the nominated persons. Candidates are evaluated also by the programme commission, which is composed of the representatives of all mBank's areas and winners of the previous programme editions.

Successful employees are provided with special development opportunities, tailored for every single edition. Winners of the 2017 programme edition took part in a training-and-incentive trip to India. The trip's main topic was **empathy** and the development of skills related to it.

We encourage our people to share their knowledge

An interesting element of the engagement and satisfaction survey is the possibility for employees of communicating their ideas on how to improve work or providing 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" ("Dzielenie się wiedzą").

D. We respect differences and do not tolerate discrimination

We want to provide our employees with a friendly and discrimination free workplace.

The Group's areas for improvement are as follows:

- Promoting paternity leaves among our employees. This idea reinforces equality between women and men in working environment and may potentially mitigate pay differences between them, as a contribution to solving this significant social problem. At the end of 2017, only 2 men took paternity leave out of 347 employees.
- Increasing women's participation in management and supervisory boards.
- Further mitigation of the gender pay gap. The gender pay gap in mBank Group subsidiaries is narrowing every year. mBank S.A, mLeasing and mFinanse offer their female and male employees the most equal remuneration.

E. We encourage employees to take part in our volunteering programmes

*The employee volunteering programme "Let's Do Something Good Together" ("Zróbmy razem coś dobrego") has been organised in a form of a grant competition since 2009. Employees can submit their projects of voluntary activities three times a year and get a grant in the amount of up to PLN 2.5 thousand. So far, mBank has financed **over 100 initiatives**, including 4 in 2017, in which 19 persons volunteered.*

"Let's Run Together for Others"

We also organise the "Let's Run Together for Others" ("Biegnijmy razem dla innych") volunteer sports programme. Members of mBank's jogging club take part in official jogging competitions and marathons and mFoundation converts each kilometre they have run into zlotys (1 kilometre = 1 zloty). This sum of money is transferred to a charitable cause indicated by the runners. In 2017, volunteers transferred funds obtained under the programme in favour of the Great Orchestra of Christmas Charity (Wielka Orkiestra Świątecznej Pomocy).

GOAL 4: WE WANT TO REDUCE OUR ENVIRONMENTAL FOOTPRINT

| How do we achieve this goal?

- > Our direct and indirect impact
- > We reduce consumption of non-renewable fossil fuels
- > Przystanek mBank

- > We reduce consumption of paper and office supplies
- > We have saved 7 million pages of printouts
- > ELO - the Electronic Calendar of Attendances

> We reduce electricity consumption

The direct environmental impact of mBank Group stems mainly from:

- the operation of our 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.
- work-related rides. mBank's subsidiaries are headquartered in Warsaw and Łódź. For a great number of our employees it is nothing unusual to travel every day between these two cities. What is more, employees have to travel to clients and take business trips which translates into fuel consumption by cars in our fleet.
- IT infrastructure. Its functioning, including the operation of cooling systems, consumes electricity.

However, our **indirect impact** has far greater importance. This involves, for example, funding for industrial investments. Whether a given venture will be implemented and what technology it will employ depends indirectly on mBank, acting as a lender for the project. We do not render financial services to companies whose operations involve economic exploitation of areas of great natural interest, areas under protection, which violate environmental regulations.

A. We reduce consumption of non-renewable fossil fuels

In order to reduce environmental footprint of our car fleet, we have introduced solutions, which include:

- refuelling limits per employee in a given month (limits on amount spent or fuel used)
- blocking the possibility of refuelling at weekends, holidays and holiday leaves,
- limiting the possibility of refuelling to selected petrol stations,
- installing GPS devices monitoring the use of vehicles and fuel in the company vehicles,
- in the case of pool cars, i.e. cars used by more than one employee, a dedicated smartphone application has been introduced for driver authorisation, which facilitates the settlement of fuel costs and makes it more transparent.
- We promote hybrid vehicles. In order to incentivise employees to opt for more eco-friendly cars, additional budget for car equipment is provided to those who choose hybrid vehicles.

In 2017, we finalised the construction of **Przystanek mBank** in Łódź, which is located just a 5-minute walk from the Łódź Fabryczna railway station. Therefore, our employees do not use company vehicles so frequently as before when they take business trips to Łódź and on the route Warsaw/Łódź.

Additionally, we have started working on placing charging points for electric cars on the premises of Przystanek mBank.

B. We reduce consumption of paper and office supplies

mBank reduces its consumption of paper and office supplies mainly by the limitation of the number of printouts. It is possible as we eliminate hard copy documents from subsequent processes.

***How did we manage to save 7 million pages of printouts?** Since 2017, we have been sending documents related to the bank account opening process by e-mail. Thus, we have saved as many as 7 million pages of printouts in one year. During the last year we conducted a campaign among our employees, which promoted the idea of mailing clients rules, debit card authorisation limits and information sheets for depositors.*

Other solutions, which eliminate hardcopy confirmations from internal processes, include e.g. electronic acceptance of tangible assets in the My Zone application and using electronic inventory, wherever this is possible. We have implemented electronic declarations of employees, electronic settlement of business trips and electronic circulation of documents. In the entire company, employees are obliged to print double-sided in black and white. There is also monitoring of printouts. Thanks to this system, the consumption of paper, toners and wear of tools have significantly decreased.

ELO - the Electronic Calendar of Attendance

With a view to reducing paper consumption, in 2017, we introduced the Electronic Calendar of Attendance (ELO). Due to the "Electronic Calendar of Attendance" application, it is much quicker and easier to confirm the attendance or report absence. It has replaced attendance lists in paper form and it is available to all employees via company mobile phones and in the intranet.

*Additionally, in 2017, we introduced the **Virtual Card Application**, which makes it possible to use a company mobile phone as an access card. This allows us to reduce plastic consumption.*

C. We reduce electricity consumption

*In 2017, we completed the construction of **Przystanek mBank** in Łódź. It is a state-of-the-art, smart office building, which, thanks to its self-regulation, effectively manages electricity and reduces its consumption. It is possible due to the following solutions:*

- **Building Management System (BMS)** that controls and monitors the building's mechanical and electrical equipment such as lighting, ventilation and air conditioning. BMS monitors electricity consumption and its saving on a regular basis, creating, at the same time, optimal working conditions.
- **LED light bulbs** installed in the entire building, instead of traditional incandescent lights and fluorescent lamps. This way we save 65 MWh of power per year.

- **Modern solutions in air-conditioning and ventilation** that reduce electricity consumption, such as:
 - > **Free cooling.** Under favourable atmospheric conditions, this method makes it possible to switch off refrigeration units and utilises the cool outdoor air as a free cooling source.
 - > **Automated control** allows the building to produce as much cold or warm air as needed in a given moment.
 - > **Smooth control of ventilation centres** via inverters, which ensures that the amount of air is optimally adjusted to employees' needs.
 - > **CO2 sensors** that detect how many people are present in specific areas of the building and regulate the airstream directed there. When the system detects a low number of people in a given room, the effectiveness of ventilation centers decreases. The airstream increases when the number of people is growing.

Additionally, over many years the entire company has taken numerous steps which reduce electric energy consumption, e.g.:

- We observe the following rules:
 - > we switch off the lights and devices that are not in use,
 - > we use energy-efficient light sources, energy-efficient devices and timer switches.
- We carry out communication activities that make our employees aware of the following facts:
 - > a computer with a monitor left in rest mode overnight draw even 10 watts per hour;
 - > a laptop in rest mode consumes the same amount of energy as when used for working; It also refers to printers, shredders, phones or coffee machines.

We estimate that our company may save even **up to 20%** of its costs when employees leave their devices switched off.

- Our aim is to sign point of sale lease agreements under which the energy costs are calculated based on electricity meters and not as a lump sum.

GOAL 5: WE WANT TO IMPROVE OUR MANAGEMENT APPROACH

| How do we achieve this goal?

- > We coordinate our CRS activities
- > We have a responsible supply chain
- > We prevent unethical behaviour
- > We report on our corporate responsibility on a regular basis

A. We coordinate our CRS 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. The CSR specialist is also responsible for cooperation with managers of individual functional areas related to social responsibility.

B. We have a responsible supply chain

Suppliers invited to procurement proceedings organised by the Procurement and Administration Department are requested to submit relevant statements and act in line with the principles of social and environmental responsibility.

External supplies for the group subsidiaries include the cooperation with:

- electricity and media providers,
- real estate agencies,
- providers of specialist services, mainly IT services,
- companies supporting sales and customer service,
- operators of ATMs, credit and payment cards,
- suppliers of services related to the maintenance and security of facilities.

As regards the majority of areas and categories, purchases are made at the central level, i.e. by mBank on behalf of the entire group. All the suppliers who participate in processes launched with the use of the procurement platform are verified against ethical, social and environmental requirements in the same way regardless of the fact which subsidiary will use their services. A potential supplier/bidder has to accept our **“Principles of Participation in the Procurement Process”**. The said principles oblige potential suppliers/bidders to do, i.a., the following:

- 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), the Rio Declaration on Environment and Development, Agenda 21, as well as the United Nations Convention against Corruption;
- 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;
- inform mBank about the procedures they have implemented to protect human rights, ensure compliance with labour standards, counteract corruption and protect the environment, or to immediately repeal these procedures, whenever so requested.

C. Prevention of unethical behaviour

Effective procedures and tools as well as awareness of our employees - these are the keys to prevent unethical behaviours. We effectively detect violations of the rules and take appropriate measures.

Our approach to the issue at mBank Group is governed by:

- *Anti-Corruption Policy,*
- *Gift Policy,*
- *Anti-Fraud Policy,*
- *Policy of Managing Conflicts of Interest.*

The Compliance Department is responsible for observance of principles set forth in the above documents at mBank. The unit is also responsible for coordinating work of compliance units in the group subsidiaries.

Owing to the specificity of brokerage operations, mBank's Brokerage Bureau applies separate provisions and additional procedures. Moreover, the unit has its own supervision. 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. We distinguish, for example, electronic banking fraud, credit fraud, theft, money laundering, unauthorised access or industrial espionage.

Selected employees are trained in prevention and early detection of frauds. Each employee who suspects that fraud has taken or may take place is obliged to inform their supervisor about it. Another option is to use electronic system that guarantees anonymity. Employees who (in good faith) report suspected fraud are protected against any acts of retaliation.

Rules for giving and accepting gifts are very precise; furthermore, in 2017 these rules were additionally tightened up. It is forbidden to accept any gifts from the bank's counterparties, except for small ones, e.g. Christmas gifts, up to the amount of PLN 250. Similar rules apply to gifts given by our employees. Accepting or giving a gift above this value requires relevant consent and is documented in the dedicated gift register. We strictly enforce a total ban on offering benefits to representatives of public institutions, employees of the public sector and local governments, politicians, etc.

All the organisational units and job positions are systematically audited in terms of **corruption** risk. There are several dozen checks carried out annually, both on a planned and ad hoc basis. We also guarantee all employees and cooperating entities support in counteracting corruption, also in the form of training. All identified corruption incidents or corruption attempts are subject to registration and punishment. **In 2017, the Compliance Department did not identify any incidents bearing the hallmarks of corruption.**

The adopted solutions assure that neither mBank nor its employees or other persons linked to mBank benefit or avoid losses at the expense of the interests of clients. In the case of a conflict of interest, 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.

The compliance units are informed of any identified or potential conflicts of interests. They analyse reported conflicts of interest and issue recommendations on the procedure to be applied in a given case.

D. We report on our corporate responsibility on a regular basis

This report has been mBank Group's second integrated report and has for the second time covered the entire capital group. It has been our third non-financial report under the mBank brand.

The publication of the consolidated integrated report is a part of implementation of our "Strategy for Corporate Sustainability and Responsibility of mBank S.A."

4. Business activity and financial results

4.1. Introduction

4.1.1. Summary of the year

Key financial achievements of mBank Group in 2017

Total income (financial capital)

In 2017, mBank generated record high total income at PLN 4,454 million, which represents an increase by 3.7%, without excluding the 2016 one-off events. The result was achieved due to organic growth of the business and development of the offer.

Net interest income and Net interest margin (financial capital)

Net interest income increased by 10.7% to PLN 3,136 million, while net interest margin improved by 18 bps and stood at 2.48%. The profitability of the loan portfolio is gradually growing – the share of high margin products increases, while the share of mortgage loans in foreign currencies decreases. Interest expenses arising from deposits were significantly reduced, while term deposits were converted into current accounts.

Net fee and commission income (financial capital)

Net fee and commission income increased by 9.5% to PLN 992 million thanks to business expansion. Commission income benefited from strong acquisition, growing customer activity, higher number and volume of transactions, the acceleration in lending and a better situation on the capital markets.

Costs and efficiency (financial capital, organizational capital)

Total overhead costs (including amortisation) of mBank Group stood at PLN 2,043 million, which represents a 4.1% increase in comparison with 2016. In turn, the Bank's efficiency slightly decreased in 2017 - its cost to income ratio stood at 45.9%, compared to 45.7% in 2016. The increase was driven by i.a. higher contributions to the Bank Guarantee Fund. mBank also continued its investments in future growth by running numerous strategic projects.

Net impairment losses on loans and advances (financial capital)

Costs of risk stood at 61 bps, compared with 46 bps in 2016, when a major release of loan loss provisions took place. Prudent risk management is reflected in the NPL ratio at 5.2%.

Profitability (financial capital)

Net profit attributable to the owners of mBank stood at PLN 1,092 million.

At the end of 2017, **ROE net**, i.e. return on equity, reached 8.3%, down by 2.6 p.p. due to the banking tax of PLN 375 million.

ROA net, i.e. return on assets, reached 0.83% in 2017.

LOANS (financial capital)

Gross loans and advances reached PLN 87.4 billion. Excluding the FX effect, the gross portfolio grew by 7.4% due to acceleration in the corporate segment and record-high sale of non-mortgage loans, which increased by 16% year on year and stood at PLN 7.1 billion. Sales of mortgage loans increased by 19.1% to PLN 3.4 billion.

Moreover, the volume of mortgage loans in CHF decreased by CHF 376 million, i.e. 8% in 2017.

DEPOSITS (financial capital)

At the end of 2017 the deposit base was stable at PLN 91.5 billion. Outflow from term deposits was compensated by the dynamic inflow of funds into current and saving accounts (+15.0% year on year).

Capital positioning (financial capital)

mBank recorded high level of capital ratios. The Common Equity Tier 1 capital ratio at 18.3% and the Total Capital Ratio at 21.0% are significantly above the levels recommended by the PFSA (13.67% and 17.55% respectively).

Moreover, the Polish Financial Supervision Authority (PFSA) increased the other systemically important institution buffer for mBank up to 0.75%. Moreover, an additional capital requirement related to the foreign currency loans was revised upwards.

Strategic initiatives (intellectual capital)

Start of mAccelerator. mBank launched the first and the largest fund in the region of Central and Eastern Europe, which invests in fintech start-ups. At the end of 2017, our portfolio consists of 2 companies: Cyber Rescue (cybersecurity solution based on passive biometrics) and Digital Teammates (pure-play Robotic Process Automation).

Strengthening the position of mBank as a mobile and transactional bank through implementation of projects increasing innovations:

- Enhanced mobile application for retail clients, enriched with a number of new functionalities, including contactless Android Pay payments for holders of Visa and MasterCard cards, a spending tracker or mobile authorization in branches.

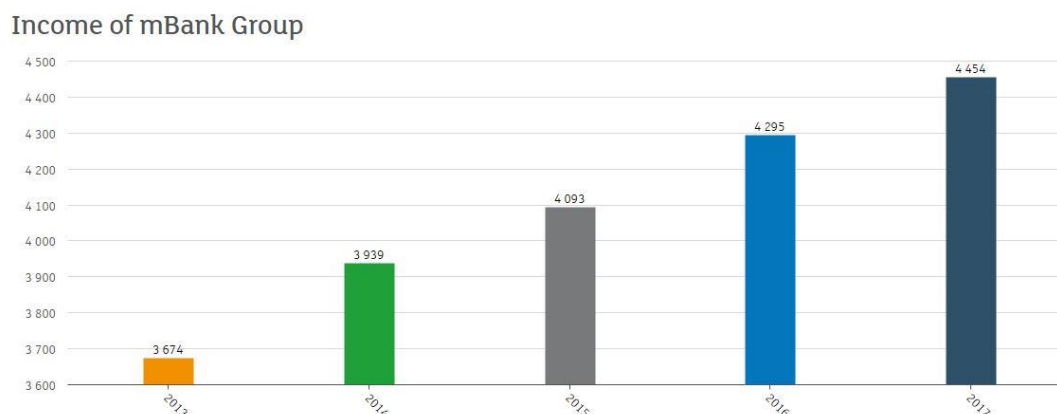
- CompanyNet, a new version of the transactional system for corporations – easier, more intuitive and more adjustable to the individual needs of the user.

mBox project - within the scope of the project, mBank sells its retail banking solutions abroad. They include access to its electronic platforms (the internet platform and the mobile application) as well as product and marketing know-how. In 2017, mBank closed its first transaction, i.e. the sale of mBank's

license for mobile and on-line transactional platform to La Bank Postale, owned by the French postal company La Poste.

4.1.2. Key financial and operational data

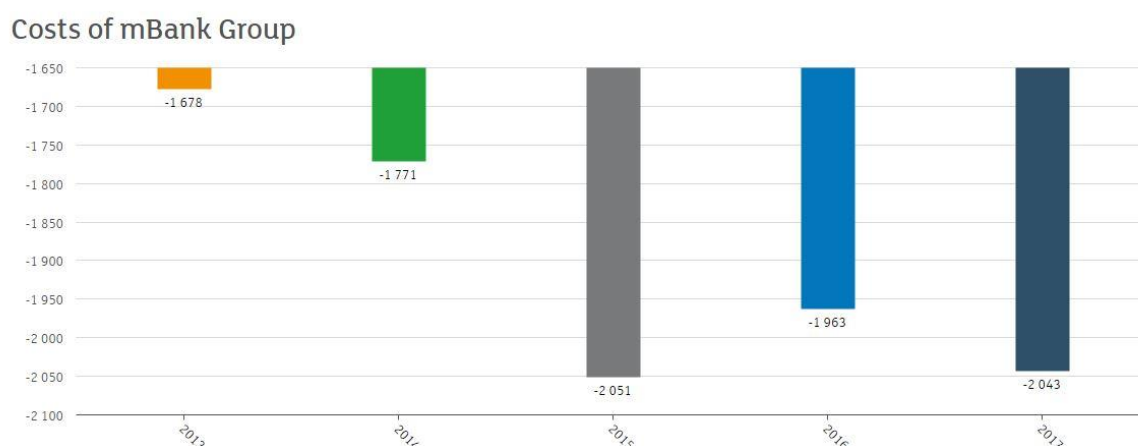
Income of mBank Group



In 2017, the total income of mBank Group was at historically high level of PLN 4,453.6 million. In comparison to the previous year, the income increased by 3.7%. In turn, excluding the impact of one-off transaction in 2016, i.e. the settlement of the Visa Europe takeover transaction by Visa Inc., the increase would be 10.0%.

The growth resulted mainly from record-high core income, which consists of net interest income and net fee and commission income. Net interest income grew by 10.7% year on year and reached PLN 3,135.7 million, while net fee and commission income increased by 9.5% to PLN 992.2 million.

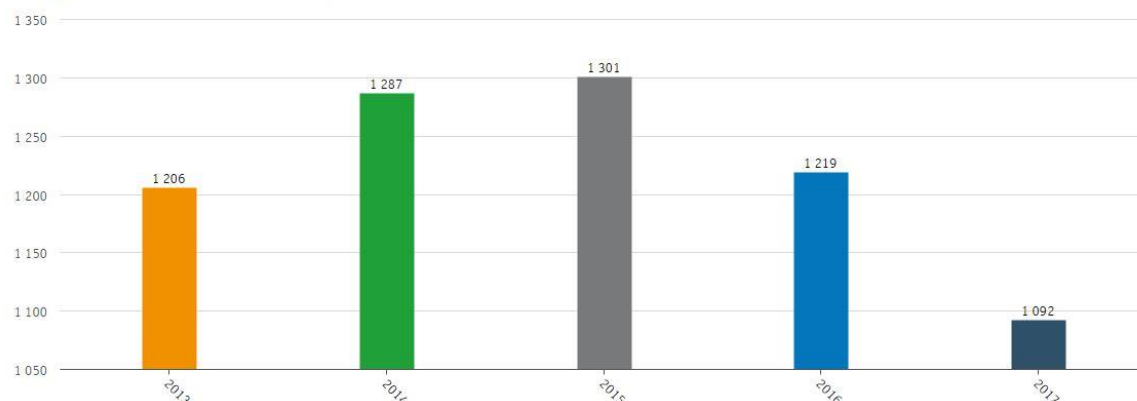
Costs of mBank Group



In 2017, total overhead costs (including amortisation) of mBank Group grew by 4.1% and stood at PLN 2,043.2 million. The increase in costs resulted from investments in future growth, slight increase in remuneration costs and higher contribution to the Bank Guarantee Fund.

Net profit of mBank Group

Net profit of mBank Group

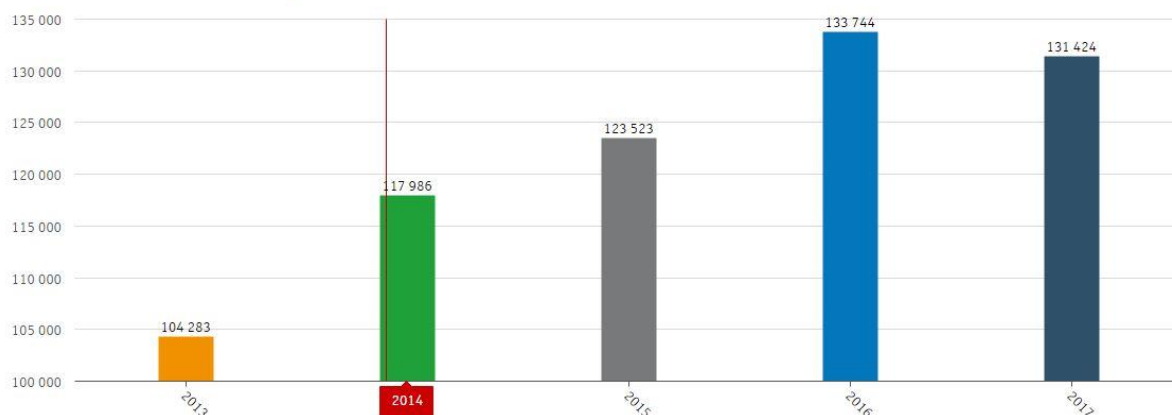


The Group generated net profit attributable to the owners of mBank of PLN 1,091.5 million in 2017. The result was 10.5% lower than PLN 1,219.3 million of net profit reported in 2016.

However, it should be emphasized, that after excluding 2016 base effect caused by one-off event, the 2017 net profit would be 6% higher than the profit achieved in the previous year.

Assets of mBank Group

Assets of mBank Group



The balance sheet total of mBank Group stood at PLN 131,424 million at the end of 2017 and was slightly lower compared to PLN 133,744 million in 2016.

The main factor influencing decrease of assets was the strengthening of the zloty against other currencies. The share of assets in foreign currencies in the balance sheet of the mBank Group amounted to over 30%, mainly loans in EUR and CHF.

At the end of 2017, loans and advances to customers were the largest asset category of mBank Group (64.3%). Their net value amounted to PLN 84,475.8 million.

Investment securities constituted mBank Group's second largest asset category. They amounted to PLN 32,144.7 million, i.e. 24.5% of the total assets at the end of 2017, and increased by 2.4% year on year.

The second largest asset category item at the end of 2017 was investment securities, which stood at PLN 32 144.7 million, i.e. 24.5% of the total assets, and increased by 2.4% year on year.

4.1.3. Key performance indicators

„We are one of the most effective banks in Poland”.

While determining the financial targets for the years 2016-2020, mBank took an ambitious approach regarding cost effectiveness as well as returns on equity and assets. Moreover, mBank’s intention is to pay dividend of at least 50% of profits every year, subject to the expectations of the Polish Financial Supervision Authority in this respect, as well as to strengthen its funding base.

The table below presents mBank Group's financial aspirations and their achievement:

Financial measure	Target point	Comment on achievement
Cost efficiency, Costs/Income (C/I)	Top 3 in Poland, each year i.e. to be one of the three most cost-efficient banks listed in Poland	<ul style="list-style-type: none"> ■ After Q3 2017, C/I amounted to 46.8%; mBank was classified as fourth among peer banks listed on the WSE <i>(the average ratio for the banking sector in Poland reached 50.9% (excluding the banking tax) according to Polish Financial Supervision Authority's data for January-September 2017).</i> ■ C/I reached 45.9% at the end of 2017.
Return on Equity, Net ROE	Top 3 in Poland, each year i.e. to be among the three most profitable banks listed in Poland from the standpoint of ROE adjusted for dividend distribution	<ul style="list-style-type: none"> ■ After Q3 2017, ROE amounted to 7.9%; mBank was classified as sixth among peer banks listed on the WSE, whereas the Bank did not pay dividends from the previous years' profits <i>(the ratio for the banking sector in Poland reached 7.1% according to Polish Financial Supervision Authority's data at the end of 2017).</i> ■ ROE reached 8.3% at the end of 2017.
Return on Assets, Net ROA	Top 3 in Poland, in 2020 i.e. to be one of the three banks listed in Poland with the highest return on assets	<ul style="list-style-type: none"> ■ After Q3 2017, ROA amounted to 0.80%; mBank was classified as seventh among peer banks listed on the WSE <i>(the ratio for the banking sector in Poland reached 0.78% according to Polish Financial Supervision Authority's data at the end 2017).</i> ■ ROA reached 0.83% at the end of 2017.
Capital position, capital adequacy in terms of core capital CET1	Maintain the ability to pay out dividend in terms of CET1 ratio, each year - maintain the CET1 ratio at least 1.5 pp. above the capital requirement for mBank	<ul style="list-style-type: none"> ■ According to the data as at September 2017, mBank had the second best capital position among the peer group of entities listed on the WSE; as at the end of September 2017, the CET1 ratio (17.83%) exceeded the minimum capital requirement for mBank Group by over 4.6 pp., whereas the capital requirement includes the capital buffer connected with the foreign-currency mortgage portfolio, which is the largest of the buffers imposed on banks in Poland <i>(the average CET1 ratio for the banking sector in Poland reached 17.2% according to Polish Financial Supervision Authority's data as at the end of September 2017).</i> ■ CET1 ratio reached 18.3% at the end of 2017
Financial stability, Loans/Deposits ratio (L/D)	Maintain an L/D ratio of no more than slightly above 100%, every year	<ul style="list-style-type: none"> ■ The L/D ratio amounted to 92.3% at the end of 2017 <i>(the ratio for the banking sector in Poland reached 97.7% according to Polish Financial Supervision Authority's data as at the end of 2017).</i>

4.1.4. Calendar

January 2017

mBank and its strategic partner, AXA Ubezpieczenia, introduced the first real estate insurance in the All Risk formula. As a result, protection against all risks is guaranteed, and exclusions are clearly indicated.

February 2017

mBank set up the first and largest fund in the region of Central and Eastern Europe - mAccelerator, that specialises in developing and commercialising new technologies. mBank will invest EUR 50 million in start-ups with solutions applicable to the banking and financial sectors.

March 2017

Issue of the next tranche of six-year bonds with a nominal value of CHF 200 million under the EMTN Programme (Euro Mid-Term Notes).

April 2017

mBank launched a new mobile application with new features i.e. Android Pay payments, the possibility of logging in to the application using a fingerprint also on the Android platform and a spending tracker which helps to manage the clients' budget.

April 2017

Launch of a new version of the transactional system CompanyNet, which is easier to use, more intuitive and highly customizable to match customer's needs.

June 2017

La Banque Postale, owned by the French postal service company La Poste, bought a license for mBank's electronic platform. The strategic partner of mBank, providing comprehensive support to the buyer in implementing the project, is Accenture. This is the first such project in the Polish financial market.

August 2017

Corporate clients of mBank have already been provided with the QLIK service, which allows the transfer of information on invoices and bills to be paid between mass invoice issuer and payers. Soon, QLIK will also be available to individual clients of mBank.

August 2017

In the transactional system of mBank, in a few simple steps you can set up a trusted ePUAP profile. As a result, mBank clients no longer have to leave their houses to access electronic public administration services.

October 2017

mBank Hipoteczny placed mortgage covered bonds worth PLN 1 billion, which is the largest issue of this type in the history of the Polish capital market. Six-year bonds were sold at 0.82 pp. above the WIBOR 3M.

October 2017

The mBank premium offer includes a new Visa Aquarius Świat payment card, allowing conversion into over 150 currencies with no commission charged. This is the first truly multi-currency debit card in Poland.

November 2017

mBank became the new banking partner of the Great Orchestra of Christmas Charity ("Wielka Orkiestra Świątecznej Pomocy").

November 2017

mBank has expanded functionalities of the mobile authorization. Clients performing cash transactions can now also approve the payment or withdrawal of cash in brick-and-mortar branches. Thanks to this, the service is faster and the bank and the client do not collect paper documents. This is the first implementation of this type in Poland.

November 2017

mBank launched a new version of the transactional service – eMakler 2.0. Thanks to it, customers can manage their investments in an even simpler and more convenient way.

December 2017

mBank was one of 28 companies included in the new RESPECT Index (the first Central and Eastern European index of responsible companies). The index consists of companies with the highest liquidity, conducting responsible activities towards the environment, the community and employees.

December 2017

mBank opened its new headquarters in the New Centre district of Łódź, which is the most technologically advanced office building in Poland. More than 2,000 specialists, who had worked in six buildings located in different parts of the city, work on five floors of the new headquarter.

4.1.5. Awards and distinctions

Awards and distinctions

We follow the latest trends, precisely tailor services to fulfill our clients' needs, and in the area of mobility we are ahead of the competition. The proof of recognition for our choices and efforts are numerous awards and distinctions received by mBank in Polish and international contests. Each prize is a reason for us to be proud and to mobilize for further work.

Below we are presenting awards and distinctions received by mBank and mBank Group subsidiaries in 2017:

mBank's mobile application

- After last year's appreciation of the mobile application, both by the jury and Internet users, mBank won the second Special Award for Mobile Authorisation, i.e. the innovative method for authorising transactions ordered in the transactional system without SMS passwords at the Mobile Trends Awards 2016.
- In its newest report "2017 European Mobile Banking Benchmark", Forrester Research, a global research and consulting company, examined the mobile offer of eleven European banks and ranked mBank second. At the same time, mBank's application was hailed as the most convenient and user-friendly. In particular, the app was praised for the way account history is presented, easy access to the most frequently used functionalities and the way of executing transfers.
- In the next edition of the "Newsweek's Friendly Bank", the mobile application was appreciated by *Newsweek Polska* which evaluated the quality of retail banking services and took third place.

Product offer and customer service quality

- In the competition organised by Bankier.pl and Puls Biznesu, for the sixth time mBank won the "Golden Banker" title for the highest quality of service provided in all channels and a distinction for applying the best practices in the security area. Additionally, mBank gained recognition as it was granted a distinction for the most secure financial institutions in the market for the second time in a row. We were also praised for our educational activities in the security area, i.e. our pioneering campaign called: "You don't do it in real life? Don't do it on-line!" ("Nie robisz tego w realu? Nie rób tego w sieci!") and our new secure way of authorising internet transactions - mobile authorisation.
- mBank received the title of "Bank appreciated by customers" („Bank doceniony przez klientów”), based on the results of the ARG Rynek i Opinia survey named "Monitor of retail customer satisfaction" („Monitor satysfakcji klientów detalicznych banków"). In the core ranking, which is mainly influenced by the image, stability and profitability of using products and services, mBank took fifth place. mBank also joined the top banks, which are the highest rated in the ranking "Assessment of contact points" (fourth place).

Capital market

- the award for the highest total value of IPOs on the WSE organised in 2016;

- the award for the largest share in trading in shares in the NewConnect market in 2016 (without market maker's transactions);
- the award for the highest value of trading in non-treasury bonds and for the highest value of issues of non-treasury debt instruments listed on Catalyst.
- a distinction for distributing information for stock exchange.
- mBank was among the most transparent companies from the WIG20 index in 2016 in the first edition of the ranking prepared by Parkiet and the Accounting and Tax Institute.
- mBank was included in the new RESPECT Index, the first Central and Eastern European index of responsible companies, established by the Warsaw Stock Exchange.
- mBank won the prestigious „The Best of the Best” award for the best 2017 annual report, in „The Best Annual Report” contest for listed companies organised by the Tax and Accounting Institute.

Awards and distinctions related to the area of Investor Relations are presented in the chapter /2.3.2. Investor relations at mBank/.

Awards for mBank's foreign branches in the Czech Republic and Slovakia

- mBank in the Czech Republic received 7 awards in the „Zlatá koruna” competition, held under the patronage of the Minister of Finance of the Czech Republic and aimed at awarding the best financial products in the Czech market: – 2 golden, 2 silver and 3 bronze. The prizes were awarded for:
 - mKonto in the audience category (first place);
 - mKonto Business (first place) and mKonto Business eMAX (third prize) in the entrepreneur category;
 - mKonto Business in the company account category (second place);
 - the mKreditka Plus credit card in the payment card category (third place);
 - the První mPůjčka credit in the credit category (second place);
 - mKonto - with no fee guarantee in the account category (third place).
- The Czech branch of mBank won another Superbrands award (it received it for the first time in 2016), whereas the Slovak branch won its first award in 2017. The awards confirm mBank's place among the strongest brands in both countries.
- mBank was named one of the most reliable cash loan providers from the point of view of customers' safety in two independent Czech rankings - “The Navigator of Safe Lending” and “The Index of Responsible Lending”. The results are proof of mBank's commitment to transparency and empathy.
- mBank performed excellently in Slovak Zlatá minca (Golden Coin) contest.
- The mortgage loan for real estate refinancing offered in Slovakia secured mBank the third place in the ranking of Trend weekly. The classical mortgage loan and mKonto won silver awards in the Finparáda financial product of the year contest. The competition is based on the analysis of annual market data carried out by Scott & Ross analysts. Furthermore, the mobile banking application

won the golden award in the PCNews contest and was hailed as one of the best in the Slovak market.

Top employer

- For the third time, mBank was awarded the Top Employers Polska Certificate, which is granted to the best employers – organisations which demonstrate top standards of HR practices.
- mFaktoring has been recognized as the best employer in the Aon Best Employers program aimed at selecting companies that create the most engaging jobs (by examining employees' opinions in terms of engagement, engaging leadership, high performance culture and a reliable employer brand).

Other awards

- mBank became a winner of the 17th edition of the annual Global Finance magazine competition, for the best bank and the provider of financial management services in Poland (Best Treasury and Cash Management Banks and Providers). In addition, mBank became the best bank in Poland in the ranking of the best corporate/institutional digital banks in Central and Eastern Europe. The award confirmed the bank's strong market position and following the latest trends in digital banking, aimed at satisfying the needs of corporate clients.
- In the competition for the best bank for companies from the SME sector in Poland, organized by Forbes magazine, mBank won for the second time in a row and was recognized as a financial institution that meets the needs of entrepreneurs to the highest standard. mBank was appreciated for the quality of customer service, both in branches and via remote channels, and a product offer for companies.
- During the 17th Kantar TNS Financial Conference, mBank was ranked third in "The Most Admired Creation of the Bank Brand" category and received the Leopard award.
- For the third time in a row, mBank won the "Private Equity Diamonds" („Diamenty Private Equity") prize in the "Bank of the Year" category. The bank was awarded by Executive Club.
- mBank turned out to be one of the main winners of the "Fifty Biggest Banks in Poland 2017" („50 największych banków w Polsce 2017") ranking, which was organised for the 22nd time by the BANK financial monthly. We took the first place in the "Retail Banking" and "Corporate Banking" categories and the third place in the "Efficiency of the Banks' Operations" category. Additionally, Jarosław Mastalerz was distinguished for his achievements and recognised as the market innovator by the award committee.
- mBank's "Entrepreneur win" campaign ("Przedsiębiorco zyskaj") received the bronze Effie of the "Effie Awards" in the business-to-business category. The campaign was aimed at highlighting the brand's distinctiveness and displaying an attractive offer - mBiznes account with guaranteed invariability of pricing conditions and moneybacks.

4.2. Profit and loss account of mBank Group

4.2.1. Key information

A summary of financial results of mBank Group is presented in the table below.

PLN M	2016	2017	Change in PLN M	Change in %
Total income	4,295.4	4,453.6	158.2	3.7%
Net impairment losses on loans and advances	-365.4	-507.7	-142.3	38.9%
Overhead costs and amortization	-1,963.3	-2,043.2	-79.9	4.1%
Profit before income tax	1,637.7	1,527.9	-109.8	-6.7%
Net profit attributable to owners of mBank S.A.	1,219.3	1,091.5	-127.8	-10.5%
ROA net	1.0%	0.8%		
ROE gross	13.6%	11.6%		
ROE net	10.1%	8.3%		
Cost/Income ratio	45.7%	45.9%		
Net interest margin	2.3%	2.5%		
Common Equity Tier 1 ratio	17.3%	18.3%		
Total capital ratio	20.3%	21.0%		
Leverage ratio	8.2%	9.0%		

4.2.2. Income of mBank Group

In 2017, mBank Group reported the record-high total income. It amounted to PLN 4,454 million, up by 3.7% year on year. In turn, after excluding one-off event reported in 2016, that is the settlement of the Visa Europe takeover by Visa Inc., the increase would be 10.0%, mainly attributable to the improvement of net interest income and net fee and commission income.

Similarly to 2016, net interest income remained mBank Group's largest income source in 2017 (70.4%). It reached PLN 3,135.7 million, representing an increase by 10.7% year on year. In turn, net fee and commission income went up by 9.5% and reached PLN 992.2 million.

PLN M	2016	2017	Change in PLN M	Change in %
Interest income	3,872.9	4,052.1	179.2	4.6%
Interest expense	-1,040.0	-916.4	123.6	-11.9%
Net interest income	2,832.8	3,135.7	302.8	10.7%
Fee and commission income	1,550.8	1,659.7	108.8	7.0%
Fee and commission expense	-644.4	-667.5	-23.1	3.6%
Net fee and commission income	906.4	992.2	85.7	9.5%
Dividend income	3.3	3.4	0.1	3.0%
Net trading income	244.6	294.1	49.4	20.2%
Gains less losses from investment securities, investments in subsidiaries and associates	261.3	-3.9	-265.2	-/+
The share in the profits (losses) of joint ventures	-0.1	0.0	0.1	-
Other operating income	243.7	242.4	-1.4	-0.6%
Other operating expenses	-196.8	-210.2	-13.4	6.8%
Total income	4,295.4	4,453.6	158.2	3.7%

Interest income grew by 4.6% year on year to PLN 4,052.1 million. The growth resulted mainly from a growing volume of loans and a change in the structure of the 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.

Interest expenses decreased by 11.9% in 2017, which was related mainly to lower interest rate of deposits and a large inflow of funds to current accounts.

PLN M	2016	2017	Change in PLN M	Change in %
Loans and advances including the unwind of the impairment provision discount	2,753.2	3,014.8	261.6	9.5%
Investment securities	708.0	693.2	-14.8	-2.1%
Cash and short-term placements	57.3	59.9	2.6	4.6%
Trading debt securities	77.0	62.8	-14.2	-18.4%
Interest income on derivatives classified into banking book	196.8	133.6	-63.2	-32.1%
Interest income on derivatives concluded under the fair value hedge	59.9	66.8	6.9	11.5%
Interest income on derivatives concluded under the cash flow hedge	15.9	15.8	-0.1	-0.6%
Other	4.9	5.2	0.3	6.8%
Total interest income	3,872.9	4,052.1	179.2	4.6%

Commission income increased by 7.0% and amounted to PLN 1,659.7 million. Driven by a growing client base, commissions from bank accounts rose by 9.7%. The growth in transactional banking and a higher number of transactions translated into an increase in commissions from money transfers (+8.4%). 2017 also saw an increase in commissions due to guarantees granted and trade finance commissions (+21.4 %) and commissions on agency service regarding the sale of products of external financial entities (+18.4%).

PLN M	2016	2017	Change in PLN M	Change in %
Payment cards-related fees	361.9	372.9	11.0	3.0%
Credit-related fees and commissions	308.5	324.8	16.3	5.3%
Commissions for agency service regarding sale of insurance products of external financial entities	166.8	187.4	20.6	12.4%
Fees from brokerage activity and debt securities issue	142.0	135.5	-6.6	-4.6%
Commissions from bank accounts	170.2	186.7	16.5	9.7%
Commissions from money transfers	110.6	119.9	9.3	8.4%
Commissions due to guarantees granted and trade finance commissions	58.8	71.4	12.6	21.4%
Commissions for agency service regarding sale of products of external financial entities	115.4	136.6	21.2	18.4%
Commissions on trust and fiduciary activities	25.0	26.3	1.3	5.3%
Fees from portfolio management services and other management-related fees	13.5	14.8	1.3	9.3%
Fees from cash services	51.1	53.3	2.2	4.3%
Other	27.1	30.3	3.2	11.7%
Total fee and commission income	1,550.8	1,659.7	108.8	7.0%

4.2.3. Costs of mBank Group

In 2017, total overhead costs (including amortisation) of mBank Group stood at PLN 2,043.2 million, which represents a 4.1% increase in comparison with 2016. The increase was mainly driven by higher material costs and higher contributions to the Bank Guarantee Fund.

PLN M	2016	2017	Change in PLN M	Change in %
Staff-related expenses	-876.7	-902.9	-26.2	3.0%
Material costs	-671.3	-705.2	-33.9	5.0%
Taxes and fees	-22.8	-23.2	-0.3	1.5%
Contributions and transfers to the Bank Guarantee Fund	-161.7	-180.1	-18.3	11.3%
Contributions to the Social Benefits Fund	-7.0	-7.6	-0.6	8.4%
Amortization	-223.6	-224.2	-0.6	0.3%
Total overhead costs and amortization	-1,963.3	-2,043.2	-79.9	4.1%
Cost/Income ratio	45.7%	45.9%	-	-
Employment (FTE)	6,528	6,455	-73	-1.1%

In 2017, staff-related expenses went up by PLN 26.2 million, i.e. 3.0%, mainly due to an increase in remuneration costs. The number of FTEs decreased by 73 to 6,455 FTEs at the end of 2017.

Material costs increased in the reported period by PLN 33.9 million, i.e. 5.0%. In 2017, mBank Group also marked higher material costs in the logistics area and higher costs of consulting services, due to the strategic and regulatory projects carried out at the bank.

The contribution to the Bank Guarantee Fund (BFG) paid by mBank Group increased by PLN 18.3 million compared with 2016 as a result of modifications in the method for calculation of contributions to the deposit guarantee scheme and forced restructuring.

Amortisation remained stable year on year.

As a result of changes in income and expenses, no major change was reported in the cost to income ratio, which stood at 45.9% (45.7% in 2016).

4.2.4. Net impairment losses on loans and advances of mBank Group

Net impairment losses on loans and advances in mBank Group amounted to PLN 507.7 million in 2017, representing an increase by 39.0%. The cost of risk in 2017 stood at 61 bps, compared with 46 bps in 2016.

PLN M	2016	2017	Change in PLN M	Change in %
Retail Banking	-284.9	-342.6	-57.7	20.3%
Corporates and Financial Markets	-78.2	-166.0	-87.8	112.2%
Other	-2.3	0.9	3.2	+/-
Total net impairment losses on loans and advances	-365.4	-507.7	-142.3	39.0%

Net impairment losses on loans and advances in Retail Banking stood at PLN 342.6 million in 2017 compared with PLN 284.9 million in 2016. Provisions increased as a result of the higher volume and changes in the structure of the retail credit portfolio with a growing volume of non-mortgage loans (unsecured loans).

Net impairment losses on loans and advances in Corporates and Financial Markets stood at PLN 166.0 million in 2017 compared with PLN 78.2 million in 2016. The low level of provisions reported in 2016 was caused by the release of loan loss provisions related to the sale of non-performing receivables and payment of the loan insurance by KUKE (Export Credit Insurance Corporation), whereas loan loss provisions in 2017 reached a more standardised level.

4.3. Contribution of business lines and segments to the financial results

4.3.1. Introduction

The mBank Group's activities are carried out within two main business segments: the Retail Banking segment and the Corporates and Financial Markets segment.

mBank's Retail Banking segment serves 5,342 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 169 branches (excluding mFinanse and mKiosks), including 136 in Poland and 33 in Czech Republic and Slovakia.

mBank's Retail Banking segment 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 and solutions and improvements and is constantly improved.

The Corporates and Financial Markets segment serves 22,048 corporate clients, including large enterprises (K1), mid-sized enterprises (K2) and small enterprises through a network of dedicated 46

branches. The segment comprises two areas: **Corporate and Investment Banking, and Financial Markets.**

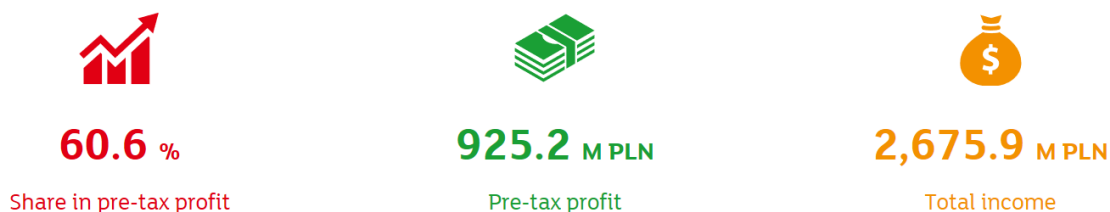
mBank Group's offer of products and services for corporate clients focuses on traditional banking products and services (including corporate accounts, domestic and international money transfers, payment cards, cash services, and liquidity management products), corporate finance products, hedging instruments, equity capital market (ECM) services, debt capital market (DCM) instruments, mergers and acquisitions (M&A), leasing and factoring.

4.3.2. Retail Banking

The contribution of Retail Banking to the Group's financial results decreased in 2017 (to 60.6% from 62.5% in 2016) as a consequence of higher overhead costs and net impairment losses on loans and advances, and an increase in the amount of the banking tax paid by the Group. The segment's income grew by 3.1% year on year (with core income going up by 13.8%). The profit before tax stood at PLN 925.2 million in 2017, which represents a decrease by 9.6% year on year.

The result was driven by increase in operating costs (including amortisation) (+9.3%), increase in net impairment losses on loans and advances (+20.3%), caused by changes in retail credit portfolio and a growing volume of non-mortgage loans (unsecured loans), and banking tax paid by the Group at PLN 195.8 million.

Key financial data (at the end of 2017):



Key business data:

(thousand)	2013	2014	2015	2016	2017
Number of customers**	4,229	4,551	4,663	5,052	5,342
Distribution network (pcs.)	261	281	302	316	333
Loans to retail clients, incl.:	38,308	41,560	46,259	48,950	48,143
Mortgage loans***	28,693	30,514	34,184	35,369	32,593
Non-mortgage loans***	9,615	11,046	12,074	13,581	15,550
Deposits of retail clients	34,203	39,285	46,117	53,495	55,694

Key highlights

- Increase of core income by 13.8% year on year.

- Sales of PLN 7.1 billion worth of non-mortgage loans, up by 16.0% year on year.

- Sales of PLN 3.4 billion worth of mortgage loans, up by 19.1% year on year.

- Increase in the retail customer base by almost 291 thousand during the year.

- Increase in the percentage of sign-in to the mobile application to 55% at the end of 2017, compared with 37% a year before.

- Increase of retail deposits by 4.1%, mainly driven by growing current accounts (+14.9% year on year).

- Increase of the value of payment card transactions carried out by mBank by 20.3%; increase in the number of card transactions by 23.8% year on year.

- Providing mBank clients with a new version of the mobile application.

** The number of retail clients in 2017 (and in 2015-2016) has been adjusted due to obligatory closing of inactive accounts and excluding micro-company representatives, without individual products.*

*** Data concerning mortgage and non-mortgage loans based on consolidated financial statement.*

Financial results of the Retail Banking segment

PLN M	2016	2017	Change in PLN M	Change in %
Net interest income	1,762.4	2,013.1	250.7	14.2%
Net fee and commission income	517.7	582.3	64.7	12.5%
Dividend income	0.0	0.0	0.0	-
Net trading income	100.3	114.2	13.9	13.9%
Gains less losses from investment securities, investments in subsidiaries and associates	230.5	0.0	-230.5	-
Net other operating income/expense	-14.8	-33.7	-18.9	127.3%
Total income	2,596.0	2,675.9	79.9	3.1%
Net impairment losses on loans and advances	-284.9	-342.6	-57.7	20.3%
Overhead costs and amortization	-1,108.6	-1,212.2	-103.6	9.3%
Taxes on Group's balance sheet items	-178.5	-195.8	-17.3	9.7%
Profit before tax of Retail Banking	1,023.9	925.2	-98.7	-9.6%

Activity of Retail Banking segment in numbers (mBank only)

thou.	31.12.2015	31.12.2016	31.12.2017	Annual change in %
Number of retail clients*, including:	4,663.2	5,051.5	5,342.3	5.8%
Poland	3,866.3	4,182.5	4,437.0	6.1%
Foreign branches	796.9	869.0	905.3	4.2%
The Czech Republic	556.9	612.3	633.6	3.5%
Slovakia	240.0	256.7	271.8	5.9%
PLN M				
Loans to retail clients, including:	46,168.7	48,926.1	48,122.1	-1.6%
Poland	42,344.7	44,646.4	43,703.1	-2.1%
mortgage loans	33,473.4	34,112.7	31,294.8	-8.3%
non-mortgage loans	8,871.3	10,533.7	12,408.3	17.8%
Foreign branches	3,824.0	4,279.7	4,419.0	3.3%
The Czech Republic	2,899.6	3,310.9	3,585.3	8.3%
Slovakia	924.4	968.8	833.7	-13.9%
Deposits of retail clients, including:	45,645.4	53,662.8	55,749.8	3.9%
Poland	39,273.6	45,727.6	46,876.5	2.5%
Foreign branches	6,371.8	7,935.2	8,873.3	11.8%
The Czech Republic	4,488.0	5,630.5	6,346.0	12.7%
Slovakia	1,883.7	2,304.7	2,527.3	9.7%
Investment funds (Poland)	5,736.2	5,972.3	7,481.0	25.3%
thou.				
Credit cards, including	332.4	340.3	362.8	6.6%
Poland	303.6	309.4	325.9	5.3%
Foreign branches	28.8	30.9	36.8	19.4%
Debit cards, including:	3,242.7	3,438.4	3,713.0	8.0%
Poland	2,701.0	2,876.0	3,138.1	9.1%
Foreign branches	541.8	562.4	575.0	2.2%
Distribution network				
Advisory Centres	4	6	10	
Light branches	9	17	24	
mBank (former Multibank)	123	115	102	
mKiosks (incl. Partner Kiosks)	83	98	123	
mFinanse (f. Aspiro) Financial Centres	47	43	41	
Czech Republic & Slovakia	36	37	33	

* The number of retail clients in 2017 (and in 2015-2016) has been adjusted due to obligatory closing of inactive accounts and excluding micro-company representatives, without individual products.

4.3.3. Corporates and Financial Markets

Key financial data (at the end of 2017):



Key business data of the Corporates and Financial Markets segment:

	2013	2014	2015	2016	2017
Clients (thousand)	16.3	17.8	19.6	20.9	22.0
Branches (pcs)	47	48	51	45	46
Loans to corporate clients (PLN M)	29,475	32,841	33,447	34,174	37,942
Deposits of corporate clients (PLN M)	26,753	32,237	34,424	37,383	34,590

Key highlights

- Increase of core income by 5.2% in comparison with 2016.
- Increase in corporate loans by 11.0% year on year.
- Acquisition of 1.1 thousand of new corporate clients.
- Net Promoter Score (NPS) for corporate customers who indicated mBank as their main bank, reached 42% (market average at 22%), i.e. +6 p.p. year on year*.
- Increase in mBank's market shares on the IRS/FRA market to 12.5% (from 11.5% in 2016).
- Providing corporate customers with a new enhanced mCompanyNet transactional platform.
- Implementation of mKantor and the FX platform (in Polish: mPlatforma walutowa) available 24/7 for retail banking clients.

* Source: Kantar Millward Brown, August 2017.

The contribution of Corporate and Investment Banking in the Group's results rose to 33.1% from 30.4% a year earlier. The increase was driven by higher income (up by 6% year on year) coupled with lower operating expenses.

The Corporate and Investment Banking segment generated a profit before tax of PLN 505.6 million in 2017, which represents an increase by 1.4% year on year. Total overhead costs (including amortization) decreased by 4.9% in the analysed period. At the same time, the net impairment losses on loans and advances increased by 119.6% in 2017. The low level of provisions reported in 2016 was caused by the 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).

Financial results of the Corporate and Investment Banking segment

PLN M	2016	2017	Change in PLN M	Change in %
Net interest income	750.5	832.7	82.2	11.0%
Net fee and commission income	378.8	406.3	27.5	7.3%
Dividend income	0.0	0.0	0.0	-
Net trading income	243.6	246.3	2.7	1.1%
Gains less losses from investment securities, investments in subsidiaries and associates	21.0	-6.1	-27.0	-/+
Net other operating income/expense	18.3	17.9	-0.4	-2.2%
Total income	1,412.3	1,497.3	85.0	6.0%
Net impairment losses on loans and advances	-76.5	-168.1	-91.6	119.6%
Overhead costs and amortization	-717.0	-681.8	35.2	-4.9%
Taxes on Group's balance sheet items	-120.1	-141.7	-21.6	18.0%
Profit before tax of Corporates and Investment Banking	498.6	505.6	7.0	1.4%

Activity of Corporate and Investment Banking segment in numbers (mBank only)

	31.12.2015	31.12.2016	31.12.2017	Annual change in %
Number of corporate clients	19,562	20,940	22,048	5.3%
K1	1,983	2,123	2,093	-1.4%
K2	5,748	6,067	7,088	16.8%
K3	11,831	12,750	12,867	0.9%
PLN M				
Loans to corporate clients, including	22,102.8	20,874.0	23,010.6	10.2%
K1	6,162.6	4,999.7	5,316.9	6.3%
K2	11,837.6	12,744.8	14,529.7	14.0%
K3	3,049.6	2,957.9	2,973.0	0.5%
Reverse repo/buy sell back transactions	1,031.0	56.7	57.1	0.7%
Other	22.0	114.9	133.8	16.5%
Deposits of corporate clients, including	31,296.9	33,303.5	31,425.5	-5.6%
K1	14,019.0	12,659.0	11,999.2	-5.2%
K2	11,260.0	12,348.3	13,483.3	9.2%
K3	4,856.0	6,276.4	5,079.0	-19.1%
Repo transactions	1,093.7	1,600.5	439.6	-72.5%
Other	67.9	419.8	424.4	1.1%

Financial Markets

The Financial Markets segment generated an income of PLN 230.2 million in 2017, up by 2.9% compared to 2016. The increase is attributable mainly to higher net trading income. However, the higher income was offset by a considerable increase in overhead costs including amortization (up by 15.8% year on year). The profit before tax stood at PLN 79.1 million in 2017, which represents a decrease by 12.9% year on year.

Financial results of the Financial Markets segment

PLN M	2016	2017	Change in PLN M	Change in %
Net interest income	314.5	282.2	-32.4	-10.3%
Net fee and commission income	-4.6	-7.6	-3.0	66.7%
Dividend income	0.4	0.0	-0.4	-
Net trading income	-103.3	-64.9	38.4	-37.1%
Gains less losses from investment securities, investments in subsidiaries and associates	17.3	20.8	3.5	20.3%
Net other operating income/expense	-0.7	-0.3	0.4	-60.9%
Total income	223.7	230.2	6.5	2.9%
Net impairment losses on loans and advances	-1.7	2.1	3.8	+/-
Overhead costs and amortization	-104.4	-120.9	-16.5	15.8%
Taxes on Group's balance sheet items	-26.8	-32.3	-5.5	20.4%
Profit before tax of Financial Markets	90.9	79.1	-11.7	-12.9%

4.4. Activities of subsidiaries of mBank Group

In 2017, the profit before tax generated by mBank Group subsidiaries amounted to PLN 245.5 million, compared with PLN 301.9 million in the previous year. The year-on-year drop was attributable to, among others, changes in the Group's structure and worse performance of mFinanse and mLeasing. Two subsidiaries reported higher results in the period under review: mBank Hipoteczny and mLocum.

The loss posted in "Other" is a consequence of the settlement reached by mBank, Garbary, Tele Tech Investment (TTI) and Bank Pekao in August 2017, as a result of which, Bank Pekao waived its claims against mBank, Garbary and TTI arising from pending court proceedings in return for the payment of an agreed amount.

he table below presents the profit before tax posted by individual subsidiaries.

PLN M	2016	2017	Change in PLN M	Change in %
mFinanse (f. Aspiro)	155.4	141.4	-14.0	-9.0%
mLeasing	72.6	64.8	-7.8	-10.7%
mBank Hipoteczny	30.2	34.8	4.6	15.2%
mLocum*	18.4	22.1	3.7	20.4%
mFaktoring	15.1	14.7	-0.5	-3.0%
Dom Maklerski mBanku**	2.9	-	-	-
mWealth Management**	9.0	-	-	-
Other***	-1.6	-32.2	-30.6	20.1x
Total gross profit of mBank's subsidiaries	301.9	245.5	-56.3	-18.7%

* On June 2, 2017, mBank concluded a preliminary conditional agreement on the sale of mLocum shares to Archicom.

** The subsidiaries were integrated into the organisational structure of mBank as of May 20, 2016.

*** Other subsidiaries include mFinanse France, mCO, BDH Development, Garbary, Tele-Tech Investments and Future Tech.

Business activity of selected subsidiaries



Q4 2017 was marked by the sale of an organised part of mFinanse, a company whose activities involved, among other things, providing insurance intermediary services in the area of group insurance.

In 2017, mFinanse recorded an increase in mortgage loan sales by 26.1% (up to PLN 1,341. million). In the period under review, mFinanse also reported an increase in cash loan sales by 8.5% (PLN 336.9 million in 2017). The subsidiary's sales results in the area of car leasing increased by 29.7% in 2017 (up to PLN 36.6 million). In turn, the profit from selling car loans dedicated to car dealers was slightly lower year on year and stood at PLN 278.9 million in 2017.

In 2017, the company continued its sales network development by increasing the number of mKiosks. Additional 25 outlets were established in the analysed period and the company managed 123 mKiosks at the end of 2017. Ultimately, the aim of the project is to place new outlets in the regions with no physical presence of mBank and mFinanse.

The subsidiary's profit before tax in 2017 amounted to PLN 141.4 million compared with PLN 155.4 million a year before. The profit before tax was, to a large extent, influenced by the drop in the sales of car loans and the sale of a part of mFinanse.



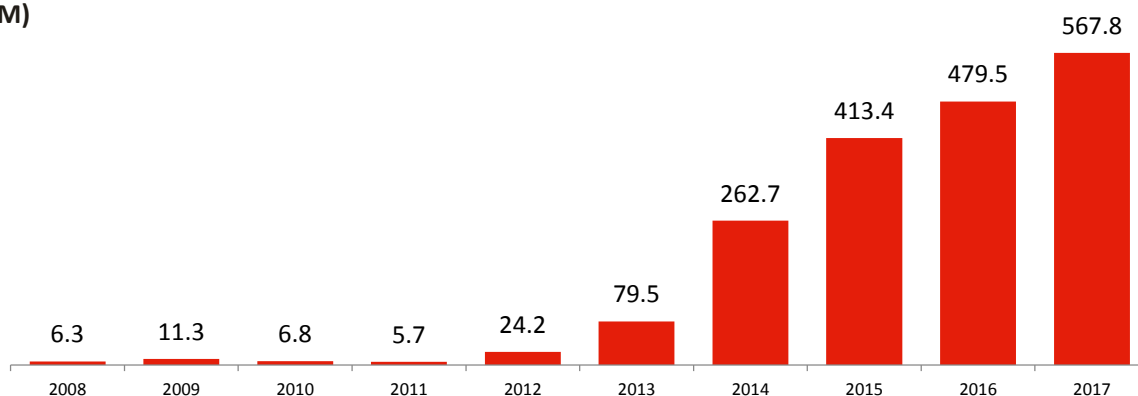
The value of contracts executed in 2017 by mLeasing increased as much as 23.7%, i.e. to PLN 5.0 billion. As demand increased in 2017, the sales grew year on year, mainly driven by an increase in the vehicles sector. The value of contracts regarding movables concluded in 2017 amounted to PLN 4.6 billion (i.e. +18.5% year on year), while the value of contracts concerning real estate stood at PLN 0.3 billion (i.e. +202.3% year on year).

The profit before tax of mLeasing in 2017 was PLN 64.8 million against PLN 72.6 million in 2016, i.e. -10.7% year on year. The decrease was a consequence of the actual costs of financing.

The “Leasing in Retail” project continued in 2017. 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 2017 mLeasing financed fixed assets obtained in cooperation with Retail Banking worth PLN 567.8 million according to their purchase price.

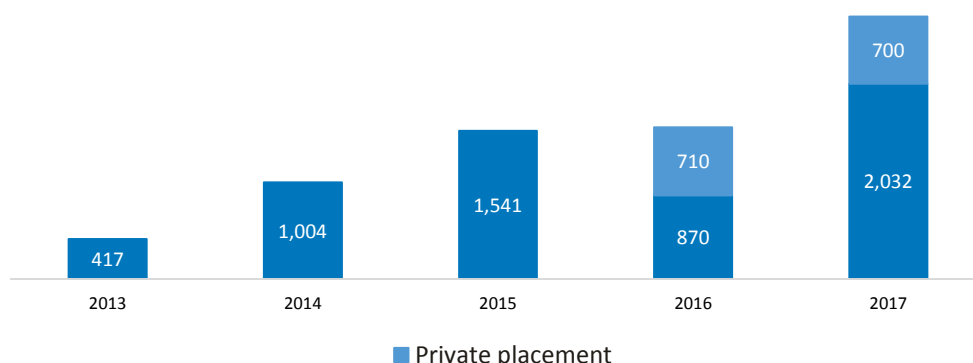
The chart below presents the value of leasing contracts executed under the “Leasing in Retail” project:

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



In 2017, mBank Hipoteczny (mBH) placed 6 issues of mortgage covered bonds in the total nominal amount of PLN 2.7 billion, including 2 private placements in the amount of PLN 700 million. The four issues denominated in PLN amounted to PLN 2.2 billion and the two issues denominated in EUR stood at EUR 124.9 million.

Covered bonds issues in 2013-2017



On October 11, 2017, mBH placed the biggest issue of covered bonds in PLN in the history of the Polish capital market, with the total value of PLN 1 billion and a maturity of 6 years. The interest equals WIBOR 3M + 0.82% per annum.

As part of debt restructuring in 2017, the bank repurchased (on the secondary market) three series of mortgage covered bonds issued under a private offering in the total nominal amount of PLN 700 million and EUR 70 million.

mBH is a mortgage bank with the longest track record of issuing covered bonds on the Polish capital market. As of December 31, 2017, the value of issued mortgage covered bonds amounted to PLN 6.4 billion.

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. On June 23, 2017, the rating of mortgage covered bonds was affirmed at A.

The gross loan portfolio of mBank Hipoteczny totalled PLN 10.9 billion at the end of 2017 (i.e. +14.1% in comparison with 2016). That change was driven mainly by a systematic rise in the retail portfolio in the first three quarters of 2017, until the retail sales were transferred from mBH to mBank. Sales in this segment reached PLN 1.8 billion in the course of the year. The result of the effective sale of commercial loans deserve attention. In 2017, the total value of new contracts reached PLN 1.8 billion.

Despite the additional burden imposed on the bank in the form of a bank tax (PLN 24.4 million), in 2017, the company reported a 15.2% increase year on year in the standalone profit before tax. The profit before tax amounted to PLN 34.8 million at the end of 2017.

mBH's profit was driven mainly by the continuing growth in the credit portfolio. In the period under review, net interest income of mBH grew by 19.9%. A significant decrease was observed in net commission income in 2017 resulting from the fact that the BFG costs were not compensated. In addition, compared with the previous year, loan loss provisions decreased by PLN 1.4 million owing to a favourable change in impairment parameters.



On June 2, 2017, mBank concluded a preliminary conditional agreement on the sale of mLocum shares to Archicom. The subject matter of the agreement was the sale of shares accounting for 79.99% of mLocum's share capital and voting rights at the Annual General Meeting of the company for PLN 87.6 million.

On January 3, 2018, the subsidiary changed its name to Archicom Polska S.A

In 2017, mLocum posted a profit before tax of PLN 22.1 million, which represents an increase of 20.4%.



In 2017, the company was growing dynamically, breaking new business records. Turnover (the value of purchased invoices) was historically high at PLN 13.7 billion in 2017 (an increase of 18.4% year on year). Thanks to this the company ranked eighth on the factoring market in Poland with a 7.4% market share (according to the Polish Factors Association).

The profit before tax of mFaktoring amounted to PLN 14.7 million in 2017 compared with PLN 15.1 million in the previous year. An increase in net interest income and positive net impairment losses were offset by lower fee and commission income.



In 2017, mCentum Operacji (mCO) successfully carried out a number of projects aimed at optimising processes. The company continued to enhance its cooperation with mBank's retail banking in the automation of processes already serviced and servicing of new processes (complaint-related processes). It also entered into cooperation with the corporate part of the bank as regards taking over new clients for execution of domestic standing orders. In addition, mCO implemented the very first "robot" in its production environment, which registers fees and commissions for corporate clients. Other machines are under way and being tested to streamline processes.

Sales revenues in 2017 stood at PLN 33.6 million, compared with PLN 34.6 million in 2016. The reduced revenues resulted mainly from lower proceeds from servicing mBank's corporate part connected with a decrease in the volumes serviced and from real property lease (real property sales).

The company's profit before tax in 2017 amounted to PLN 8.1 million v. a pre-tax loss of PLN 59.6 thousand posted in 2016. The higher profit before tax in 2017 is primarily attributable to the sales of real property (excluding the real property sales, the profit before tax stood at PLN 2.5 million in 2017). The positive financial result was mainly driven by impairment losses of the value of real property owned by the company.

4.5. mBank Group capital base

The amount of capital maintained by mBank Group and mBank meets the regulatory requirements and allows for the planned business expansion at the defined risk appetite level. This is reflected in the Common Equity Tier 1 capital ratio (21.5% at the stand-alone level and 18.3% at the consolidated level at the end of 2017) and the Total Capital Ratio (24.6% at the stand-alone level and 21.0% at the consolidated level at the end of 2017), which are above the levels recommended in 2017 by the Polish Financial Supervision Authority (PFSA). According to the PFSA requirements, Tier 1 ratio should not be below 14.09% for mBank and 13.67% for mBank Group, as at the end of 2017. The required stand-alone Total Capital Ratio stood at 18.12% for mBank and 17.55% for mBank Group.

The required levels of capital ratios include the 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 of 1.88% and the other systemically important institution buffer of 0.75%, as well as an additional capital requirement to hedge against the risk related to the foreign currency mortgage loans for households of 3.53% for the Total Capital Ratio at the consolidated level, and of 4.10% at the stand-alone level. At least 75% of the additional capital requirement should be Tier 1 capital.

mBank Group has a strong capital base, as reflected in its capital structure. At the consolidated level, own funds stood at PLN 14.3 billion at the end of 2017, out of which PLN 12.5 billion (87%) was Tier 1 capital. The main components of Tier 1 include: share capital, share premium, other reserve capital, undistributed profit from previous years, funds for general banking risk, recognized current profits and accumulated other comprehensive income. Tier 1 is strengthened mainly through retained earnings.

Tier 2 capital stood at PLN 1.8 billion at the end of 2017, which represents a decrease of PLN 115.2 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 (perpetual) grandfathered as Tier 2 (a decrease from 60% in 2016 to 50% in 2017).

The table below presents the balances of mBank Group's subordinated debt as at December 31, 2017.

Type	Nominal value	Currency	Maturity date	Tier 2 Capital
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 amortised on a daily basis for five years prior to final maturity. In addition, subordinated debt with indeterminate maturity in the table above is being gradually withdrawn and is included in own funds in line with grandfathering eligibility and limits as laid down in CRR in respect of the grandfathering 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 Annual General Meeting, while the 2012 dividend made up 35% of mBank's net profit followed by a 67% dividend payment in 2013. The profit for 2014, 2015 and 2016 was included in whole in the bank's own funds. More information in the chapter related to Capital adequacy .

Capital and liquidity norms under Basel III and EU regulations

According to the BRRD and the Act on the Bank Guarantee Fund, the Deposit Guarantee Scheme and Forced Restructuring, banks are obliged to meet the requirement for own funds and eligible liabilities (MREL), an equivalent of TLAC Total Loss Absorption Capacity), which is binding on global systemically important institutions. Both of these ratios address the need to ensure adequate level of liabilities, which can be converted into capital in case of material financial distress, and consequently enable resolution without use of taxpayers' money.

In July 2017, BFG published a methodology for calculating MREL at its website, at the same time setting a transitional period for banks to make necessary adjustments in order to meet the requirement imposed by the resolution authority by January 1, 2023. Banks received their individual MREL levels as part of development of their resolution plans. The individual levels depend on, among other things, the resolution strategy adopted for a given bank: write down or conversion of liabilities, takeover or liquidation under normal insolvency proceedings. MREL determines the relation between the amount for loss coverage combined with the amount for recapitalisation and the total amount of own funds and liabilities. 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 calculation. In addition, BFG formulated its expectations as regards MREL eligible liabilities, which shall be purchased by professional investors at a nominal value per unit not lower than EUR 100,000. Until a new category of unsecured debt in the hierarchy of claims is established, own funds and subordinated liabilities may be used to achieve the required MREL. The BFG methodology may be subject to further changes due to the implementation of the planned amendments to BRRD and the CRR/CRD IV package. The schedule for banks' adjustments to meet MREL will be determined in individual consultations with the resolution authority concerning the consolidation level and structure of MREL-eligible instruments in terms of their supply and demand, which is largely dependent on the domestic legal regulations on the issue of debt instruments.

Dividend

The intention of mBank is the annual dividend payment of at least 50% of the profit. Such a policy is a part of 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 2017, 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%;

- with Tier 1 ratio is not lower than the minimum value set for this ratio increased by 1.5%: 6% + 75%*add-on + the combined buffer requirement + 1.5%;
- with Total Capital Ratio not lower than the minimum set for this value increased by 1.5%: 8% + add-on + the combined buffer requirement + 1.5%;

It is recommended that banks which meet all the above criteria can pay out up to 50% of the generated profit in 2017.

Moreover, it is recommended to pay out dividend up to:

- 75% of the profit generated in 2017 by banks meeting all of the above criteria, as well as the requirement for a buffer at the target level, i.e. 2.5% of the total risk exposure,
- 100% of the profit generated in 2017 by banks meeting all of the above criteria (including Conservation Capital Buffer at the required level), taking into account, within capital criteria, the bank's sensitivity to an unfavorable macroeconomic scenario (ST - an individual add-on measuring bank's sensitivity for unfavorable macroeconomic scenario defined as: the difference between TCR in the reference scenario and TCR in the shock scenario including supervisory adjustments (in stress tests conducted by the PFSA).

For banks with exposure to FX housing loans for households the dividend rate should be adjusted based on following criteria:

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

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

Criterion 2 – based on the share of FX housing loans granted in 2007 and 2008 in the portfolio of FX housing loans for households:

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

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
2013	17.0	717.0	67
2014	-	-	-
2015	-	-	-
2016	-	-	-

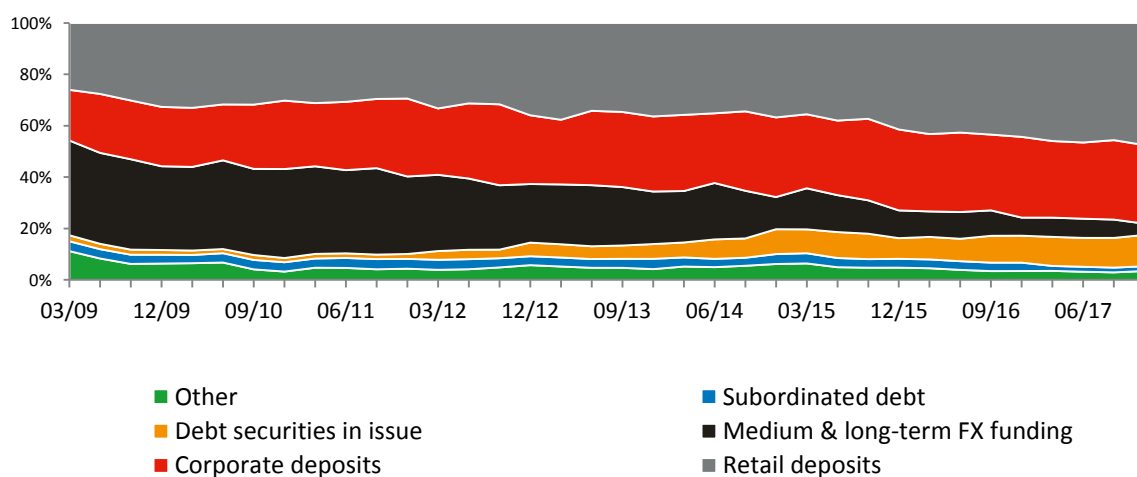
* The ratio of the total amount of dividends paid to mBank's individual net profit in the financial year.

4.6. 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, implemented in mid-2016, 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 at most slightly above 100% every year (92.3% at the end of 2017).

It was reflected in the changes of the structure of mBank Group's funding at the end of 2017.

Changes in mBank Group's funding structure



Bond issued under the EMTN Programme

In 2017, there was one issue under the EMTN Programme. In March 2017, mFinance France issued six-year bonds with a nominal value of CHF 200 million and 1.005% coupon. mBank continues its efforts aimed to diversify the sources of funding and to ensure stable refinancing on attractive terms.

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%
28.03.2017	CHF 200 M	28.03.2023	1.005%

Activity on the covered bond market

mBH is a mortgage bank with the longest track record of issuing covered bonds on the Polish capital market. As of December 31, 2017, the value of issued mortgage covered bonds amounted to PLN 6.4 billion.

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 2017 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.

In 2017, mBank Hipoteczny placed six issues of mortgage covered bonds in the total nominal amount of PLN 2.7 billion, including two private placements in the amount of PLN 700 million. The four issues denominated in the Polish currency amounted to PLN 2.2 billion and the two issues denominated in EUR stood at EUR 124.9 million.

It should be emphasized that in October 2017, mBH placed the biggest issue of covered bonds in PLN in the history of the Polish capital market in the amount of PLN 1 billion, a maturity of 6 years and interest of WIBOR 3M + 0.82% per annum.

As part of debt restructuring in 2017, the Bank repurchased on the secondary market three series of mortgage covered bonds issued under a private offering in the total nominal amount of PLN 700 million and EUR 70 million.

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 June 23, 2017, the rating of mortgage covered bonds was affirmed at A.

A summary of mBH activity on the public market in 2017 is presented in the following table.

Volume	Currency	Date of issue	Maturity	Tenor (in years)	Coupon
24.9 M	EUR	02.02.2017	02.02.2024	7	Fixed (0.94%)
500 M	PLN	29.09.2017	10.09.2022	5	WIBOR3M +0.75%
1,000 M	PLN	11.10.2017	15.09.2023	5.9	WIBOR3M +0.82%
100 M	EUR	30.10.2017	22.06.2022	4.6	Fixed (0.612%)

4.7. Consolidated financial statements 2017

4.7.1. Consolidated income statement

	Note	Year ended 31 December	
		2017	2016
Interest income	6	4 052 074	3 872 855
Interest expense	6	(916 414)	(1 040 012)
Net interest income		3 135 660	2 832 843
Fee and commission income	7	1 659 673	1 550 843
Fee and commission expense	7	(667 515)	(644 398)
Net fee and commission income		992 158	906 445
Dividend income	8	3 428	3 327
Net trading income, including:	9	294 063	244 631
<i>Foreign exchange result</i>		289 112	270 451
<i>Other net trading income and result on hedge accounting</i>		4 951	(25 820)
Gains less losses from investment securities, investments in subsidiaries and associates, including:	23	(3 937)	261 281
<i>Gains less losses from investment securities</i>		9 982	261 482
<i>Gains less losses from investments in subsidiaries and associates</i>		(13 919)	(201)
The share in the profits (losses) of joint ventures		-	(107)
Other operating income	10	242 360	243 749
Net impairment losses on loans and advances	13	(507 721)	(365 394)
Overhead costs	11	(1 818 949)	(1 739 643)
Amortisation	26,27	(224 219)	(223 641)
Other operating expenses	12	(210 171)	(196 815)
Operating profit		1 902 672	1 966 676
Taxes on the Group's balance sheet items		(375 256)	(328 939)
Share in profits (losses) of entities under the equity method		486	-
Profit before income tax		1 527 902	1 637 737
Income tax expense	14	(432 832)	(415 513)
Net profit		1 095 070	1 222 224

Net profit attributable to:

- Owners of mBank S.A.		1 091 530	1 219 282
- Non-controlling interests		3 540	2 942

Net profit attributable to Owners of mBank S.A.		1 091 530	1 219 282
Weighted average number of ordinary shares	15	42 290 313	42 252 790
Earnings per share (in PLN)	15	25,81	28,86
Weighted average number of ordinary shares for diluted earnings	15	42 313 383	42 280 286
Diluted earnings per share (in PLN)	15	25,80	28,84

4.7.2. Consolidated statement of financial position

ASSETS	Note	31.12.2017	31.12.2016
Cash and balances with the Central Bank	17	7 384 869	9 164 281
Loans and advances to banks	18	1 707 722	3 082 855
Trading securities	19	1 525 382	3 800 634
Derivative financial instruments	20	1 236 303	1 808 847
Loans and advances to customers	22	84 475 844	81 763 277
Investment securities	23	32 144 699	31 393 352
Investments in associates	24	28 680	-
Non-current assets held for sale	25	42 134	-
Intangible assets	26	710 642	582 663
Tangible assets	27	758 738	757 371
Current income tax assets		9 688	1 310
Deferred income tax assets	35	629 250	540 756
Other assets	28	770 068	848 156
TOTAL ASSETS		131 424 019	133 743 502
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the Central Bank		-	-
Amounts due to other banks	29	5 073 351	8 486 753
Derivative financial instruments	20	1 095 365	1 599 266
Amounts due to customers	30	91 496 027	91 417 962
Debt securities in issue	31	14 322 852	12 660 389
Hedge accounting adjustments related to fair value of hedged items	21	44 854	116 871
Other liabilities	33	2 571 130	2 178 790
Current income tax liabilities		179 685	104 999
Deferred income tax liabilities	35	81	1 208
Provisions	34	190 975	182 754
Subordinated liabilities	32	2 158 143	3 943 349
Total liabilities		117 132 463	120 692 341
Equity			
Equity attributable to Owners of mBank S.A.		14 289 370	13 023 756
Share capital:		3 564 176	3 551 096
- Registered share capital	40	169 248	169 121
- Share premium	41	3 394 928	3 381 975
Retained earnings:	42	10 574 294	9 486 979
- Profit from the previous years		9 482 764	8 267 697
- Profit for the current year		1 091 530	1 219 282
Other components of equity	43	150 900	(14 319)
Non-controlling interests		2 186	27 405

Total equity		14 291 556	13 051 161
TOTAL LIABILITIES AND EQUITY		131 424 019	133 743 502
Total capital ratio	51	20,99	20,29
Common Equity Tier 1 capital ratio	51	18,31	17,32
Book value		14 289 370	13 023 756
Number of shares		42 312 122	42 280 127
Book value per share (in PLN)		337,71	308,03

4.7.3. Consolidated statement of cash flows

	Note	Year ended 31 December	
		2017	2016
A. Cash flows from operating activities		(2 855 235)	8 357 693
Profit before income tax		1 527 902	1 637 737
Adjustments:		(4 383 137)	6 719 956
Income taxes paid		(483 188)	(416 779)
Amortisation	26,27	270 478	271 842
Foreign exchange (gains) losses related to financing activities		(1 209 870)	584 302
(Gains) losses on investing activities		(14 178)	(267 540)
Impairment of investment securities		20 004	8 119
Dividends received	8	(3 428)	(3 327)
Interest income (income statement)	6	(4 052 074)	(3 872 855)
Interest expense (income statement)	6	916 414	1 040 012
Interest received		4 404 460	4 049 089
Interest paid		(669 188)	(889 430)
Changes in loans and advances to banks		248 238	599 990
Changes in trading securities		2 924	81 036
Changes in assets and liabilities on derivative financial instruments		168 558	52 747
Changes in loans and advances to customers		(2 894 089)	(3 383 556)
Changes in investment securities		(848 593)	(1 076 142)
Changes in other assets		66 124	97 388
Changes in amounts due to other banks		111 370	(1 186 922)
Changes in amounts due to customers		(12 486)	9 705 480
Changes in debt securities in issue		(814 707)	915 213
Changes in provisions		8 221	(42 662)
Changes in other liabilities		401 873	453 951
Net cash generated from/(used in) operating activities		(2 855 235)	8 357 693
B. Cash flows from investing activities		(409 411)	(136 968)
Investing activity inflows		77 082	238 972
Disposal of shares in subsidiaries, net of cash disposed		32 863	2 300
Disposal of intangible assets and tangible fixed assets		40 791	34 313
Dividends received	8	3 428	3 327
Other investing inflows		-	199 032
Investing activity outflows		486 493	375 940
Acquisition of shares in subsidiaries		25 156	310
Purchase of intangible assets and tangible fixed assets		461 337	375 630
Net cash generated from/(used in) investing activities		(409 411)	(136 968)
C. Cash flows from financing activities		(1 871 459)	135 319
Financing activity inflows		3 246 814	4 037 491
Proceeds from loans and advances from other banks		-	570 635
Proceeds from other loans and advances		422 466	439 000
Issue of debt securities		2 824 221	3 020 191
Issue of ordinary shares		127	165
Financing activity outflows		5 118 273	3 902 172

Repayments of loans and advances from other banks		2 711 025	3 290 384
Repayments of other loans and advances		223 612	12 844
Redemption of debt securities		442 381	450 000
Repayment of subordinated liabilities	32	1 611 840	-
Payments of financial lease liabilities		579	653
Dividends and other payments to shareholders		5 486	8 155
Interest paid from loans and advances received from other banks and from subordinated liabilities		123 350	140 136
Net cash generated from/(used in) financing activities		(1 871 459)	135 319
Net increase / decrease in cash and cash equivalents (A+B+C)		(5 136 105)	8 356 044
Effects of exchange rate changes on cash and cash equivalents		(39 684)	(12 377)
Cash and cash equivalents at the beginning of the reporting period		15 000 049	6 656 382
Cash and cash equivalents at the end of the reporting period	45	9 824 260	15 000 049

4.7.4. Consolidated statement of changes in equity

Changes in equity from 1 January to 31 December 2017

	Note	Share capital		Retained earnings					Other components of equity				Equity attributable to Owners of mBank S.A., total	Non-controlling interests	Total equity
		Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year attributable to Owners of mBank S.A.	Exchange differences on translation of foreign operations	Valuation of available for sale financial assets	Cash flows hedges	Actuarial gains and losses relating to post-employment benefits			
Equity as at 1 January 2017		169 121	3 381 975	4 944 689	97 887	1 131 453	3 312 950	-	(6 004)	(3 068)	(1 545)	(3 702)	13 023 756	27 405	13 051 161
Total comprehensive income	16	-	-	-	-	-	-	1 091 530	477	171 461	(3 653)	(3 066)	1 256 749	3 540	1 260 289
Dividends paid	44	-	-	-	-	-	-	-	-	-	-	-	-	(5 486)	(5 486)
Transfer to General Risk Fund	-	-	-	-	-	22 300	(22 300)	-	-	-	-	-	-	-	-
Transfer to supplementary capital	-	-	-	2 782 628	-	-	(2 782 628)	-	-	-	-	-	-	-	-
Issue of shares	40	127	-	-	-	-	-	-	-	-	-	-	127	-	127
Change in the scope of consolidation/increase of share in consolidated company	-	-	-	-	-	-	-	-	-	-	-	-	-	(23 273)	(23 273)
Other changes	-	-	-	-	-	-	38	-	-	-	-	-	38	-	38
Stock option program for employees	41, 46	-	12 953	-	(4 253)	-	-	-	-	-	-	-	8 700	-	8 700
- value of services provided by the employees	-	-	-	-	-	8 700	-	-	-	-	-	-	8 700	-	8 700
- settlement of exercised options	-	-	12 953	-	(12 953)	-	-	-	-	-	-	-	-	-	-
Equity as at 31 December 2017		169 248	3 394 928	7 727 317	93 634	1 153 753	508 060	1 091 530	(5 527)	168 393	(5 198)	(6 768)	14 289 370	2 186	14 291 556

Changes in equity from 1 January to 31 December 2016

	Note	Share capital		Retained earnings					Other components of equity				Equity attributable to Owners of mBank S.A., total	Non-controlling interests	Total equity
		Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year attributable to Owners of mBank S.A.	Exchange differences on translation of foreign operations	Valuation of available for sale financial assets	Cash flows hedges	Actuarial gains and losses relating to post-employment benefits			
Equity as at 1 January 2016		168 956	3 366 802	4 883 602	103 972	1 095 453	2 190 755	-	(6 426)	442 354	859	(3 981)	12 242 346	32 618	12 274 964
Total comprehensive income	16	-	-	-	-	-	-	1 219 282	422	(445 422)	(2 404)	279	772 157	2 942	775 099
Dividends paid	44	-	-	-	-	-	-	-	-	-	-	-	-	(8 155)	(8 155)
Transfer to General Risk Fund	-	-	-	-	-	36 000	(36 000)	-	-	-	-	-	-	-	-
Transfer to supplementary capital	-	-	-	61 087	-	-	(61 087)	-	-	-	-	-	-	-	-
Issue of shares	40	165	-	-	-	-	-	-	-	-	-	-	165	-	165
Stock option program for employees	41, 46	-	15 173	-	(6 085)	-	-	-	-	-	-	-	9 088	-	9 088
- value of services provided by the employees	-	-	-	-	-	9 088	-	-	-	-	-	-	9 088	-	9 088
- settlement of exercised options	-	-	15 173	-	(15 173)	-	-	-	-	-	-	-	-	-	-
Equity as at 31 December 2016		169 121	3 381 975	4 944 689	97 887	1 131 453	2 093 668	1 219 282	(6 004)	(3 068)	(1 545)	(3 702)	13 023 756	27 405	13 051 161

4.7.5. Consolidated statement of comprehensive income

	Note	Year ended 31 December	
		2017	2016
Net profit		1 095 070	1 222 224
Other comprehensive income net of tax, including:	16	165 219	(447 125)
Items that may be reclassified subsequently to the income statement			
Exchange differences on translation of foreign operations (net)		477	422
Change in valuation of available for sale financial assets (net)		171 461	(445 422)
Cash flows hedges (net)		(3 653)	(2 404)
Items that will not be reclassified to the income statement			
Actuarial gains and losses relating to post-employment benefits (net)		(3 066)	279
Total comprehensive income (net)		1 260 289	775 099
Total comprehensive income (net), attributable to:			

- Owners of mBank S.A.		1 256 749	772 157
- Non-controlling interests		3 540	2 942

4.7.6. Explanatory notes to the consolidated financial statements

4.7.7. Independent Registered Auditor's Report

4.7.8. Registered auditor's report on the audit of the consolidated financial statements

4.8. 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
BDH Development Sp. z o.o.	100%	full	100%	full
Garbary Sp. z o.o.	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
mLocum S.A.	28,99%	-	79,99%	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)
Net interest income	3 136 197	2 832 573
Fee and commission income	1 659 673	1 550 843
Fee and commission expense	(667 140)	(643 864)
Net fee and commission income	992 533	906 979
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)
Operating profit	1 894 854	1 959 181
Taxes on the Group balance sheet items	(375 256)	(328 939)
Profit before income tax	1 519 598	1 630 242
Income tax expense	(428 097)	(410 960)
Net profit	1 091 501	1 219 282
Net profit attributable to:		
- Owners of mBank S.A.	1 091 530	1 219 282
- Non-controlling interests	(29)	-

Consolidated prudentially statement of financial position

ASSETS	31.12.2017	31.12.2016
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
Hedge accounting adjustments related to fair value of hedged items	-	-
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
Total assets	131 453 416	133 692 793
LIABILITIES AND EQUITY		
Liabilities		
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
Total liabilities	117 161 860	120 669 037
Equity		
Equity attributable to Owners of mBank S.A.	14 289 370	13 023 756
Share capital:	3 564 176	3 551 096
- Registered share capital	169 248	169 121
- Share premium	3 394 928	3 381 975
Retained earnings:	10 574 294	9 486 979
- Profit from the previous years	9 482 764	8 267 697
- Profit for the current year	1 091 530	1 219 282
Other components of equity	150 900	(14 319)
Non-controlling interests	2 186	-
Total equity	14 291 556	13 023 756
Total liabilities and equity	131 453 416	133 692 793

5. Management rules

5.1. Corporate Governance

5.1.1. Letter from the Chairman of the Supervisory Board of mBank S.A. to the Shareholders

Dear Shareholders,

The year 2017 was very positive for the shareholders, customers and employees of mBank. The Bank successfully pursued the “mobile Bank” strategy for 2016-2020 approved in mid-2016. The key priorities of the mBank Group strategy implemented by the Management Board include client-centricity, mobility, and efficiency supported by mBank’s Empathy Strategy: Where We Are and Where We Are Going.

During the year, as in previous years, the Supervisory Board closely monitored and analysed the financial position and business growth of mBank, remained in regular communication with the Management Board, participated in consultations of all key business areas of the Bank. The Supervisory Board held six meetings. Similar to previous years, the Supervisory Board Members participated in the four standing committees: the Executive and Nominations Committee, the Audit Committee, the Remuneration Committee, and the Risk Committee.

The Supervisory Board welcomes the achievements of the Bank’s Management Board in pursuit of the key directions of development of mBank Group. The highlights of financial performance included the following:

☐ mBank Group’s income was historically high at PLN 4.5 billion in 2017, representing an increase of 3.7% year on year in nominal terms and an increase of 10.0% on a comparative basis net of one-offs;

- efficiency as measured by the cost/income ratio of 45.9% remained strong while investments in growth continued;
- the quality of the loan portfolio remained robust, well above the industry benchmark; and
- the net profit attributable to the shareholders of mBank was PLN 1,092 million, representing an increase of 6.0% year on year on a comparative basis.

In the opinion of the Supervisory Board, the growth of income driven by a higher net interest income and net fee and commission income attests to mBank Group’s solid business foundations and provides a positive prognostic for the coming years.

The Supervisory Board welcomes the changes to the Group’s funding structure implemented in 2017, including issues of covered bonds by mBank Hipoteczny, an issue of CHF bonds under the Euro Medium-Term Notes (EMTN) Programme, and optimisation of the deposit base. The Bank’s capital position continued to improve in 2017 and its capital adequacy ratios were well above the minimum capital requirements.

The Supervisory Board believes that mBank’s key assets include the client base. Acquisition of prospective clients underpins the capacity for organic growth. In 2017, mBank added 291 thousand

clients to its retail customer base and more than 1.1 thousand companies to the corporate customer base.

In 2017, mBank launched a new, functional and extended version of the mobile application for retail customers and a new release of the online banking service CompanyNet for corporate customers.

In accordance with the Code of Best Practices of GPW-Listed Companies, the Supervisory Board endorses the Bank's sponsorship policy which among others supports educational initiatives for the general public. The Supervisory Board welcomes the decision to service and support the Foundation of the Great Orchestra of Christmas Charity (WOŚP).

The mandate of the Bank's Management Board, which started on April 11, 2013, expires at the date of the Annual General Meeting in 2018. The composition of the Management Board has changed since 2013 for a number of reasons. Consequently, three of the seven members appointed five years ago have remained in office. It should be stressed that all the members sitting on the Bank's Management Board for those five years have made an invaluable contribution to the development of the Group and improvement of the market position of mBank. The Supervisory Board has always taken care to ensure that the elected members of the Management Board have extensive expertise, skills and experience necessary to serve in such function. We are glad that we have made the right choices to select a well-integrated team of leading experts at the helm of the Bank.

In conclusion, speaking on behalf of the Supervisory Board, I thank the Management Board for efficient and constructive collaboration during their mandate. I thank the Shareholders for their trust in mBank. Last but not least, I thank all Members of the Supervisory Board for their personal engagement and unique contribution to the work of the Supervisory Board. I wish the incoming Management Board every success in pursuit of the goals and targets in close co-operation with the Supervisory Board.

Maciej Leśny

Chairman of the Supervisory Board

5.1.2. Application of corporate governance principles

The general corporate governance principles applicable at mBank, i.e. regulations and procedures determining the guidelines regarding the bank's authorities' actions, in particular towards stakeholders, arise from statutory regulations, in particular from the Code of Commercial Companies and Partnerships and the Banking Law Act, the provisions regulating the operation of the capital market and the rules laid down in the following documents: "Best Practice for WSE Listed Companies 2016", "Principles of Corporate Governance for Supervised Institutions" issued by the Polish Financial Supervision Authority on July 22, 2014 and the "Code of Banking Ethics" issued by the Polish Bank Association.

In 2017, the bank applied the corporate governance principles contained in the "Best Practice for WSE Listed Companies 2016", issued by the Warsaw Stock Exchange by way of Resolution No. 26/1413/2015 of the Supervisory Board of Giełda Papierów Wartościowych w Warszawie S.A. (the Warsaw Stock Exchange) dated October 13, 2015. These principles have been valid as of January 1, 2016.

The text of the "Best Practice for WSE Listed Companies 2016" is available on the website of the Warsaw Stock Exchange, in the section dedicated to the corporate governance of listed companies (www.gpw.pl/best-practice).

The "Principles of Corporate Governance for Supervised Institutions" are available on the website of the Polish Financial Supervision Authority (www.knf.gov.pl/dla_rynku/regulacje_i_praktyka/zasady_ladu_korporacyjnego).

Best Practice for WSE Listed Companies 2016

From among the detailed principles of the "Best Practice for WSE Listed Companies 2016", mBank does not apply principle no. VI.Z.2., which reads as follows: "To tie the remuneration of members of the management board and key managers to the company's long-term business and financial goals, the period between the allocation of options or other instruments linked to the company's shares under the incentive scheme and their exercisability should be no less than two years". The principles for granting variable components of remuneration at mBank are compliant with the Regulation of the Minister of Development and Finance of March 6, 2017, on the Risk Management System, the Internal Control System, the Remuneration Policy as well as the Detailed Method for Banks' Internal Capital Assessment (Journal of Laws of 2017, item 637) and EBA's Guidelines on sound remuneration policies (EBA/GL/2015/22) of June 27, 2016, which do not provide for the premise indicated in item VI.Z.2 as a condition for granting a bonus.

In 2017, the bank started to comply with principle II.Z.8., which reads as follows: "The chair of the audit committee should meet the independence criteria referred to in principle II.Z.4.", in connection with the changes in the composition of the Audit Committee following the appointment of a new Supervisory Board by the 30th Annual General Meeting of mBank S.A. on March 30, 2017. Previously, the bank did not comply with the above principle as the Audit Committee was chaired by a Member of the Supervisory Board who was related with the majority shareholder of mBank.

Moreover, from among all recommendations specified in the “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. 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 one independent member. Three members do not meet the criterion of independence.

Principles of Corporate Governance for Supervised Institutions

The “Principles of Corporate Governance for Supervised Institutions” cover relations with shareholders and clients, issues relating to the organisational structure, ensuring 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 principles laid down in Article 8 (4) and Article 16 (1).

The principle in Article 8 (4), which reads 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 “Best Practice for WSE Listed Companies 2016”. As a large part of mBank's shareholders are represented at General Meetings, 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 reads 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 KNF regarding the election of Members of the Supervisory Board of the Bank.

Code of Banking Ethics

Apart from 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: the “Code of Best Banking Practice” and the “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

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.

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”.

Information policy

mBank pursues a transparent, open, and reliable information policy, which builds mutual trust and loyalty of investors. When implementing its information policy, mBank complies with requirements arising from provisions related to information confidentiality and security, which it must abide by as a public company and a supervised institution.

The main means applied by the bank in its information policy towards investors relations include:

- current and periodic reports;
- meetings, tele- and video-conferences of representatives of the Management Board and the Analysis and Investor Relations 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 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 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 and the target share price. On mBank's website, there are annual, periodical and current reports and presentations, including presentations of the results of the Group for analysts and stock exchange investors as well as presentations for persons and entities investing in the bank's debt securities, an online version of the annual report enabling interactive access to the audited financial data, an investor's calendar and the mBank Analyser which makes it possible to analyse the financial and business data of mBank Group in different dimensions. In the section dedicated to corporate governance and best practice, the following is included: mBank's by-laws and rules of the bank's bodies, statements on the application of corporate governance principles and other required documents.

Feedback from investors provides a basis for drawing conclusions regarding future actions in the area of investor relations, among others, in respect of the scope of information materials. mBank ensures that every group of stakeholders is treated with equal care and attention when it comes to providing information. The bank treats all groups of stock exchange stakeholders equally and aims at providing individual investors with quick access to the material information on the company which can be accessed by institutional investors. It is worth mentioning that in 2017, as part of its actions targeted at individual investors, mBank participated in the WallStreet conference in Karpacz - Poland's biggest meeting of individual investors.

Open communication with shareholders during the General Meetings manifests itself, among others, in the following aspects:

- providing stakeholders with answers and explanations by the members of the bank's governing bodies,
- broadcasting the General Meeting online,
- enabling media representatives to participate in the General Meeting.

5.1.3. Internal control and risk management systems with regard to the process of preparing financial statements of mBank

mBank is equipped with an internal control system which supports bank management by ensuring efficiency and effectiveness of the bank's operations, reliability of financial reporting, compliance with risk management rules of the bank, as well as compliance of the bank's operation with the law and internal regulations.

The internal control system encompasses the following:

- control function whose task is to ensure observance of control mechanisms concerning in particular risk management at the bank and which covers positions, groups of people and organisational units responsible for performance of tasks assigned to the function. The control function is performed on a regular basis by employees of all organisational levels as part of:
 - ongoing monitoring consisting in examining selected operations or activities performed at the bank beforehand and during their execution, and

- periodical verification - consisting in verifying selected operations or activities already performed in order to check the adequacy and effectiveness of ongoing monitoring.
- compliance unit, whose task is to identify, assess, control and monitor the risk of non-compliance of the bank's activities with the law, internal regulations and market standards and report in this respect. The tasks of the compliance unit are executed by the Compliance Department.
- independent internal audit unit, whose task is to examine and assess, impartially and objectively, the adequacy and effectiveness of the risk management system and the internal control system. The tasks of the independent internal audit unit are executed by the Internal Audit Department.

On the basis of conducted reviews and assessments of control mechanisms' effectiveness, the Management Board of the bank, the Audit Committee and the Supervisory Board of the bank are provided with:

- information on identified major irregularities in the functioning of control mechanisms immediately after their identification and information on the effects of actions taken in order to remove such irregularities, and
- periodic information concerning the areas of internal control.

On the basis of internal control activities the Management Board of the bank, the Audit Committee and the Supervisory Board of the bank are provided with information on the key areas of operation of the bank in compliance with the requirements arising from applicable laws.

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 adjusting 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 drawn up 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 with 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. The period of total uninterrupted statutory audit engagements carried out by the same audit firm or an audit firm related to this audit firm, or any member of the network operating within the European Union to which these audit firms belong, must not exceed five years. The key statutory auditor may carry out a statutory audit again at the bank after at least three years of the completion of the last statutory audit.

On March 30, 2017, the 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 2017. PricewaterhouseCoopers Sp. z o.o. also reviewed the financial statements of the Bank and the consolidated financial statements of mBank Group for 2016, 2012 and for the previous years. In the years 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 49 of the Consolidated Financial Statements of mBank S.A Group for 2017.

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 2016" contest organised by the Accounting and Tax Institute (IRiP), the results of which were announced in October 2017, mBank won the title "The Best of the Best" for the best annual report in the category of financial institutions for the fifth time in a row.

5.1.4. Significant blocks of shares

mBank's share capital amounts to PLN 169,248,488 and is divided into 42,312,122 registered and bearer shares with a nominal value of PLN 4 each.

Commerzbank AG is the majority shareholder of mBank.

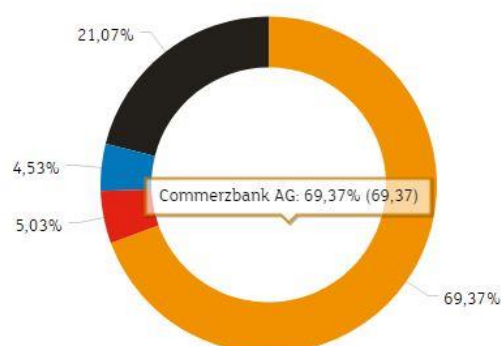
As at December 31, 2017, Commerzbank held directly 29,352,897 shares of mBank, which accounted for 69.4% of the share capital and votes at the General Meeting.

Shares accounting for 30.63% of mBank shares were in free float. These shares are held by institutional investors, in particular Polish pension funds and Polish and foreign investment funds, as well as individual investors. Nationale-Nederlanden Otworthy Fundusz Emerytalny exceeded the 5% threshold of shares and votes at the General Meeting. According to open pension funds lists of shares of

companies listed on the WSE in fund portfolios at the end of 2017, Nationale-Nederlanden Otwarty Fundusz Emerytalny held 5.03% of mBank shares. The third largest shareholder of mBank was AVIVA Otwarty Fundusz Emerytalny AVIVA BZ WBK, which held 4.53% of mBank shares.

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.

Commerzbank holds branches and offices in almost 50 countries. The main markets for Commerzbank are Germany and Poland. There are about 1,000 branches in the branch network of Commerzbank in Germany. The Bank serves more than 18 million private customers as well as more than 60 thousand corporate clients, multinational companies, financial service providers, and institutional clients. The bank finances more than 30% of Germany's foreign trade and is the leader in financing corporate clients in Germany and providing financial market products. Commerzbank Group is composed of two business segments: Private and Small Business Customers as well as Corporate Clients. Comdirect, owned by Commerzbank, is the German market leader in respect of direct banking and online brokerage services. In 2017, Commerzbank generated gross revenues of 9.2 billion Euros with approximately 49.3 thousand employees.

The German government, currently the largest shareholder of Commerzbank, holds a 15% stake in the share capital through Germany's Financial Market Stabilisation Fund (SoFFin). The largest institutional investors are BlackRock and Cerberus. Each of them holds more than 5% of Commerzbank's shares. The remaining institutional investors hold about 50% of shares in free float.

5.1.5. Principles of appointing and dismissing Management Board Members

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, must 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.

5.1.6. Principles of amendments to the Company's By-Laws

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 for approval.

In accordance with Article 34 (2) of the Banking Law Act of 29 August 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 manage 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.

5.1.7. General Meeting and shareholder rights

Meeting procedures and powers of the General Meeting

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 does not 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 of voting 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 operations 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 resolutions on redemption of shares, 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.

Shareholders' rights

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 this 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 this 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 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 in the course of the General Meeting and make a reply;
- submit 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;
- file a statement of claim for repealing a resolution of the General Meeting where the shareholder voted against the resolution of the General Meeting and after its adoption requested that his/her objection be recorded in the minutes or the shareholder was prevented from participating in the General Meeting without a sound reason, or the shareholder was absent from the General Meeting in the event of defective convening of the General Meeting or adoption of a resolution on a matter not included in the agenda;
- file a statement of claim against the Company for declaring a resolution of the General Meeting adopted in breach of the law invalid.

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.

5.1.8. Composition, powers and procedures of the Management Board and the Supervisory Board

Composition of the Management Board

The Management Board is composed of at least three members appointed for a joint term of 5 years. At least half of the Management Board Members, including the President, must be Polish citizens, have permanent residence in Poland, speak Polish and have experience in the Polish market necessary to manage mBank. 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.

In 2017, four changes in the composition of the Management Board of the bank took place. Two Members of the Management Board, Hans Dieter Kemler - Vice-President of the Management Board, Head of Financial Markets, and Jarosław Mastalerz - Vice-President of the Management Board, Head of Operations and Information Technology, resigned from their functions as of March 31, 2017. Hans-Dieter Kemler decided to resign as he took up the position of a Member of the Management Board in German Landesbank Hessen Thueringen (Helaba) responsible for financial markets, treasury and asset management. The reason behind the resignation of Jarosław Mastalerz was his intention to engage in the development and commercialisation of new technologies in the financial sector within the scope of mAccelerator, a project implemented in cooperation with mBank.

On March 30, 2017, Vice-President of the Management Board, Chief Financial Officer, Christoph Heins, resigned from his functions at the bank with effect from June 30, 2017.

On March 30, 2017, the Supervisory Board appointed three new Members of the Management Board of the bank until the end of the current term of office of the Management Board.

On April 1, 2017, Krzysztof Dąbrowski was appointed Vice-President of the Management Board, Head of Operations and Information Technology. Prior to taking up this position, since 2014 Krzysztof Dąbrowski was a Managing Director responsible for IT and technology at mBank.

Frank Bock was appointed the Vice-President of the Management Board, Head of Financial Markets, as of May 1, 2017. Starting from the beginning of 2009, Frank Bock was the Managing Director for Treasury at Commerzbank AG. His duties included asset and liability management, market risk management and liquidity management at Commerzbank in Central and Eastern Europe.

Andreas Böger was appointed the Vice-President of the Management Board, Chief Financial Officer as of July 1, 2017. He joined Commerzbank in 2013 as the head of the Corporate Finance division within Commerzbank's Group Development and Strategy.

Furthermore, on September 12, 2017, Vice-President of the Management Board, Head of Corporate and Investment Banking, Przemysław Gdański, resigned from his functions at the bank. The resignation took effect as of October 25, 2017. On that date, the Supervisory Board of mBank appointed Adam Pers, Managing Director for Financial Markets, on the position of the Vice-President of the Management Board, Head of Corporate and Investment Banking.

Please find below the composition of the Management Board of mBank as at December 31, 2017:

1. Cezary Stypułkowski – President of the Management Board, Chief Executive Officer
2. Frank Bock - Vice-President of the Management Board, Head of Financial Markets
3. Andreas Böger – Vice-President of the Management Board, Chief Financial Officer
4. Krzysztof Dąbrowski - Vice-President of the Management Board, Head of Operations and Information Technology
5. Adam Pers - Vice-President of the Management Board, Head of Corporate and Investment Banking
6. Lidia Jabłonowska-Luba – Vice-President of the Management Board, Chief Risk Officer
7. Cezary Kocik – Vice-President of the Management Board, Head of Retail Banking

Cezary Stypułkowski - President of the Management Board, Chief Executive Officer



Cezary Stypułkowski holds a PhD in law from the University of Warsaw. In second half of 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. In 2003, he was appointed the President of the Management Board of PZU Group and held this function for three years. From 2006 to 2010, he worked for J.P Morgan in London, from 2007 as the Managing Director of J.P. Morgan Investment Bank in Central and Eastern Europe. Cezary 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, co-chair of the Emerging Markets Advisory Council of the Institute of International Finance in Washington (IFF).

Mr Stypułkowski was appointed the President of the Management Board of mBank on August 2, 2010. He has been acting as the President of the Management Board of the Bank as of October 1, 2010. The Polish Financial Supervision Authority approved his appointment on October 27, 2010.

Frank Bock - Vice-President of the Management Board, Head of Financial Markets



Mr Bock graduated from the Technical University in Karlsruhe (Germany) with specialisation in financial engineering and IT.

During his professional career, Frank Bock gained considerable experience in the scope of risk and treasury management in numerous institutions in Germany, the USA (New York) and Great Britain (London). Starting from the beginning of 2009, Frank Bock

was the Managing Director for Treasury at Commerzbank AG. His duties included asset and liability management, market risk management and liquidity management at Commerzbank in Central and Eastern Europe, as well as functional support in strategic subsidiaries of Commerzbank: Comdirect, Commerz Real and mBank. Previously, as the Asset and Liability Management Director in Group Capital and Treasury Management of Dresdner Bank AG in Frankfurt am Main, he was responsible for the management of market risk and liquidity portfolio. Prior to joining Dresdner Bank AG, Mr Bock worked for WestLB AG in Düsseldorf as Credit Treasury Head in Group Treasury and was a senior manager for risk management.

Vice-President of mBank's Management Board, Head of Financial Markets since May 1, 2017.

Andreas Böger- Vice-President of the Management Board, Chief Financial Officer



He studied in Frankfurt and San Diego, graduated from the Frankfurt School of Finance & Management and holds the CFA certificate.

He started his professional career in HypoVereinsbank in Munich in 1994, where he headed the team responsible for assets and liability management and capital advisory. Since 2003, Andreas

Böger worked in Deutsche Bank in Frankfurt. In 2007-2013, he was a managing director of Global

Capital Markets and Capital Solutions Europe & CEEMEA at Deutsche Bank in London. Mr Andreas Böger joined Commerzbank in 2013. Prior to taking up the position at mBank, he managed the corporate finance division within Commerzbank's Group Development and Strategy. His duties included preparation of the strategic balance sheet and management of Commerzbank Group's capital, as well as other tasks related to finance and regulatory activities.

He has been the Vice-President of the Management Board of mBank, Chief Financial Officer since July 1, 2017.

Krzysztof Dąbrowski - Vice-President of the Management Board, Head of Operations and Information Technology



Mr Dąbrowski graduated from Warsaw University of Technology, Faculty of Electronics and Information Technology. In 2011, he completed the Executive MBA programme at the University of Warsaw and the University of Illinois.

In 1995-2003, he worked in the Internet and telecommunications industry for Polska Online and TDC Internet, where he was responsible for the development of hosting systems and services. In 2004-2011, as the head of the Software Development Department, he co-created the Polish service centre of F. Hoffman-La Roche. In the following years, as the CTO of Allegro Group, Krzysztof Dąbrowski supervised one of the biggest agile transformations in the region. Since 2014, he performed the function of the managing director for IT and technology at mBank.

Vice-President of mBank's Management Board, Head of Operations and IT since April 1, 2017.

Adam Pers - Vice-President of the Management Board, Head of Corporate and Investment Banking



Adam Pers graduated from the Faculty of Economics of the Academy of Economics in Poznań. In 2008, he completed an MBA programme organised by SGH Warsaw School of Economics. He gained expertise in the field of banking both at university and in three institutions operating on the Polish market. He commenced his professional career as an intern in Wielkopolski Bank

Kredytowy S.A., then he worked in Raiffeisen Bank Polska S.A. Group for many years, at first in back office, then in corporate banking and finally in the financial markets area. He was responsible for strategic projects concerning the reshaping of the dealing room and for one of the pillars of the bank's strategy and during the financial crisis, as the operational committee member, he was responsible for the bank's liquidity. In RBI Group, he was awarded the TOP Performer and Leader of the Year title. He joined BRE Bank/mBank Group in 2012, where at first he was responsible for restructuring in the area of the financial markets sales. Then, as a managing director he also supervised the integration of the area of cooperation with financial institutions and finally, the integration with the trading area.

Vice-President of mBank S.A. Management Board, Head of Corporate and Investment Banking since October 26, 2017.

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 the Head of Financial Institutions & Public Sector Division and since November 2003 as the 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 the 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, Lidia 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, Lidia Jabłowska-Luba held the position of the Vice-Chairwoman 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.

Vice-President of mBank's Management Board since April 12, 2013.

Cezary Kocik - Vice-President of the Management Board, Head of Retail Banking



He 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, Cezary 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, debt collection and restructuring divisions. In 1999, Mr Kocik was employed with the debt collection and loan restructuring department of Bank Pekao S.A., he was, among others, 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.

Vice-President of mBank's Management Board since April 1, 2012.

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: Andreas Böger)
- Assets and Liabilities Management Committee of mBank Group (chairperson: Frank Bock)
- 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: Krzysztof Dąbrowski)
- Data Quality and Information System Development Committee (chairperson: Andreas Böger).

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 based on shares is presented in Note 46 of the Consolidated Financial Statements of mBank S.A. Group for 2017 and in Note 44 of the Financial Statements of mBank S.A. for 2017.

The section below presents a brief description of the 2014 incentive programme for the Members of 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 taking into account the situation on financial markets in previous financial periods. 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 Management Board for 2016-2017 is presented in the table below.

	Remuneration paid in 2017 (in PLN)			
	Basic remuneration	Other benefits	Bonus for 2016	Deferred bonus*
1. Cezary Stypułkowski	2,661,046	237,960	460,831	575,000
2. Lidia Jabłonowska-Luba	1,500,000	173,320	250,000	320,000
3. Frank Bock	1,061,379	229,370	-	-
4. Andreas Böger	797,633	68,338	-	-
5. Krzysztof Dąbrowski	1,125,000	87,939	-	-
6. Cezary Kocik	1,500,000	189,036	250,000	350,000
7. Adam Pers	272,727	19,266	-	-
In total	8,917,785	1,005,229	960,831	1,245,000

* In 2017, the second deferred installment was paid as part of the settlement of the cash portion of the bonus for 2014 and the first deferred tranche as part of the settlement of the bonus part of cash for 2015.

	Remuneration paid in 2017 (in PLN)				
	Basic remuneration	Other benefits	Bonus for 2016	Deferred bonus*	Severance payment

Remuneration of former Members of the Management Board who ceased to perform their functions in 2017

1. Christoph Heins	776,684	269,061	125,000	-	-
2. Hans-Dieter Kemler	500,000	127,984	200,000	320,000	-
3. Jarosław Mastalerz	665,926	101,811	250,000	350,000	-
4. Przemysław Gdański	1,442,587	168,052	250,000	320,000	1,500,000

Remuneration of former Members of the Management Board who ceased to perform their functions in 2016

1. Jörg Hessenmüller			125,000	340,000	-
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* In 2017, Members of the Management Board who ceased to perform their functions in 2017 and Joerg Hessenmueller received the second deferred tranche as part of the settlement of the cash portion of the bonus for 2014 and the first deferred tranche as part of the cash bonus settlement for 2015.

	Remuneration paid in 2016 (in PLN)			
	Basic remuneration	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*	cash settlement of the incentive programme based on Commerzbank shares **

Remuneration of former Members of the Management Board who resigned from the Management Board in 2016

1. Jörg Hessenmüller	781,500	93,768	300,000	190,000	-
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Remuneration of former Members of the Management Board who ceased to perform their functions in 2012

1. Christain Rhino	-	-	-	-	134,206
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*In 2016, Jörg Hessenmüller was paid the first deferred tranche as part of the settlement of cash bonus for 2014.

** The settlement concerns the incentive program for the Management Board Members of 2008 in part based on Commerzbank shares. In 2016, Christian Rhino received a cash equivalent for Commerzbank shares as part of the settlement of the third tranche of the incentive program for 2012.

Composition of the Supervisory Board

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.

The 30th Annual General Meeting of mBank S.A. held on March 30, 2017 elected the following 12 Members of the Supervisory Board of mBank for a joint term of three years:

1. Maciej Leśny – Chairman of the Supervisory Board
2. Stephan Engels – Deputy Chairman of the Supervisory Board
3. Tomasz Bieske – Member of the Supervisory Board
4. Andre Carls – Member of the Supervisory Board
5. Marcus Chromik – Member of the Supervisory Board
6. Janusz Fiszer – Member of the Supervisory Board
7. Mirosław Godlewski – Member of the Supervisory Board
8. Jörg Hessenmüller – Member of the Supervisory Board
9. Thorsten Kanzler – Member of the Supervisory Board
10. Michael Mandel – Member of the Supervisory Board
11. Teresa Mokrysz – Member of the Supervisory Board
12. Agnieszka Słomka-Gołębiowska – Member of the Supervisory Board

Detailed information on mBank Supervisory Board Members, who performed their functions as at December 31, 2017, is presented in the table below.

Maciej Leśny - Chairman of the Supervisory Board

Maciej Leśny graduated from the Faculty of Economic Sciences at Warsaw University in 1969. 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 a post-graduate course and training courses at universities in the USA: Michigan University (Business School of Administration) and De Paul University (Chicago). In 1992-1993, as a holder of scholarship granted by the US government, Mr Leśny studied at the American University in Washington, DC. During his scholarship time, he took part in 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). Then, until December 2001, he was a Member of the Supervisory Board. In 2004, Mr Leśny was re-elected as the Chairman of the Supervisory Board.

Stephan Engels - Deputy Chairman of the Supervisory Board

Mr Engels is a graduate of the University of St. Gallen in Switzerland. In the period of 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 the Chief Financial Officer at debis AirFinance B.V. In 2000, Mr Engels joined DaimlerChrysler Bank AG as the Member of the Board for Credit, and then CFO and IT. In 2003, he took the position of the Member of the Board for Finance, Controlling, Risk Management & Strategy at DaimlerChrysler Services AG. From 2007 to 2012, he was a Member of the Executive Committee of Mercedes-Benz Car Group for Finance & Controlling and the Head of Management Group Controlling at Daimler AG.

Since April 1, 2012, Member of the Board, Chief Financial Officer at Commerzbank AG.

Tomasz Bieske - Member of the Supervisory Board

Mr Bieske studied economy at the University of Cologne. He worked in Dresdner Bank's head office in Frankfurt for six years. In 1990, Tomasz Bieske co-founded Arthur Andersen in Poland and became the Head of Financial Markets Group responsible for cooperation with financial sector clients. He participated in most key projects in the financial services sector including preparation of public offerings of PKO BP S.A and Kredyt Bank S.A. as well as audits of financial statements of the National Bank of Poland, PKO BP S.A., Pekao S.A., Getin Holding and a number of other banks. He managed many advisory projects in the banking sector.

Since 2011, he has been participating in the work of the committee for legal and business regulatory changes of the cooperative banking sector and closely cooperating with the Polish Bank Association (Związek Banków Polskich) and the National Association of Cooperative Banks (Krajowy Związek Banków Spółdzielczych). Tomasz Bieske has professional qualifications of a Polish statutory auditor. Until June 30, 2013, he worked for Ernst & Young.

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 held positions in corporate finance and capital markets areas in Frankfurt. Later he became the Executive Director of the investment banking line 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 he served as the company's CFO and from November 2004 to March 2008 as its President of the Management Board (CEO). From March to September 2008, he was the Vice-President of the Management Board and CFO of BRE Bank.

From March 2008 to December 2013, Dr. Carls was the CEO of Commerzbank Auslandsbanken Holding AG and managed the Central & Eastern Europe Holding segment of Commerzbank AG.

In the years 2014-2015, Dr. Carls took over the position of Managing Director of the segment of medium-sized corporate clients for the northern regions and western Germany, while from 2015 he is responsible for the Western Germany region.

Marcus Chromik - Member of the Supervisory Board

Marcus Chromik studied physics in Göttingen, Kiel and Munich. He also spent some time in the US, where he 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, being responsible for, among other things, new issues and syndication, liquidity management and Credit Treasury. Later he served as the Chief Market Risk Officer in Commerzbank's markets and corporates segment for more than three years, where he was responsible for the Bank's market and liquidity risk management. As of 2012, Dr Chromik became a Divisional Board Member, Chief Credit Risk Officer at Commerzbank.

On January 1, 2016, he was appointed Member of the Board of Managing Directors at Commerzbank AG, Chief Risk Officer.

Janusz Fiszer - Member of the Supervisory Board

Dr. Janusz Fiszer is a legal advisor and a certified tax advisor. He is a graduate the Faculty of Law and Administration of the University of Warsaw, a specialist in the field of tax and financial law. Since 1980, Janusz

Fiszer has been an employee of the University of Warsaw, the Faculty of Management. In addition, since 1991, he has been a senior advisor at the White & Case international law firm and also, from 1998 to 2012, he served as partner in this company. From 2012 to 2013, Dr Fiszer was a partner in the tax & legal department of the PricewaterhouseCoopers (PwC) international advisory company and in January 2014, he joined the GESSEL law firm as a partner.

Moreover, he is a lecturer in international tax law at the Postgraduate Programme of International Tax Strategies at Warsaw School of Economics (SGH). Janusz Fiszer was a scholarship holder of the University of Kansas School of Business in Lawrence, Kansas, USA (1982-1983) and of Deutscher Akademischer Austauschdienst (DAAD) as well as of the Fritz Thyssen Foundation (Fritz Thyssen Stiftung) at the University of Munich in Germany (1988-1989 and 1990). Since 1993, he has been a member of the editorial board of the *Monitor Podatkowy* monthly journal. Since the 1990s, he has worked as a correspondent for the *Tax Notes International* professional periodical in the USA. Since 2004, he has been writing regular tax commentaries for the *Dziennik Gazeta Prawna* daily. Janusz Fiszer is a co-founder and a member of the Supervisory Board of the Polish branch of the International Fiscal Association (IFA).

Mirosław Godlewski - Member of the Supervisory Board

Mirosław Godlewski completed the MBA programme at Warsaw University of Technology, the MBA programme at Ashridge Management College and Harvard Business School Advanced Management Program.

He is the Executive Chairman of Apteka Gemini, Senior Advisor at BCG, a Member of the Supervisory Board of Celon Pharma S.A., a Member of the Supervisory Board of Netia S.A. and the so-called "Angel Investor" at Hedgehog Fund.

Mr Godlewski was a member of the Supervisory Board at ABC Data SA and a member of the Nomination and Remuneration Committee. In 2007-2014, he was the President and CEO of Netia S.A. He also held executive positions with Opoczno S.A., Pepsi Cola General Bottlers-Polska Sp. z o.o., DEC Sp. z o.o. and MEMRB Polska.

Jörg Hessenmüller - Member of the Supervisory Board

Jörg Hessenmüller graduated from Hochschule für Bankwirtschaft in Frankfurt am Main in 1997 and was awarded the title of Master 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 the 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., Chief Financial Officer.

Since July 2016, Mr 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, holding various positions in the treasury and risk management area in Frankfurt, New York, Sydney and London.

Between 2004 and 2007, Mr Kanzler was the Group Treasurer and the Divisional Board Member of Corporate & Investment Banking in WestLB AG in Düsseldorf.

From May 2007, he held the position of the Head of Group Treasury & Capital Management at Dresdner Bank AG in Frankfurt am Main. Since 2009, he has been the Divisional Board Member for Group Treasury at

Commerzbank AG. Mr Kanzler is responsible for assets and liabilities management, risk management, capital management and capital market funding.

Michael Mandel – Member of the Supervisory Board

He is a graduate of Business Administration at the University of Münster. Between 1986 and 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 consulting company.

Since 2002, he has worked for Commerzbank AG, first as the Head of Business Development for the Private Customer Segment, and then the Group Manager for Private and Business Customers. In 2008, he was appointed CEO of Comdirect Bank AG. Since 2010, he has served as the Divisional Board Member for Private Customers at Commerzbank AG. In May 2016, Michael Mandel was appointed the 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

Ms Mokrysz graduated from 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 an international business. As one of the owners, Ms Mokrysz runs eight Mokate enterprises headquartered in Poland and in other countries of Central Europe. She built production plants in the Polish towns of Żory and Ustroń from scratch and expanded a production plant near Prague (producing coffee, tea and intermediate products for the food industry). She has successfully launched her products in several dozen countries on all the continents.

In 2000, the International Association of Women Entrepreneurs from Los Angeles awarded her the title of the “Most Entrepreneurial Woman in the World”. Moreover, Ms Mokrysz received a number of prestigious awards in Poland and abroad, including the “Leader of the Decade” title granted by *Gazeta Wyborcza*, and the “Success of the Decade” title granted by the *Businessman Magazine*. She funds scholarships for talented and underprivileged young people and provides financial support to health care institutions, nursing care homes, orphanages and schools.

Agnieszka Słomka-Gołębiowska - Member of the Supervisory Board

Ms Słomka-Gołębiowska holds PhD in economics. She is a graduate of Warsaw School of Economics specializing in finance and banking and completed the MBA programme of the French Institute of Management (IFG). She obtained her PhD degree at Warsaw School of Economics (SGH). Ms Słomka-Gołębiowska works as a lecturer at Warsaw School of Economics and she conducts research into corporate governance. She attended several Executive Education courses, e.g. the IESE-Harvard Business School programme.

From 2006 to 2009, she was 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. Agnieszka Słomka-Gołębiowska was a holder of the Alexander von Humboldt Fellowship at the University of Münster and the Polish-American Fulbright Fellowship at the University of California, Berkeley. She was also a visiting scholar at universities in Cambridge (MIT), Tucson (UOA), Münster, 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.

The four independent members of the Supervisory Board are: Tomasz Bieske, Janusz Fiszer, Mirosław Godlewski and Agnieszka Słomka-Gołębiowska. Maciej Leśny and Teresa Mokrysz do not meet the

independence criterion due to the fact that they have been sitting on the Supervisory Board for over twelve years.

Andre Carls, Marcus Chromik, Stephan Engels, Jörg Hessenmüller, Thorsten Kanzler and Michael Mandel 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 Act and taking into account relevant qualifications for the functions assigned to them.
- Defining the terms of contracts and remuneration of the Management Board.
- Authorizing the Chairperson of the Supervisory Board to represent the bank in agreements with the Management Board Members, including the conclusion of management contracts with Management Board Members.
- Approving conclusion or amendment of any significant contract or agreement with the Members of the Management Board or the Supervisory Board.

- Approving conclusion, amendment or termination of any significant affiliation or co-operation agreements.
- Analyzing reports of the Internal Audit Department Director received at least once per year.

Meetings of the Supervisory Board are convened by the Chairperson 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, no less frequently than 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 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 and Nomination Committee, the Risk Committee, the Audit Committee, and the Remuneration Committee. Members of the Committees are presented below (in the first place - Chairperson of the Committee).

Executive and Nomination Committee	Risk Committee	Audit Committee	Remuneration Committee
<u>Maciej Leśny</u>	<u>Marcus Chromik</u>	<u>Tomasz Bieske</u>	<u>Andre Carls</u>
Andre Carls	Mirosław Godlewski	Andre Carls	Tomasz Bieske
Stephan Engels	Thorsten Kanzler	Janusz Fiszer	Stephan Engels
Teresa Mokrysz	Agnieszka Słomka-Gołębiowska	Jörg Hessenmüller Agnieszka Słomka-Gołębiowska	Maciej Leśny

The tasks of the Executive and Nomination Committee involve, in particular, exercising regular supervision over the bank's activity 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 usufruct rights or interests in real estate, shares in companies and partnerships, and other fixed assets if the value of a 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 bankruptcy proceeding with the possibility to make an arrangement or other settlement with the bank's debtor or in the case of disposal of assets so acquired. The Committee is also responsible for recruitment for the positions of Management Board and Supervisory Board Members of the bank.

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 posing 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 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 issues related to 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 competing 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 on variable components of remuneration paid to persons holding managerial positions at the bank. Moreover, the Committee monitors the level and structure of remuneration paid to senior managers.

All standing committees of the Supervisory Board make reports on their activity in the past reporting year 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. 50 regarding the remuneration rules for the Members of the Supervisory Board of mBank S.A. adopted by the 30th Annual General Meeting of mBank S.A. held on March 30, 2017. 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 the participation in standing committees of the Supervisory Board: 50% of monthly remuneration of a Supervisory Board Member for the first committee and 25% for participating in another committee. No additional remuneration is paid to a Member of the Supervisory Board who sits on three or more Standing Committees of the Supervisory Board. However, a Supervisory Board Member performing the function of the Chairperson of the Audit Committee of the Supervisory Board of the bank is entitled to additional remuneration equal to 80% of the sum of remuneration he or she is paid.

The remuneration of the Supervisory Board for 2016-2017 is presented in the table below.

	Remuneration paid in 2017 (in PLN)	Remuneration paid in 2016 (in PLN)
1. Maciej Leśny	367,235	367,235
2. Stephan Engels	-	-
3. Tomasz Bieske	319,656	-
4. Andre Carls	279,000	252,000
5. Marcus Chromik	-	-
6. Janusz Fiszer	162,000	-
7. Mirosław Godlewski	162,000	-
8. Joerg Hessenmueller	210,000	-
9. Thorsten Kanzler	216,000	216,000
10. Michael Mandel	-	-
11. Teresa Mokrysz	220,225	220,225
12. Agnieszka Słomka-Gołębiowska	248,435	221,435
Wiesław Thor*	37,812	149,435
Waldemar Stawski*	55,812	221,435
Marek Wierzbowski*	54,000	216,000
Martin Zielke**	-	-
Martin Blessing***	-	-
In total	2,332,175	1,863,765

* The term of office expired on 30 March 2017.

** Martin Zielke resigned from his position as of December 15, 2016.

*** Martin Blessing resigned from his position as of April 30, 2016.

Activity of the Supervisory Board and its Committees in 2017

In 2017, the Supervisory Board held six meetings and adopted 81 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, KNF recommendations, corporate governance principles, and the bank's By-laws and the Rules of the Supervisory Board.

In 2017, at the meetings of the Supervisory Board, the current results of the mBank Group and particular business segments were systematically discussed and assessed in relation to the financial plan.

Attendance of the Supervisory Board Members at Supervisory Board meetings in 2017 is presented in the table below.

	Attendance*
Tomasz Bieske (since March 30, 2017)	4/4
Andre Carls	5/6
Marcus Chromik	6/6
Jörg Hessenmüller	5/6
Stephan Engels	6/6
Mirosław Godlewski (since March 30, 2017)	3/4
Janusz Fiszer (since March 30, 2017)	4/4
Thorsten Kanzler	6/6
Maciej Leśny	6/6
Michael Mandel	5/6
Teresa Mokrysz	5/6
Agnieszka Słomka-Gołębiowska	6/6
Waldemar Stawski (until March 30, 2017)	2/2
Wiesław Thor (until March 30, 2017)	2/2
Marek Wierzbowski (until March 30, 2017)	2/2

* Attendance at meetings/number of meetings during the term of office

The Executive Committee worked until March 30, 2017. During that period the Committee conducted the initial selection of candidates for the Supervisory Board and three new candidates for the position of Management Board Members in accordance with the Adequacy Policy. Following the Supervisory Board's resolution of March 30, 2017, the new Executive and Nomination Committee was created and took over the functions and responsibilities of the Executive Committee. The Executive and Nomination Committee exercised ongoing supervision over the activity of the bank in the periods between the Supervisory Board's meetings in 2017. In October 2017, the Executive and Nomination Committee conducted the initial recruitment for the position of a Management Board Member.

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 Audit Committee held four meetings in 2017 and discussed, among others, the following:

- Compliance of the process of preparing financial statements with the applicable law.
- Cooperation with the external auditor.
- Conclusions from the audit of the annual financial statements of mBank Group for 2016.
- Scope of the audit of the annual financial statements for 2017.
- Assessment of the internal control system at mBank in 2017.
- Ongoing supervision of proposed changes to mBank's internal control system in 2017.
- Ongoing supervision over the activity of the Internal Audit Department.
- Approval of reports of the Compliance Department.

- Approval of the policy on mBank's selection of the external auditor.
- Approval of the policy on mBank's cooperation with the external auditor.

The Audit Committee provided the Supervisory Board with, among others, recommendations on the approval of: Reports of the Management Board on the activity of mBank and mBank Group for 2016, and the financial statements for 2016, the annual report on compliance risk management at mBank in 2016, the report of the Outsourcing Coordinator on the implementation of the Outsourcing Policy at mBank in 2016 and the Audit Plan of the Internal Audit Department for 2017.

In 2017, the Risk Committee held four meetings, during which it regularly discussed the following matters: changes in the economic situation in Poland and their impact on the bank's situation, quarterly risk reports (capital adequacy, liquidity risk, credit risk, market risk, interest rate risk, non-financial risks including operational 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. The Committee held an additional meeting in May during which it discussed the limits on mBank Group's exposure to the State Treasury and the central bank.

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 addition, the Risk Committee issued a positive recommendation regarding the approval of the new Concentration Risk Management Strategy of mBank Group.

In 2017, the Risk Committee issued:

- 13 recommendations concerning exposures subject to single entity risk in accordance with the parameters defined by the Supervisory Board;
- 23 decisions concerning 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 2017 and issued 14 decisions. During its meetings the Remuneration Committee discussed and issued recommendations for the Supervisory Board regarding among others:

- Adoption of periods in 2017 during which Risk Takers could acquire bonds and/or shares issued by mBank S.A. under the Incentive Programme.
- Assessment and definition of the MbO objectives for the Members of the Management Board of mBank.
- The Risk Takers Identification Policy of mBank.
- The Remuneration Policy for mBank employees.

5.1.9 mBank's Diversity Policy

For many years, we have been assuming that the diversity of employees' features and experiences creates value added for the organisation. We do not have a diversity policy in the form of a separate document, but our approach to this issue is present in various procedures.

The principle of equal treatment applies to our bank. This means that all forms of direct or indirect discrimination are prohibited, including due to gender, age, marital status, family background, physical ability, nationality, sexual orientation, political and religious beliefs and views. We are building an organizational culture based on openness and tolerance. We make sure that every employee feels appreciated and respected and is offered career development opportunities.

We also follow the principle of gender equality in hiring, promotions or in the succession planning regarding the key functions at the bank. The procedures used at the 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.

There is one woman sitting on mBank's seven-person Management Board.

Management Board of mBank						
	31.12.2015		31.12.2016		31.12.2017	
	number of employees	%	number of employees	%	number of employees	%
Women	1	14%	1	14%	1	14%
Men	6	86%	6	86%	6	86%
Total	7	100%	7	100%	7	100%

There are two women sitting on the twelve-person Supervisory Board.

Supervisory Board of mBank						
	31.12.2015		31.12.2016		31.12.2017	
	number of employees	%	number of employees	%	number of employees	%
Women	2	17%	2	17%	2	17%
Men	10	83%	10	83%	10	83%
Total	12	100%	12	100%	12	100%

The composition of mBank's Supervisory Board reflects the care exercised to achieve the greatest possible diversification of members, who have complementary professional experience, 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.

Our managers graduated from different fields of study in Poland and abroad, including economics, technology, IT, law, and philology and other. They have diverse experience in Polish, European and American institutions, not only financial ones and are aware of the importance of diversity. Seeing

individual characteristics and deriving benefits from them are supported by thematic trainings and the Success Insights method.

5.1.10. 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, the annual 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 and mBank S.A. as well as their financial performance.

The report of the Management Board on the business of mBank S.A. Group in 2017 (including the Management Board Report on Performance of mBank S.A.) presents a true picture of the developments, achievements, and situation of the mBank S.A. Group and mBank S.A., including a description of the main risks and threats.

Appointment of the auditor authorised to audit financial statements

The Auditor authorised to audit financial statements and performing the audit of the annual financial statements of mBank S.A. Group and mBank S.A. for 2017 – 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 Members of the Management Board of mBank S.A.

5.2. Human resources management

5.2.1 mBank's training system

| Our philosophy of employee development and appraisal.

We take a broad view of employee development, which is not limited to organisation's needs, but also includes personal hobbies of our personnel. Our employees may decide themselves about development planning to a large extent. **The manager's role** is to support employees in development planning, inspire and create new development opportunities, also by selecting appropriate tasks and guaranteeing access to various experience.

The training and development activities at mBank Group combine both formal and informal learning. We focus on learning through gaining experience and getting feedback on an ongoing basis.

We provide employees with various tools allowing for **unlimited m-learning opportunities - more in Mobile development tools**. Furthermore, we make sure that they improve and update their knowledge

about banking regulations. For this purpose, we organise training and meetings aiming at knowledge transfer, webinars or e-learning.

The development of employees is also supported by elements of the incentive system, such as employee appraisal, focus on work-life balance, mobile workplace or employee volunteering programme.

Our activities concerning human resource management and employer branding received numerous awards in 2017. These include, but are not limited to: **Top Employers**, Best Quality Employer, I love my Job, **Power of Attracting Employees (Siła Przyciągania)** - a competition organized by *Puls Biznesu* daily (we received the main prize for the Banking Talents campaign) - EB Stars and EB Creator.

| Our training

Training courses and other development activities in mBank Group are adjusted to the needs of our employees and to the current strategy of the employer. In 2017 these included, i.a., the following:

- The “Manager’s Function in the New Strategy” development programme, addressed to all managers from the group and based on two modules that correspond with the two pillars of the new strategy - empathy and effectiveness.

In 2017, 100 managers from various areas of mBank participated in workshops aimed at practicing active listening. It is an element of creating a corporate culture based on empathy.

- The “Host, Designer, Coach” programme supporting the development of competencies of young managers.
- Working with engagement survey results - creating committed work environment.
- “Your Development Plan” online training, supporting employees in preparation of individual development plans.
- Our employees responsible for customer service participate in training aimed at sensitising them to the needs of the disabled. In 2017, the HR unit employees took part in the training on recruitment of people with disabilities, their needs and effective communication with them.

| Log in to the development. How do we encourage our employees to participate in training?

In LearningZone, available in the Intranet to all employees, one may find information about development programmes that are currently being implemented. Via LearningZone, one may enrol on a training course or participate in e-learning. Our employees receive information about development activities also via a standard communication channel, e.g. e-mail.

We carry out various bank-wide campaigns promoting employee development. These include the following:

- **“Log in to Development”**- a website used to inform employees about development tools available at the bank; via this website we suggest how to use these tools and recommend interesting articles.
- **“Let’s Talk about Development”** - a programme geared to support managers in holding conversations with employees regarding their development and planning it.
- **“Our People Make the Difference”**- a programme created to distinguish employees that are particularly engaged in work and implementation of mBank’s values, those who are outstanding managers or innovators.
- **“Development Days”** - is an activity taking place simultaneously in the entire organisation on a regular basis. During the Development Days, we present our employees with development opportunities available at mBank and encourage them to take advantage of these opportunities.

| Mobile development tools

We strongly support mobile development of employees. Mobile development tools offered by mBank to its employees include, among others, the following:

- **LinkedIn Learning.** A tool available to all the employees; it gives access to a database of more than 10 thousand courses. These courses are dedicated to both soft and hard skills, as well as to extended development paths based on recommendations of experienced business representatives.
- **Harvard Business Review Polska.** As part of the ICAN Corporate development programme, our employees have been granted unlimited access to the resources of a digital library of the “Harvard Business Review Polska” magazine and to a training module of ICAN Corporate - “The Art of Business Writing” (“O sztuce pisania w biznesie”).
- **NASBI digital library.** It is a repository of business books, video courses on IT and managerial expertise available to mBank’s employees.
- **Legimi digital library.** Our employees may freely use its considerable resources of e-books and audio-books.
- **E-tutor platform for learning English.** It stores more than 800 lessons at all levels and 150 lessons of business English.

| How do we identify training needs?

We carry out Performance Needs Analysis (Badanie Potrzeb Efektywnościowych). The analysis makes it possible to find out about development needs on an ongoing basis - from the point of view of organisational units, particular employees and mBank as a whole.

It covers members of the management board, directors of organisational units, and the middle and lower-level management. On the basis of its results, we develop the plans of increased effectiveness as regards development and training for particular areas of operations and organisational units.

| How do we check training effectiveness?

We assess training effectiveness with the use of:

- summary reports drawn up by training companies, including their conclusions and findings;
- meeting summarising a training course (a talk of the trainer with an employee of the HR unit and a competent manager);
- an evaluation survey;
- direct meetings of an HR unit employee with training participants;
- work or homework to be done by training participants and assessed by the trainer or the manager;
- post-training activity plan for participants;
- arrangements between the training participant and the manager or the HR unit employee concerning post-training implementation of ideas;
- knowledge sharing by participants.

5.2.2 Ergonomics and security at the workplace

| Facilities at Przystanek mBank

We take care about employees and their needs by guaranteeing them optimum working conditions. In 2017, we officially opened the Przystanek mBank building in Łódź. It is an intelligent, modern building that guarantees its users comfortable work conditions thanks to the state-of-the-art solutions and facilities:

- We guarantee our employees much higher parameters of fresh air than it is required under the law. **Air supply per employee exceeds sanitary minimum by 25%.** Furthermore we are working on a solution to improve air thanks to central air humidifiers.
- Windows (window modules) are opened every 4 hours to allow air to enter from outside and hence improve comfort of employees.
- LED bulbs are checked in terms of photobiological safety, i.e. impact on employees' health.
- We have installed window shutters for the best protection against heat and sunlight.
- Cyclists have 150 parking places and 20 shower units at their disposal.
- There are two terraces used as a relaxation zone, where employees may talk to each other in a less formal atmosphere or throw a party.
- Quiet zone and conference rooms are located on each floor.

- We are working on the launch of a mobile application to help find one's way through the building. We also want to implement solutions to monitor traffic of external guests entering the building and make available parking place. We want our building to be as modern as our bank.

Audit of job positions for employees with disabilities

In 2017, we carried out an audit of job positions for employees with disabilities. We also audited entire office complexes where such employees perform their tasks. As part of the audit, we also checked the surroundings, social rooms, toilets and the design of office space where employees with disabilities have their work stations.

| The occupational health and safety management system

The occupational health and safety management system at mBank Group operates on the basis of the following principles:

1. Guaranteeing involvement of the management and all the employees in activities related to adopting and implementing the occupational health and safety policy, i.e. guaranteeing relevant resources, funds and training system.
2. Planning activities aimed at implementing the adopted occupational health and safety policy. Meetings of the Occupational Health and Safety Committee take place once a quarter.
3. Creating conditions for implementing action plans, i.e. guaranteeing budget for specific goals, identification of threats and assessment of occupational risks.
4. Monitoring the implementation of plans and system operation and applying corrective and preventing measures, including: monitoring the occupational health and safety conditions and implementing solutions to improve occupational health and safety, analysing reasons for accidents at work.
5. Carrying out periodical reviews and optimising the implemented occupational health and safety management system through reviews and checks of the company's branches by an occupational health and safety specialist.
6. Initial and periodical training in occupational health and safety is carried out by an occupational health and safety specialist.

5.3. Risk management

5.3.1. Introduction

A statement by Cezary Stypułkowski, president of the management board of mBank:

Effective risk management is a prerequisite for efficient and safe development of the bank and the group. mBank Group manages all relevant risks inherent in the implementation of its operating strategy, based on regulatory requirements and best market practice.

The ever-changing environment of the group, both technological and regulatory, require broader and more comprehensive knowledge and continuous improvement of the risk management process. This is why mBank Group has been applying and developing innovative methods and tools to identify, measure and control risk.

Professional risk management in the group relies on competent employees continuously upgrading their knowledge and skills. The group supports the development of its employees and fosters the culture of cooperation and knowledge-sharing.

Responsible development of mBank Group would be impossible if it was not for the multidimensional process of risk control and management, which has been constantly enhanced and streamlined. At the same time, we direct careful attention to implementing the adopted strategy, which is based on three pillars: client-centricity, competitive advantage in mobile solutions and systematic effectiveness improvement.

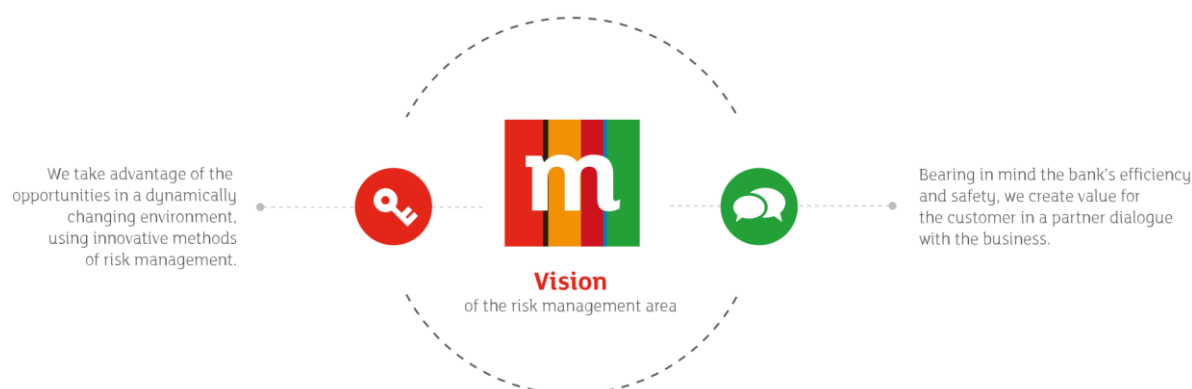
Selected activities carried out in 2017:

- Establishment of the Investment Banking Committee. The Committee is responsible, in particular, for the control and management of risks (including market, credit, reputational and operational) of the Brokerage House transactions and making decisions regarding the execution of these transactions.
- The IFRS 9 implementation project was continued. The IFRS 9 standard has been in force since January 2018. The mBank Group completed key project work including the implementation of all critical databases and calculators to the extent necessary for the application of the new standard from January 1, 2018. The project will be continued in 2018 in the scope of other changes and adaptations in IT systems.
- Risk appetite was defined for the subsequent planning horizon with special attention paid to 2018. Conclusions from analyses and discussions on potential impact on the Group of several issues identified during the managerial dialogue with particular emphasis on the package of non-financial risks, were taken into account while formulating risk appetite.
- The Limit Book was updated and limits for 2018 were set. Limits for new LAB measures (which replaced previously used ANL measures) were introduced within liquidity limits.
- Review and update of the Risk Management Strategy of the mBank Group and the other strategies for managing particular risks (credit risk in the corporate and the retail areas, market risk, liquidity risk, operational risk and reputational risk).

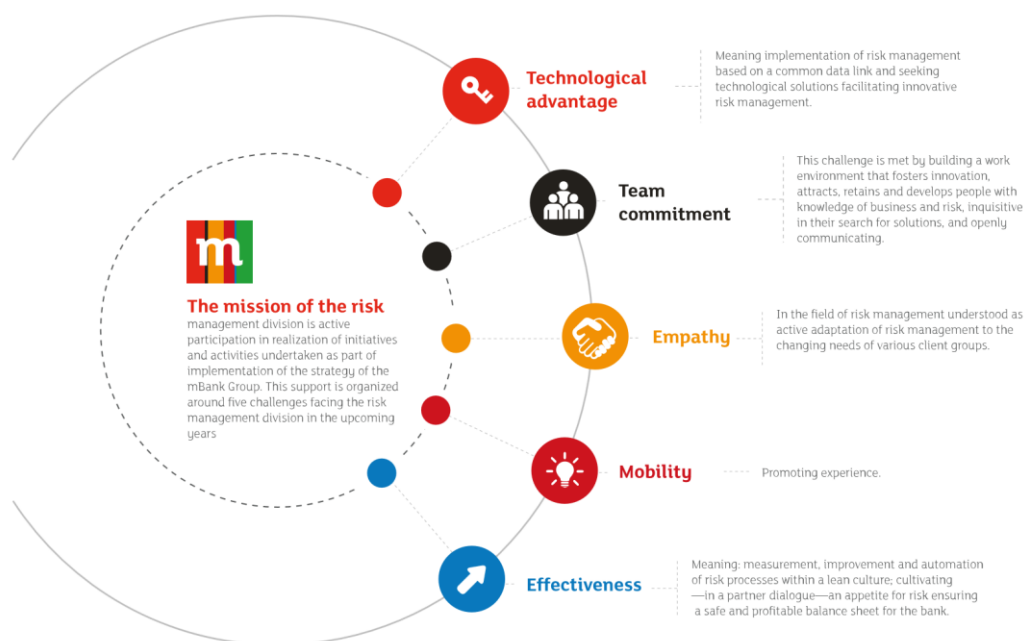
- Implementation of the Concentration Risk Management Strategy of mBank Group. The strategy, defining the framework for managing concentration risk using the existing system of limits and stress tests, was approved by the Management Board and the Supervisory Board of the bank.
- The internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process (ILAAP) were reviewed. The results of the reviews were presented to the Management Board and the Supervisory Board of mBank.
- Periodic risk inventory process was carried out resulting in the update of the Risk Catalogue of mBank Group. The process was carried out in accordance with the modified rules (as a result of ICAAP review). The key change consisted in inclusion in the Catalogue of all risks identified in the Group's operations (previously the Catalogue included the list of material risks).
- Programme of continuous increase of work efficiency based on the Lean Management rules was continued. Further processes in the risk management area are reviewed and streamlined using the lean philosophy and tools. The purpose of the programme is to allow the growing number of tasks accompanying business growth and increasing number of regulatory requirements without the need to significantly increase resources and to reallocate resources from the streamlined operating areas to the areas where resources need to be increased due to the realized projects or growing scope of tasks.

5.3.2. Risk management foundations

Vision of the risk management area

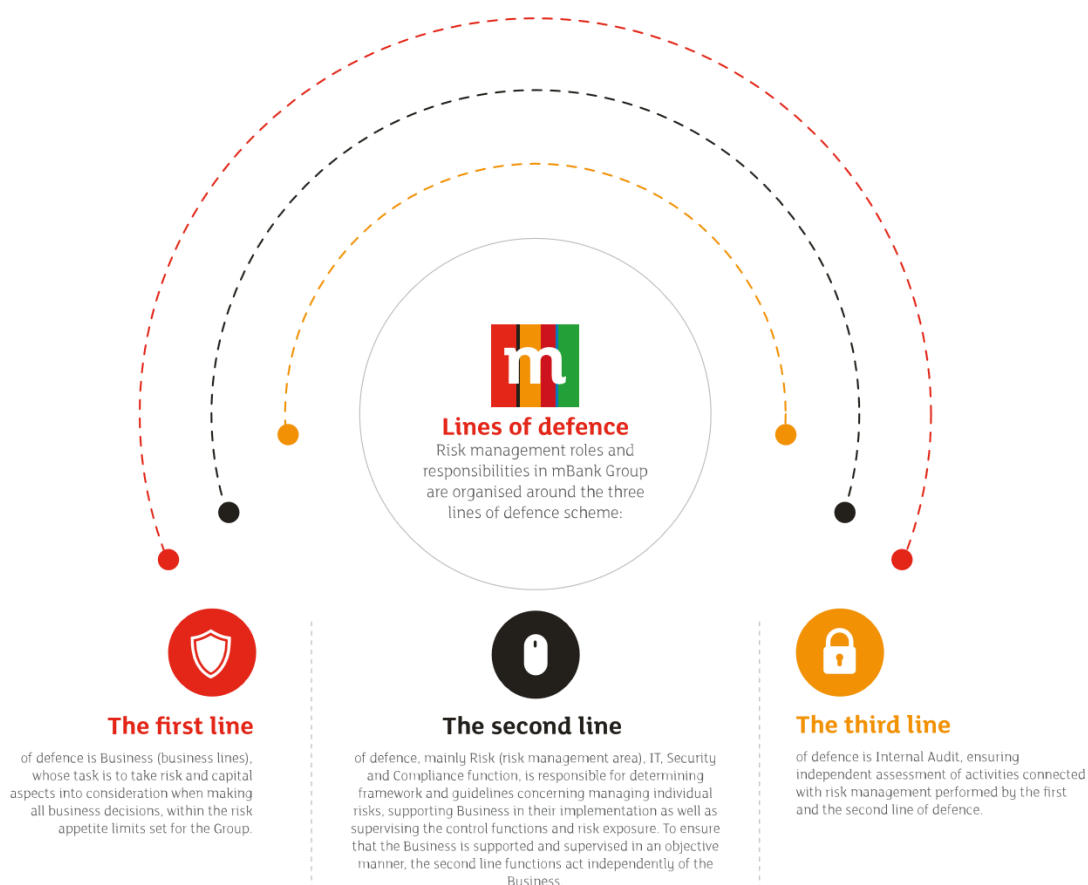


The risk management process is conducted at all levels of the organizational structure, starting at the levels of the Supervisory Board (including the Risk Committee of the Supervisory Board) and the bank's Management Board, through specialised committees and units responsible for risk identification, measurement, monitoring, control and reduction, down to each business unit.



Lines of defence

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



Business and Risk Forum of mBank Group

In the risk management process, the bank attaches high importance to the communication between organizational units in the area of risk management and lines of defence in mBank as well as between the bank and the Group subsidiaries. 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 Committees are composed of the representatives of business lines and respective risk management area departments of mBank and the respective organizational units of the Group subsidiaries. Each Committee is responsible for all risks generated by business activity of the given business line.

The Forum is constituted by the following Committees assigned to individual business lines:



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	
Integrated Risk and Capital Management Department	<ul style="list-style-type: none"> ■ Integrated risk, capital and liquidity management in the bank and the Group, in particular through: control of risk profile, capital and liquidity adequacy, and risk bearing capacity; integration of risk valuation; integration of control of non-financial risks and Internal Control System Self-assessment (ICS). ■ Identifying, measuring, controlling, monitoring and developing methods for measuring market risk, interest rate risk of the banking book, liquidity risk and counterparty risk. ■ Monitoring of overall risk profile of organizational units in the area of financial markets. ■ Managing the process of integrated risk, capital and liquidity reporting.
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.
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.
Processes and Risk Measurement 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). ■ Verification of value, liquidity and attractiveness of real estate and movables provided for collateral of loans.
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.
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.
Validation Unit	<ul style="list-style-type: none"> ■ Integration of model and their risk management. ■ Validation of quantitative models.
Position for risk development	<ul style="list-style-type: none"> ■ Managing development activities of the managerial staff and employees of the risk management area.

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

5.3.3. Capital adequacy

One of the bank's main tasks is to ensure an adequate level of capital. As part of the capital management policy, the bank creates a framework and guidelines for the most effective planning and use of the capital base, which:

- are compliant with external and internal regulations in force,
- guarantee a continuity of financial targets achievement, which render an appropriate rate of return for shareholders,
- ensure the maintenance of a strong capital basis being a fundamental support for business development.

The capital management policy in mBank is based on:

- maintenance of an optimal level and structure of own funds with the application of available methods and means, like among others retention of net profit, subordinated loan or issue of shares,
- effective use of existing capital, among others through application of a set of measures of effective use of the capital, limitation of activities that do not provide an expected rate of return and development of products with lower capital absorption.

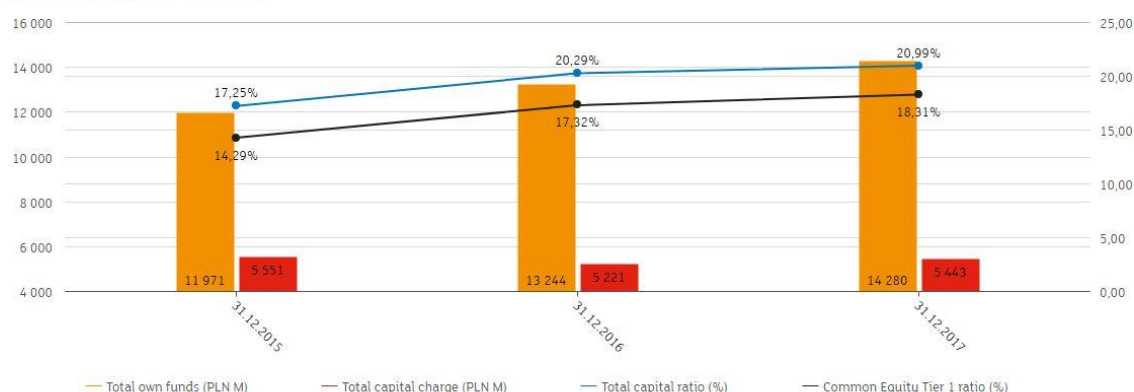
The strategic goals of mBank and mBank Group are aimed at maintaining the total capital ratio as well as the Common Equity Tier 1 capital ratio above the levels required by the supervision authority. This

allows to maintain business development while meeting the supervisory requirements in the long perspective.

Capital ratios on consolidated and individual basis were above the values required throughout 2017.

	mBank Group		mBank	
Capital ratio	Required level	31.12.2017	Required level	31.12.2017
Total capital ratio (TCR)	17.55%	20.99%	18.12%	24.62%
Tier 1 ratio	13.67%	18.31%	14.09%	21.51%

Capital adequacy of mBanku Group



The capital ratios of mBank Group in 2017 were driven by the following factors:

- inclusion, in Common Equity Tier 1 capital, of the remaining part of the net profit of mBank Group for the year 2016, not included in Common Equity Tier 1 capital on the basis of the PFSA decision obtained in 2016;
- inclusion, in Common Equity Tier 1 capital, of the verified net profit of the mBank Group for Q1, Q2 and Q3 2017, net of expected charges and dividends, on the basis of the PFSA decisions of May 29, 2017, September 7, 2017, and December 19, 2017, respectively;
- classification of capital instruments issued within incentive programs in the period from August 1, 2016, till June 30, 2017, as instruments in Common Equity Tier 1 capital on the basis of the PFSA decision of December 8, 2017;
- change of the limit for unrealized gains measured at the fair value included in the own funds calculation from 60% in 2016 to 80% in 2017;
- change of the limit for grandfathered subordinated instruments included in the own funds;
- inclusion of the company Future Tech Fundusz Inwestycyjny Zamknięty in prudential consolidation from June 2017;
- extensions of the AIRB approach: confirmation of June 12, 2017, from ECB and PFSA regarding high significance conditions that have been met in respect to the conditional consent to the application of the advanced internal rating based approach (AIRB approach) to the calculation of own funds requirement for credit risk for mBank non-mortgage portfolio;
- implementation of the Resolution of the Ministry of Development and Finance of May 25, 2017, regarding higher risk weight for exposures secured by mortgages (regarding mainly foreign exchange mortgage exposures); the increase in risk weight from 100% to 150% for FX

exposures secured by mortgages on immovable property under standardised approach had no impact on the Group capital charges as the Group applies advanced internal rating based approach for the given portfolio. However the accompanying change, implemented according with the PFSA communication of September 19, 2017, with regard to the application of the preferential risk weight for a part of the exposure secured by mortgage on residential property up to 80% of the property market value had a significant influence on Group RWAs;

- expansion of the mBank Group business activity;
- appreciation of the Polish zloty against the foreign currencies.

The level of the required capital ratios at the end of 2017 was among others affected by the following administrative decisions:

- according to the PFSA decision, in 2016 mBank had been identified as other systemically important institution (O-SII) subject to a capital buffer; according to the PFSA decision of December 19, 2017, the capital buffer amounted to 0,75% of the total risk exposure amount, calculated in accordance with the provisions of the CRR Regulation, to be maintained on individual and consolidated levels. The bank has applied the required capital buffer, defined in the December decision, to December 31, 2017 end data.
- according to the PFSA decision of November 20, 2017, and the subsequent communication of December 15, 2017 mBank should maintain additional own funds on individual basis with regard to the risks related to the portfolio of FX retail mortgage loans of 4.10% at the level of total capital ratio and 3.07% at the level of Tier 1 capital (on consolidated basis: 3.53% and 2.65% accordingly).

The level of the required capital ratios encompasses:

- the basic requirement of PFSA addressed to banks in Poland as at December 31, 2017, to maintain the total capital ratio of 12% and the Tier 1 ratio of 9%;
- the additional capital charge in Pillar II with regard to FX mortgage loan portfolio – 3.53% at the level of total capital ratio and 2.65% at the level of Tier 1 capital on consolidated basis (and on individual basis 4.10% and 3.07% accordingly);
- the combined buffer requirement of additional 2.02%, which consists of the collateral buffer, the other systemically important institution buffer and countercyclical capital buffer.

With a considerable surplus of own funds mBank Group comfortably meets the additional own funds requirement and the combined buffer requirement.

Requirements resulting from article 500 of the CRR Regulation

The next component of the adequacy assessment of Group's capital base is verification whether Group meets requirements resulting from article 500 of the CRR Regulation. For this purpose, the value of the Group's own funds is compared to the value of 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 that they will 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 reference value.

The consolidated leverage ratio calculated in accordance with the provisions of the CRR Regulation and Commission Delegated Regulation (EU) 2015/62 of October 10, 2014, including provisions regarding transitional period, amounted to 9.00%. The stand-alone leverage ratio amounted to 9.05%.

Stress tests

Stress tests are an essential tool used for managing the bank and the Group and for capital and liquidity planning. In order to ensure compliance with regulatory requirements under normal and stress conditions the Group and the bank carry out sensitivity analyses and scenario analyses for key concentration risks. The Management Board decides on the choice of risk scenario used for management purposes to ensure adequate capital resistance of the mBank Group in crisis situations.

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.

The Group and the bank carries out so called reverse stress tests the goal of which is to identify events potentially leading to unviability of the Group and the bank. Reverse stress tests are used for the verification of capital and liquidity contingency plans of the Group and for making strategic decisions concerning accepted risk profile of the Group.

5.3.4. Main risks in the mBank Group's business

The Management Board of mBank takes measures necessary to ensure that the Group 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 December 2017:

Credit risk	<ul style="list-style-type: none"> ▪ Risk of losses resulting from unexpected default or deterioration in creditworthiness which can threaten the performance of an obligation.
Market risk	<ul style="list-style-type: none"> ▪ Risk of adverse change in valuation of financial instruments held in the Group's portfolios as a result of changes in market risk factors, in particular: interest rates, FX rates, stock prices and equity indices, commodity prices, implied volatilities of options and credit spreads.
Operational risk	<ul style="list-style-type: none"> ▪ Risk of loss resulting from a mismatch or unreliability of internal processes, systems and actions taken by the bank's employee or external events. ▪ Operational risk includes, in particular, the following sub-categories: legal risk, IT risk, cyber risk, compliance risk, conduct risk, external fraud risk, outsourcing risk.
Business risk	<ul style="list-style-type: none"> ▪ Risk of losses resulting from deviations between actual net operating result of the mBank Group and the planned level.

Liquidity risk	▪ Risk of loss of ability to timely repay liabilities and raise funds for financing future cash flow in the currencies of operations.
Reputational risk	▪ Risk resulting from a negative perception of the image of the bank or other members 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 capital as well as lack of the possibility to achieve sufficient capital adequate to the business activity's risk undertaken by the bank, required to absorb unexpected losses and meet regulatory requirements assuring further independent acting by bank.
Regulatory risk	▪ Regulatory risk is understood as the risk of changes in existing regulations or introduction of new regulations concerning specific area of the bank's activity affecting capital adequacy or liquidity; in mBank Group in particular related to the FX mortgage loan portfolio.

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, T and C) 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 the Group subsidiaries internal regulations.

In their credit risk management process, the bank and the Group subsidiaries use the core risk measures defined under the AIRB approach:

- PD – Probability of Default (%),
- LGD (Loss Given Default) – estimated relative loss in case of default (%),
- EAD (Exposure at Default) – estimated exposure at the time of default (amount),
- EL – Expected Loss taking into account the probability of default (amount);

and related measures including:

- RD (Risk Density) – relative expected loss defined as EL to EAD (%),
- LAD (Loss at Default) – estimated loss (amount) in case of default (the product of EAD and 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. For this purpose, the bank uses the RWA (Risk Weighted Assets) measure, which is applied, under the AIRB approach, to calculate regulatory capital required to cover credit risk (unexpected loss).

In managing mortgage-secured credit exposures 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.

Stress testing is an additional tool of credit risk assessment. Stress testing of the regulatory capital and economic capital required to cover credit risk is carried out quarterly.

In addition to the tools listed above, which are applied both in the corporate and in the 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.

In order to minimise credit risk, the Group uses a broad range of collateral for credit products, which also enable active management of the capital requirement. In the assessment of the quality of collaterals for risk products, mBank and mLeasing use the MRV ratio (Most Realistic Value) reflecting the pessimistic variant of debt recovery from the collateral through forced sale.

In addition, the RORAC ratio (Return on Risk Adjusted Capital) is applied in the decision-making process and the assessment of profitability of a client in the CRM system.

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:

- Dtl (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 present the quality of cohorts of loans grouped by disbursement time at a different phase of their lifetime.
- 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 this area 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 credit risk policies, including industry policies, limits reducing the risk 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. The Strategy as well as the credit risk policies were updated in 2017, taking into consideration particularly risk appetite, present economic trends and prospects for development of sectors, industries and groups of clients being financed by the bank.

In 2017 the project of restructuring corporate credit process was continued. The purpose was to improve effectiveness of processes. The process of assessment of small exposures was centralized and the decision-making powers were adjusted to these modifications.

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, limits, guidelines and recommendations on the Group's exposure to selected 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.

The bank 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 where credit risk is considered excessively high. The bank uses industry limits to manage the sector concentration risk. In 2017 new methodology of assigning industry limits was introduced and it enhances the existing mechanisms for controlling industry concentration risk by using quantitative factors based on portfolio data while maintaining the importance of expert's opinions as well.

In 2017 the limit for shadow banking exposures was introduced; the limit is in line with EBA guidelines regarding shadow banking entities (the limits for exposure to entities form the parallel banking system).

In compliance with the Recommendation S of the Polish Financial Supervision Authority, the bank has identified a mortgage-secured credit exposure portfolio in retail and corporate banking and applies the Mortgage-Secured Credit Exposure Risk Management Policy. 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.

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 with low capital consumption, in particular products of investment banking (ECM, DCM, M&A), transactional banking and financial markets instruments.

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 constantly upgraded 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 2017 (by value). The bank ensures the coherence of the credit risk management policy on all markets; any differences in specific rules or parameter values in credit policy 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 mBank Group. The general principle underlying the lending strategy of the Group in terms of sales of retail loans 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. To achieve this growth bank provides financing to clients doing shopping online. To reduce 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 restore acquisition of mortgage products for private individuals in mBank effective on July 22, 2017. Until that day, the sale of loans for financing residential real estate took place in mBank Hipoteczny. The new acquisition will be still 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. Those exposures will then be transferred to mBank Hipoteczny in the pooling process to enable the issue of mortgage bonds. 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, 2017, the share of impaired exposures in the total (gross) amount of loans and advances granted to clients decreased to 5.2% from 5.4% at the end of 2016.

Provision for loans and advances to customers increased from PLN 2,817.5 million at the end of December 2016 to PLN 2,911.9 million at the end of December 2017. The IBNI (Incurred But Not Identified) loss provision increased from PLN 226.4 million to PLN 243.8 million in that period.

The ratio of provisions to non-performing loans increased to 59% from 57% in 2016.

In 2017 the demands for payment for corporate clients amounted to 37 compared to 7 a year earlier. In 2017 in Retail Banking segment above 26 thousand actions were brought in order to obtain enforceable title for non-mortgage loans in comparison to 14.5 thousand actions brought a year earlier. For mortgage loans the number of actions amounted to 161 compared to 168 in 2016.

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 December 2017, the loans and advances (net) to customers rose by 3.3%. The increase was driven mainly by the rising volume of corporate portfolio loans.

In the portfolio of individuals, the decrease of term loans was nearly offset by the increase in current accounts.

The table below presents the quality of mBank Group loan portfolio as at the end of December 2017 compared to the end of 2016.

Quality of the mBank Group loan portfolio	31.12.2016 (in thou. PLN)	31.12.2017 (in thou. PLN)
Loans and advances to individuals:	48,949,829	48,142,786
- current accounts	6,458,369	7,324,329
- term loans, including:	42,491,460	40,818,457
- housing and mortgage loans	35,369,113	32,593,180
- other	-	-
Loans and advances to corporate entities:	34,174,289	37,941,722
- current accounts	4,125,405	5,187,588
- term loans:	28,267,897	30,599,981
- large enterprises	5,037,182	5,030,702
- medium & small enterprises	23,230,715	25,569,279
- reverse repo/buy sell back	56,676	57,119
- other	1,724,311	2,097,034
Loans & advances to public sector	1,228,230	995,570
Other receivables	228,424	307,627
Total (gross) loans and advances to customers	84,580,772	87,387,705
Provision for loans and advances to customers (negative amount)	-2,817,495	-2,911,861
Total (net) loans and advances to customers	81,763,277	84,475,844
Short-term (up to 1 year)	26,909,693	29,191,490
Long-term (over 1 year)	54,853,584	55,284,354
Incurred but not identified (IBNI) losses		
Gross balance sheet exposure	80,043,614	82,883,395
IBNI loss provision for portfolio exposures	-226,430	-243,810
Net balance sheet exposure	79,817,184	82,639,585
Impaired exposures		
Gross balance sheet exposure	4,537,158	4,504,310
Provisions for impaired exposures	-2,591,065	-2,668,051
Net balance sheet exposure	1,946,093	1,836,259

Market risk

mBank organises market risk management processes in line with the requirements resulting from the law and supervisory recommendations, in particular the PFSA Recommendations (among others A, C, 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 prices and index value, 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 to 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. 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), Stressed Value at Risk (Stressed VaR), 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.

mBank has limited risk appetite for interest rate risk in long term buckets by setting BPV (+1bp) limit for total interest rate position of mBank Group for tenors above 20 years and above 30 years, as well as it established an acceptable appetite for credit spread risk by setting CS BPV (+1bp) limits in the structure described by rating categories for all debt papers (treasury, commercial and with own receivables status).

Cross currency basis risk of CIRS transactions position, resulting from realization of funding strategy assumptions regarding CHF mortgage portfolio, is limited as part of stress test scenarios and within Value at Risk calculation.

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.

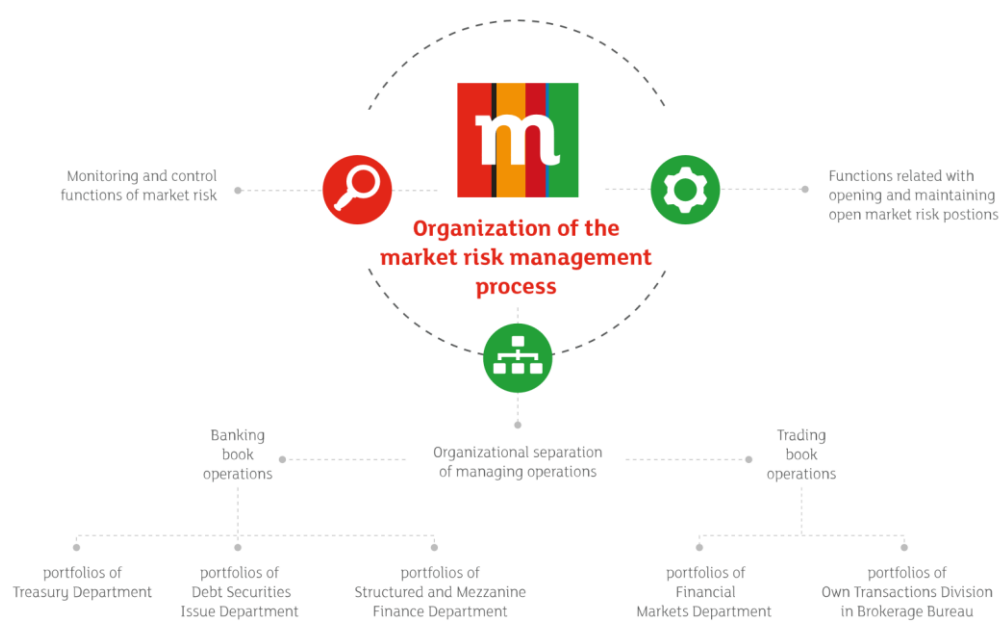
The bank is focused on meeting customers' business needs, while reducing trade in derivatives in terms of currency, currency pairs, nominal values and tenors of transactions, as well as applying the principle of lack of commodity open positions. The bank conducts trading activity on well-known markets using financial instruments the bank has adequate expertise in and that have been approved for trading.

Bank stabilizes interest income using long-term fixed-rate assets and derivatives and assuming - for stable parts of equity and current accounts - the maximum modelled maturity profile of 5 years. Managing interest rate risk of the banking book takes into account the economic and accounting perspectives, and the financial instruments used for hedging are adequate to the bank's expertise and have been approved for trading.

The market risk profile is derived from the strategic goals of business units, the policy of the 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 Division in Brokerage Bureau).



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 2017 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).

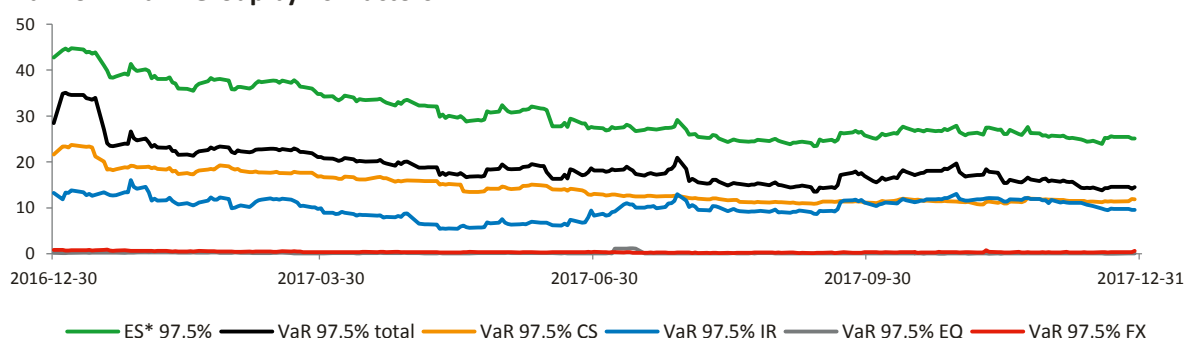
The table below presents VaR statistics in 2017:

PLN thousand	mBank Group	mBank	mBH	mLeasing
VaR IR average	10,072	9,970	82	101
VaR FX average	362	360	20	19
VaR EQ average	140	140	0	0
VaR CS average	14,282	13,980	358	0
VaR average	18,965	18,685	358	101
VaR max	35,076	34,560	493	232
VaR min	13,527	13,429	227	28
VaR 31.12.2017	14,472	14,038	408	29

For comparison, at the end of 2016, VaR for mBank Group was PLN 28,438 thousand, including VaR of mBank at PLN 28,037 thousand, mBank Hipoteczny – PLN 459 thousand and mLeasing – PLN 212 thousand.

The graph below presents changes in VaR for mBank Group in 12 months to 31.12.2017 (PLN million):

VaR for mBank Group by risk factors



Stress testing

The result of stress tests for mBank Group in 2017 is presented in the table below:

PLN M	2017				2016			
	31.12.17	average	max	min	31.12.16	average	max	min
Base stress test	146	89	155	11	102	87	125	26
CS stress test	713	703	782	635	767	710	798	639
Total stress test	859	792	903	655	869	797	914	679

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 2017, the average utilisation of the stress test limit for mBank Group without capital modelling was 59% (PLN 791.9 million) and with capital modelling was 61% (PLN 870.4 million).

Liquidity risk

mBank organises liquidity risk management processes in line with the requirements resulting from the law and supervisory recommendations in particular the PFSA Recommendations (among others P, C, 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 Integrated Risk and Capital Management Department. The main measures used in liquidity risk management of the bank include measures based on liquidity gap calculation in LAB methodology in force since December 6, 2017, ANL (Available Net Liquidity) measures until December 5, 2017, the regulatory measures (M1, M2, M3, M4), LCR, and also NSFR (Net Stable Funding Ratio) for analysis only. LAB/ANL measures reflect the projected future cash flow gap of assets, liabilities and off-balance-sheet commitments of the bank, which represent potential risk of being unable to meet liabilities within a specific time horizon and under a certain scenario.

The methodology for measuring the liquidity gap (LAB) includes normal conditions scenario LAB Base Case, stress scenarios subject to limits:

- LAB Bank Stress (short-term) – short-term scenario (up to 2 weeks) of the idiosyncratic stress,
- LAB Market Stress (long-term) – long-term scenario (up to 2 months) of the market crisis,
- LAB Combined Stress I – combined stress scenario that presents the effects of the simultaneous occurrence of short-term idiosyncratic stress and long-term market related stress,

as well as stress scenarios which are not limited:

- LAB Bank Stress (long-term),
- LAB Market Stress (short-term),
- LAB Combined Stress II.

ANL scenarios included 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 LAB/ANL 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) and recovery indicators. 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.

LCR calculation and reporting is carried out in accordance with the Delegated Commission Regulation (EU) 2015/61 of October 10, 2014, which has been in force since October 2015.

With the respect of NSFR, the bank reports to the NBP according to the standards established by EBA in 2014, and reports to the PSFA in the 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 National Bank of Poland. NSFR measure is monitored.

The liquidity risk internal limit system is based mainly on defining acceptable level of gaps 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 bank has the Contingency Plan in case of a threat of losing financial liquidity, which sets the strategy and procedures to be implemented in the event of a situation connected with the risk of losing liquidity by the mBank Group and aimed at neutralising this threat. The document defines the division of responsibility for monitoring and identifying threats, and actions during the emergency situation. The Contingency Plan is tested at least annually.

The bank has developed the Recovery Plan of mBank Group, functioning in parallel with the Contingency Plan and covering situations where a broader range of actions, than those defined in the Contingency Plan, is required.

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.

In the bank the review of internal liquidity adequacy assessment process (ILAAP) is conducted. The process covers the bank and the mBank Group. The results of the review are presented to the Management Board and the Supervisory Board.

Measuring the Group's liquidity risk

The Group's liquidity risk measurement includes in addition mBank Hipoteczny and mLeasing. mBank monitors liquidity risk of the subsidiaries so as to protect liquidity also at the Group level in the event of adverse events (crises).

The Group's liquidity was at a safe level in 2017, as reflected in the high surplus of liquid assets over short-term liabilities in the LAB, ANL measures and the LCR calculated at the Group level.

The table below presents the LAB, ANL gaps for tenors up to 1M and 1Y and the LCR at the mBank Group level:

Measure*	2017			
	31.12.2017	average	maximum	minimum
ANL Stress 1M**	14,842	16,351	21,169	12,947
ANL Stress 1Y**	13,808	14,712	19,690	11,538
LAB Base Case 1M***	20,934	17,791	20,934	15,617
LAB Base Case 1Y***	15,337	14,716	16,666	10,039
LAB Bank Stress 1M***	14,674	12,847	14,853	10,879
LAB Market Stress 1M***	18,188	15,923	18,352	13,783
LAB Combined Stress 1M***	14,150	12,325	14,380	10,475
LCR Group	191%	190%	244%	161%

* ANL, LAB measures are shown in PLN million.

** The value as of December 5, 2017. Mean, maximum and minimum are calculated for period until December 5, 2017.

*** Mean, maximum and minimum are calculated for period starting from December 6, 2017.

Operational risk

mBank organises the operational risk management process taking into account the rules and requirements set out in external regulations, in particular in the Recommendations M, H and D of the Polish Financial Supervision Authority, which constitute a starting point for the framework of the operational risk control and management system in mBank Group.

Tools and measures

Operational risk accompanies all processes at banks 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, 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 and the Group subsidiaries. The aim of the process is to increase the awareness of operations risk in mBank Group, to ensure 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 the assessment of risks and control mechanisms as well as the creation of 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 bank prepares also scenario analyses describing risks associated with rare operational risk events with potentially very serious consequences.

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.

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.

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.

6. Outlook

6.1 Introduction

While creating the strategy for 2016-2020, mBank responded to market challenges in both the short and long term perspective, taking into account possible scenarios for the development of the banking sector in Poland, the Czech Republic and Slovakia. We focus on three pillars that will also determine our future activities. They are empathy, mobility and efficiency.

6.2. Short-, mid- and long-term perspective

Short- and mid-term perspective

Finances

Net interest income & NIM	(slightly positive)
[+] Continued gradual increase of margin driven by changing structure of loan portfolio (more higher-yielding products).	

[-] . No room for further reduction of funding costs.

Net Fee & Commission income	(neutral)
[+] 2 Constantly rising client transactionality and strong acquisition in both retail and corporate segment..	

[-] 2 Adjustment of fees difficult due to fierce competition.

Total costs	(slightly negative)
[+] 2 Business-driven costs to be kept well-contained.	
[~] 2 Contribution to the BFG expected to remain stable.	
[-] 2 Rising amortisation due to ongoing investments in IT.	

Loan Loss Provisions	(slightly negative)
[-] 2 Small downside risk due to changing loan book mix.	
[-] 2 Potential increase in provisioning due to IFRS 9.	
[+] Resilient asset quality supported by good macroeconomic situation and low unemployment.	



Business and operations

- Continuing the development of the mobile channel as the basic way of contacting the bank and managing finances on a day-to-day basis as well as enhancement of the online platform.
- Developing mobile solutions for corporate clients.

-
- Continuing the cooperation with AXA Group, especially in the stand-alone insurance segment.
-
- Continuing the automation of the bank's internal processes and development of processes based on mobile solutions.
-
- Continuing the acquisition of young clients.
-
- Maintaining the position of the bank of first choice in the K2 segment and ensuring dynamic business growth in the K3 segment.
-

We assume that in the short-term and mid-term horizon, that is until 2020, no major changes will occur in the market, competitive and regulatory environment. The macroeconomic situation will still be favourable to the industry, and the sector's consolidation will continue. Although mBank Group does not rule out acquisition, it is consistent in pursuing organic growth.

The banking market will continue to see strong development of the mobile payment segment. mBank employs digital channels for sales and client acquisition to a greater extent than competing banks in Poland, which have historically developed a more traditional outlet-based distribution model. We stick to the rule "mobility first", which reflects our mission to provide clients with user-friendly and multi-channel access to services. We take every effort to ensure that our clients want to stay with mBank "forever" and recommend it to their friends and family, being satisfied with its services. mBank Group will strengthen its key competitive advantage, supporting the ongoing IT and digital initiatives which streamline and automate internal processes that are important to clients.

We will also continue the digital transformation in the corporate banking business line. It will involve digitation of certain products (including limited use of hard-copy documents), further improvement of the mCompany Net application to meet clients' expectations as well as automation and simplification of internal processes.

Long-term perspective

Finance

- Ensuring stability of financing in the long-term and maintaining the loan/deposit ratio at ca. 100%.
-
- Maintaining sustainable dividend capacity.
-
- Remaining one of the efficiency leaders in the banking sector.
-

Business and operations

- Continuing efforts to grow our client base driven by strong relationships and careful attention to the client's satisfaction with the quality of services, customized product offer and innovative solutions.
-
- Carrying on work on a product mix that caters for the needs of our clients as well as transparent and comprehensible terms and conditions of offering these products in accordance with the principles of client-centricity.
-

-
- Strengthening the bank's position and image of mobility icon.
-
- Responding to demographic trends and changing client behaviour.
-
- Observing and testing promising solutions and technologies.
-
- Continuing investments in cybersecurity and the security of data, transactions and funds entrusted by clients.
-
- Perfecting the multi-channel sales and customer service model with a particular emphasis on mobile banking development.
-
- Actively cooperating with the public administration in the area of digital services for citizens.
-
- Retaining the position of an employer attractive to the most gifted employees creating state-of-the-art solutions in the financial services sector.
-

We have been developing mBank's business in a responsible and sustainable manner, combining long-term growth assumptions with efficiency measures, mainly the cost-to-income (C/I) ratio. Currently, the C/I ratio ranks mBank among the leaders of the banking sector. Moreover, mBank is one of the most efficient banks in Poland in terms of revenues and profit per employee or branch. Our long-term goal is to remain one of the efficiency leaders in the banking sector.

In 2012, after ten years, mBank resumed the payment of dividends to its shareholders; however, the 2014-2016 profit was retained in whole in accordance with regulatory recommendations. To constantly demonstrate the dividend payment capacity, despite tightening regulatory requirements, is an element of the "Mobile Bank" strategy for 2016-2020 and a long-term goal. More information about our dividend policy is available here: [/mBank Group's capital base/](#).

mBank Group expects its customer base to grow continuously. In pursuit of this goal, we foster strong relationships, pay careful attention to the client's satisfaction with the quality of services and provide clients with customized product offer and innovative solutions. In addition, we plan to keep on perfecting the multi-channel sales and customer service model, putting a particular emphasis on mobile banking development.

In order to strengthen the bank's position and image of mobility icon, we will continue our efforts to offer simple and comprehensible products on transparent terms and conditions, with clients' needs underlying all our decisions.

Responding to demographic trends and changing client behaviour is a challenge the group will face in the future. In order to meet it, we have been observing and testing promising solutions and technologies. Moreover, we plan to continue our investments in cybersecurity and the security of data, transactions and funds entrusted by clients.

Since people are at the core of our vision and strategy, we plan to retain the position of an employer attractive to the most gifted employees creating state-of-the-art solutions in the financial services sector.

6.3. Outlook for the banking sector and mBank for 2018

Polish economy in 2018

Economic indicators	2016	2017	2018F
GDP growth (YoY)	2.9%	4.6%	4.6%
Domestic demand (YoY)	2.2%	4.7%	5.4%
Private consumption (YoY)	3.9%	4.8%	4.2%
Investment (YoY)	-7.9%	5.4%	9.0%
Inflation (EOP)	0.8%	2.1%	2.2%
NBP reference rate (EOP)	1.5%	1.5%	1.5%
CHF/PLN (EOP)	4.11	3.57	3.45
EUR/PLN (EOP)	4.40	4.18	4.10

Source: mBank's estimates as of February 6, 2018.

Despite the market consensus predicting a slight slowdown in Poland, the bank expects GDP growth at the level of 4.6% on a yearly average in 2018. The 2018 growth will be more balanced - the contribution of private consumption is likely to decrease slightly. At the same time, the role of investment will grow considerably.

The factors of private consumption mentioned in the earlier part of this report will still be present throughout 2018. Nominal salaries are likely to grow by 10% this year. What's important, the contribution of credit to the current growth in consumption is marginal, which means that the consumption cycle is still far from maturity. Consumption will be also helped by the real property market which has entered 2018 with a great deal of momentum.

2018 is likely to see further revival on two fronts: in private and public investment. Growth in public investment will be helped by the launch of new investments financed with EU funds and the election season beginning with the local election in 2018. High capacity utilization accompanied by the need to improve efficiency, mitigate the consequences of employee shortages and replace obsolete fixed assets will result in an increase in private investment in the short term. Its pace in Poland may be lower than in Hungary and the Czech Republic, but its contribution to GDP growth will be higher than in 2017.

In the bank's opinion, the contribution of the remaining GDP components will be close to zero. The expected revival in investment will probably result in an increase in imports, which in turn will offset the positive impact that the good condition of the global economy will have on the Polish exports. The public sector pay cap will not be eased in 2018, putting a curb on private consumption. The contribution of change in inventories will be positive, which is typical of the current phase of the economic cycle.

The trajectory of inflation which the bank forecasts for 2018 resembles a reverse U. After a decrease at the beginning of the year attributable to the base effects in the food category, inflation will approach (or even exceed) the inflation target in mid-year due to an increase in fuel prices compared with the previous year and an upward trend in the base categories. It will then start to decrease modestly at the year-end due to a high base in the food category and will reach 2%. With inflation close to the target and economy growing dynamically, the MPC will not change the policy and will keep rates at the current levels throughout the year. In the bank's opinion, the MPC will take a more symmetric approach towards the inflation target than the previous councils and will tighten the policy only when

inflation permanently exceeds 3% and a strong increase in the price pressure occurs in the base categories. This will not happen until 2019.

Zloty

The bank expects the zloty to strengthen in 2018. However, the appreciation will not be considerable and fast. The MPC's approach mentioned above is negative from the point of view of the exchange rate of the zloty in both short and medium term due to negative real interest rates. As interest rates are rising globally, the disparity of nominal interest rates is shrinking as well, which makes the Polish currency less popular. Nevertheless, the positive factors, in particular cyclicity, should prevail in one year's horizon.

Banking sector and monetary aggregates

Banking sector - monetary aggregates	2016	2017	2018F
Corporate loans	5.0%	5.9%	12.9%
Mortgage loans	4.8%	-0.1%	3.7%
Non-mortgage loans	5.5%	5.4%	8.0%
Corporate deposits	7.9%	2.4%	8.7%
Household deposits	9.7%	4.2%	7.4%

Source: mBank's estimates as at February 6, 2018.

Credit volumes are expected to grow further in 2018 in both the retail and corporate area. Housing loans will have a slightly bigger contribution to the overall lending to households, but due to the high base (i.e. the volume of loans originated in the previous years) even a considerable increase in loan production would have only a limited impact on the overall growth in volumes in this category. The already solid growth in consumer loans will continue throughout 2018. Corporate loans are expected to grow at a faster pace driven by all sub-categories, in particular investment and real estate loans. Deteriorating liquidity may additionally boost companies' demand for overdraft facilities and working capital loans.

Deposits of the non-financial sector will be growing slightly faster than dynamics of loans in 2018. The year-on-year growth in household deposits is likely to accelerate slightly helped by more attractive long-term deposits and a further increase in nominal incomes. Growth in corporate deposits will also be higher as it will no longer be impacted by the factors which pushed it down considerably in 2017 (including the significant strengthening of the zloty, the negative effects of the government's efforts to close the tax gap and the impact of rising labour costs on the liquidity position of some companies). Nevertheless, growth in household and corporate deposits will be curbed by growing popularity of alternative ways of saving and investing.

7. About the report

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. Non-financial were not verified by an independent auditor. While working on the report we also took into consideration the PN-ISO 26000 standard. The report sums up all actions taken within the five year CSR Strategy for 2016-2020. The report covers the whole mBank Group, , but starting from 2017. mLocum has not been a part of the Group.

In August 2017 a workshop was held and attended by several dozen bank managers of key importance. To meet employees expectations and to ensure the widest representation of employees, the meeting took an innovative character with the use of video conferencing technology, thanks to which employees from other locations could participate in the workshop. During the workshop, conducted by and external moderator, the participants got acquainted with the requirements of integrated reporting, they worked on the business model and capital. The stakeholders map and the matrix of relevance were also verified and updated during the meeting.

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	G4-PR1, G4-PR2, G4-PR4, G4-PR5, f. FS16,	high
Complaints	G4-PR5	high
Protection of client data	G4-PR8	high
Availability of financial services	FS13, FS14	high
Involvement in education	G4-SO1, f. FS16	medium
Being a responsible investor in the context of indirect economic, environmental and social influence	f. FS1, d. FS2, FS3, f. 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)	G4-EN1, G4-EN3	medium
Responsibility management in supply chain	G4-EN32, G4-LA14, G4-SO11	high

Financial results	-	high
Share price performance	-	high

The major stakeholders 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).

The foundations of how we want to do business are listening and empathy allowing us to think the way our clients think and achieve better common understanding. That is why the dialogue with clients goes beyond the legal requirements and the standards adopted on the market, and we run numerous communication channels. We also use a set of market surveys and own, innovative direct customer engagement solutions.

We promote openness and culture of dialogue with employees, we engage in the employee appraisal process and we conduct and analyze the results of regular employee engagement surveys. We encourage mutual knowledge sharing within the internal program, which also improves and strengthens dialogue.

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. The dialogue using various tools is decentralized, 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.

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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8. Tables with non-financial data

[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).

	2017		
	Men	Women	In total
mBank S.A.			
for a definite period	1,453	813	2,266
for an indefinite period	2,582	1,911	4,493
working full-time	3,229	2,334	5,563
working part-time	806	390	1,196
under the age of 30	1,019	607	1,626
30-50 years old	2,709	1,926	4,635
above the age of 50	307	191	498
In total	12,105	8 172	20,277
mBank S.A. (Czech Republic)			
for a definite period	50	14	64
for an indefinite period	83	55	138
working full-time	112	68	180
working part-time	21	1	22
under the age of 30	63	30	93
30-50 years old	64	38	102
above the age of 50	6	1	7
In total	399	207	606

mBank S.A. (Slovakia)			
for a definite period	5	4	9
for an indefinite period	36	23	59
working full-time	40	25	65
working part-time	1	2	3
under the age of 30	15	16	31
30-50 years old	26	10	36
above the age of 50	1	0	1
In total	124	80	204

mLeasing S.A.			
for a definite period	31	23	54
for an indefinite period	189	111	300
working full-time	205	119	324
working part-time	15	15	30
under the age of 30	37	5	42
30-50 years old	165	117	282
above the age of 50	18	12	30
In total	660	402	1 062

mBank Hipoteczny S.A.			
for a definite period	16	5	21
for an indefinite period	101	58	159
working full-time	108	61	169
working part-time	9	2	11

under the age of 30	14	12	26
30-50 years old	90	42	132
above the age of 50	13	9	22
In total	351	189	540

mFaktoring S.A.

for a definite period	4	2	6
for an indefinite period	42	20	62
working full-time	46	22	68
working part-time	0	0	0
under the age of 30	7	2	9
30-50 years old	38	18	56
above the age of 50	1	2	3
In total	138	66	204

mFinanse S.A.

for a definite period	617	468	1,085
for an indefinite period	59	35	94
working full-time	58	26	84
working part-time	617	478	1 095
under the age of 30	330	231	561
30-50 years old	323	256	579
above the age of 50	22	17	39
In total	2 026	1,511	3,537

mCentrum Operacji Sp. z o.o.

for a definite period	115	37	152
for an indefinite period	182	39	221
working full-time	289	72	361
working part-time	17	9	26
under the age of 30	85	25	110
30-50 years old	187	49	236
above the age of 50	34	7	41
In total	909	238	1,147

[G4-LA1] Employees joining and leaving the company

2016			2017		
Women	Men	In total	Women	Men	In total

mBank S.A.

New employees joining the company

under the age of 30	440	314	754	352	235	587
30-50 years old	201	121	322	211	142	353
above the age of 50	6	4	10	7	4	11

Employees leaving the company

under the age of 30	329	244	573	322	240	562
30-50 years old	262	199	461	294	244	538
above the age of 50	29	20	49	35	16	51

mBank S.A. (the Czech Republic)

New employees joining the company

under the age of 30	28	15	43	36	21	57
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30-50 years old	18	13	31	22	6	28
above the age of 50	1	0	1	0	0	0

Employees leaving the company

under the age of 30	19	10	29	26	20	46
30-50 years old	17	6	23	22	19	41
above the age of 50	1	1	2	2	0	2

mBank S.A. (Slovakia)

New employees joining the company

under the age of 30	6	6	12	6	5	11
30-50 years old	4	1	5	7	4	11
above the age of 50	0	0	0	0	0	0

Employees leaving the company

under the age of 30	0	3	3	7	1	8
30-50 years old	6	2	8	6	4	10
above the age of 50	0	0	0	0	0	0

mLeasing S.A.

New employees joining the company

under the age of 30	21	0	21	14	3	17
30-50 years old	19	9	28	5	8	13
above the age of 50	1	0	1	0	0	0

Employees leaving the company

under the age of 30	10	1	11	9	1	10
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30-50 years old	15	19	34	26	27	53
above the age of 50	1	1	2	1	0	1

mBank Hipoteczny S.A.

New employees joining the company

under the age of 30	15	3	18	5	3	8
30-50 years old	14	6	20	4	1	5
above the age of 50	0	0	0	0	1	1

Employees leaving the company

under the age of 30	11	1	12	12	5	17
30-50 years old	8	9	17	37	15	52
above the age of 50	0	1	1	1	1	2

mFaktoring S.A.

New employees joining the company

under the age of 30	2	4	6	3	0	3
30-50 years old	2	0	2	1	2	3
above the age of 50	0	0	0	0	0	0

Employees leaving the company

under the age of 30	0	1	1	0	4	4
30-50 years old	3	1	4	5	3	8
above the age of 50	0	0	0	2	1	3

mFinanse S.A.

New employees joining the company

under the age of 30	193	148	341	256	182	0
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30-50 years old	82	60	142	93	76	0
above the age of 50	4	1	5	7	10	0

Employees leaving the company

under the age of 30	161	95	256	165	110	0
30-50 years old	62	73	135	83	77	0
above the age of 50	2	3	5	7	3	0

mCentrum Operacji Sp. z o.o.

New employees joining the company

under the age of 30	35	16	51	32	15	47
30-50 years old	10	6	16	17	8	25
above the age of 50	0	1	1	2	0	2

Employees leaving the company

under the age of 30	34	23	57	39	21	60
30-50 years old	22	7	29	39	19	58
above the age of 50	9	1	10	11	3	14

[G4-11] Percentage of employees covered by collective bargaining agreements

	2016	2017
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.	0%	0%
mCentrum Operacji Sp. z o.o.	0%	0%

[G4-LA3] The number of employees on maternity/parental leave as at December 31, 2017

	2016			2017		
	Women	Men	In total	Women	Men	In total
mBank S.A.	245	1	246	215	8	223
mBank S.A. (the Czech Republic)	11	0	11	15	0	15
mBank S.A. (Slovakia)	6	1	7	7	1	8
mLeasing S.A.	13	0	13	12	0	12
mBank Hipoteczny S.A.	5	0	5	6	0	6
mFaktoring S.A.	1	0	1	1	2	3
mFinanse S.A.	50	0	50	59	0	59
mCentrum Operacji sp. z o.o.	14	0	14	11	0	11

[G4-LA3] The number of employees who came back from maternity/parental leave in a given year

	2016			2017		
	Women	Men	In total	Women	Men	In total
mBank S.A.	195	3	198	241	168	409
mBank S.A. (the Czech Republic)	2	0	2	2	0	2
mBank S.A. (Slovakia)	2	0	2	1	0	1
mLeasing S.A.	3	0	3	15	7	22
mBank Hipoteczny S.A.	4	1	5	4	4	8
mFaktoring S.A.	3	0	3	1	2	3
mFinanse S.A.	34	6	40	40	2	42
mCentrum Operacji sp. z o.o.	8	0	8	14	2	16

[G4-LA3] The number of employees who within 12 months following coming back to work after maternity/parental leave left the company

	2016			2017		
	Women	Men	In total	Women	Men	In total
mBank S.A.	5	0	5	0	15	15
mBank S.A. (the Czech Republic)	0	0	0	1	0	1
mBank S.A. (Slovakia)	1	0	1	0	0	0
mLeasing S.A.	3	0	3	2	2	4
mBank Hipoteczny S.A.	1	0	1	1	1	2
mFaktoring S.A.	1	0	1	0	0	0
mFinanse S.A.	10	1	11	12	0	12
mCentrum Operacji sp. z o.o.	1	0	1	0	0	0

[G4-EC6, G4-LA12] Men vs. women in Management and Supervisory Boards of mBank S.A.

	2016			2017		
	Women	Men	In total	Women	Men	In total
Management Board						
under the age of 30	0	0	0	0	0	0
30-50 years old	0	5	5	0	5	5
above the age of 50	0	1	1	1	1	2
including foreigners	0	2	2	0	2	2
Supervisory Board						
under the age of 30	0	0	0	0	0	0
30-50 years old	1	0	1	1	2	3
above the age of 50	1	9	10	1	8	9
including foreigners	0	5	5	0	6	6

[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)

	2016			2017		
	Women	Men	In total	Women	Men	In total
mBank S.A.						
The average number of training days (excluding initial training)	2.43	2.69	2.53	2.7	3.2	2.91
The average number of training hours (excluding initial training)	19.43	21.49	20.27	21.6	25.62	23.25
The number of training days for mBank employees - initial training	2,224	1,023	3,247	5,174	3,449	8,623
mBank S.A. (the Czech Republic, Slovakia)						
The average number of training days (excluding initial training)	n/a	n/a	0.15	0.88	1.17	1
The average number of training hours (excluding initial training)	n/a	n/a	0.12	7.04	9.36	8
The number of training days for mBank employees - initial training	n/a	n/a	8	0	0	0
mLeasing S.A.						
The average number of training days (excluding initial training)	0,73	2.18	1.25	3.7	5.96	4.61
The average number of training hours (excluding initial training)	5.83	17.43	10.01	29.6	47.68	36.88

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)	1.80	2.13	1.91	1.33	1.06	1.22
The average number of training hours (excluding initial training)	14.37	17.04	15.27	10.64	8.48	9.76
The number of training days for mBank employees - initial training	0	0	0	0	0	0
mFactoring S.A.						
The average number of training days (excluding initial training)	6.93	10.84	8.09	2.5	1.62	2.14
The average number of training hours (excluding initial training)	55.47	86.74	64.75	20	12.96	17.12
The number of training days for mBank employees - initial training	0	0	0	0	0	0
mFinanse 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	9	9	9	9	9	9
mCentrum Operacji Sp. z o.o.						

The average number of training days (excluding initial training)	0.56	1.43	0.75	0.52	1.25	0.95
The average number of training hours (excluding initial training)	4.03	10.93	5.51	4.16	10	7.6
The number of training days for mBank employees - initial training	78	38	116	0	0	0

[G4-EN1] Paper consumption

	j.m.	2016	2017
mBank S.A.	A4 paper sheets	23,025,500	19,720,500
mBank S.A. (the Czech Republic, Slovakia)	A4 paper sheets	2,125,000	2,086,500
mLeasing S.A.	A4 paper sheets	4,691,000	6,100,000
mBank Hipoteczny S.A.	A4 paper sheets	422,500	450,000
mFaktoring S.A.	A4 paper sheets	155,000	142,500
mFinanse S.A.	A4 paper sheets	5,788,950	5,790,043
mCentrum Operacji sp. z o.o.	A4 paper sheets	2,522,000	2,594,000
In total	A4 paper sheets	38,729,950	27,907,000

[G4-EN3] Zużycie paliw i energii

Source of energy and raw materials for energy production		Units of measure	2016	2017
mBank Group				
Electric energy	GWh		18.7	4.9
Gas	m ³		308,025	954,619
Petrol	l		1,284,983	353,022
Fuel oil	l		325,792	175,423
Including mBank S.A.				
Electric energy	GWh		15.2	15,477
Gas	m ³		283,200	55,717

[G4-LA6] Accidents at work

	2016	2017
mBank S.A.		
Total number of accidents	7	12
Accident frequency ratio	31.82	1.78
Total number of days of absence from work due to accidents	350	161
Accident severity ratio	50	13.41
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	2
Accident frequency ratio	2.79	5.58
Total number of days of absence from work due to accidents	173	40
Accident severity ratio	173	20
mBank Hipoteczny S.A.		
Total number of accidents	1	0
Accident frequency ratio	4.35	0
Total number of days of absence from work due to accidents	28	0
Accident severity ratio	0	0
mFaktoring S.A.		

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

mFinanse S.A.

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

mCentrum Operacji Sp. z o.o.

Total number of accidents	2	1
Accident frequency ratio	34.5	2.45
Total number of days of absence from work due to accidents	69	0
Accident severity ratio	17.5	0

9. GRI Index

Indicator	Scope ● - entire ◐ - partial ○ - not reported/ not applicable	Page	GRI guidelines	Area according to	UN Global Compact principle	SDGs	Comment/Description/Chapter number
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.			[1.1. Letter of the President of the Management Board]
G4-2	●		Description of key impacts, opportunities and risks				[1.1. Letter of the President of the Management Board]
Organisational Profile							
G4-3	●		Name of the organisation	6.3.1 0 6.4.1 6.4.2 6.4.3 6.4.4 6.4.5 6.8.5 7.8	7 1-10		[1.2. About the bank]
G4-4	●		The primary brands, products and/or services.				[1.2. About the bank] [1.3. Business model] [4.3.2. Retail banking] [4.3.3. Corporates and Financial Markets] [4.4. Activities of 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				[1.2. About the bank]
G4-7	●		The form of ownership and the legal structure of an organisation				Joint-stock company, listed on the WSE
G4-8	●		The markets served, including the geographical scope of sectors served, characteristic of clients/consumers and beneficiaries				[1.2. About the bank] [4.3.2. Retail banking] [4.3.3. Corporates and Financial Markets] [4.4. Activities of subsidiaries of mBank Group]
G4-9	●		Business Scale				[1.2. O Banku] [4. Business activity and financial results] [4.3.2. Retail banking] [4.3.3. Corporates and Financial Markets]

G4-10	●	The number of own employees and those under the supervision of a subsidiary and the type of contract		8	[8. Tables with non-financial data]
G4-11	●	Percentage of employees covered by collective bargaining agreements		8	[8. Tables with non-financial data]
G4-12	●	Supply chain description			[3.3. Assumptions and implementation of mBank's CSR Strategy, goal 5]
G4-13	●	Significant changes in the reported period concerning the scale, structure, ownership form or supply chain			[1.2. About the bank]
G4-14	●	Explanation whether and in what way an organisation applies the precautionary principle.			Taking into account a 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, the principle may and 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.			[5.1. Corporate Governance] [1.4.5. Social Capital] [3.3. Assumptions and implementation of mBank's CSR Strategy, goal 2]
G4-16	●	Membership of associations (such as industry associations) and/or in domestic/international organisations			
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		[8. Tables with non-financial data]
G4-18	●	Process of defining the report content			[7. About the report]
G4-19	●	Identified material aspects of social and environmental impact			[7. About the report]
G4-20	●	Significance of identified aspects of social and environmental impact to particular business entities			[7. About the report]
G4-21	●	Aspects boundaries outside the organisation Limiting the report to material aspects of social and environmental impact, including entities outside an organisation			[7. About the 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)			Not applicable.
G4-23	●	Significant changes concerning the scope, the scale or the measurement methods applied in the report compared with the previous report.			Not applicable.
Stakeholder engagement					
G4-24	●	The list of stakeholder groups engaged by the organisation	5.3		[1.6. mBank’s stakeholders] [7. About the report]
G4-25	●	The basis for identification and selection of stakeholders with whom to engage			[7. About the report]
G4-26	●	An approach to stakeholder engagement, including the frequency of engagement by type and stakeholder group			[1.6. mBank’s stakeholders] [2.4.2. Dialogue with clients] [7. About the report]
G4-27	●	Key topics and concerns addressed by stakeholders and how the organization has responded to those key topics and concerns, including through its reporting			[7. About the report]
Report profile					
G4-28	●	The reporting period (e.g. financial/calendar year)	5.3 7.5.3 7.6.2 .		Financial/calendar year: 01.01.2017 –31.12.2017
G4-29	●	The publication date of the previous report (if published)			2017
G4-30	●	Reporting cycle (annual, every two years)			annual
G4-31	●	Contact person			[7. About the report]
G4-32	●	GRI Content Index			[9. 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			[7. About the report]

Governance						
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	[5.1. Corporate Governance]
Ethics and integrity						
G4-56	•		Organisation values, rules, codes, standards of conduct and ethics	4.4 6.6.3	1-10	1 6 [1.5. Ethics and values] [3.3. Assumptions and implementation of mBank's CSR Strategy, goal 5]
ECONOMIC PERFORMANCE						
Wyniki ekonomiczne						
G4-EC1	•		Direct economic value generated and distributed	6.8 6.8.3 6.8.7 6.8.9	-	2, 8, 9 [4. Business activity and financial results]
Obecność na rynku						
ENVIRONMENT						
Surowce i materiały						
EN DMA			Management approach	6, 7.3.1 7.4.3 7.7.3 7.7.5	7, 8, 9	[3.3. Assumptions and implementation of mBank's CSR Strategy; goal 4]
G4-EN1	•		Used materials/raw materials by weight and volume	6.5.4	8	8, 1 2 [8. Tables with non-financial data]
Energy						
EN DMA			Management approach	6, 7.3.1 7.4.3 7.7.3 7.7.5	7, 8, 9	[3.3. Assumptions and implementation of mBank's CSR Strategy; goal 4]
G4-EN3	•		Direct and indirect consumption of energy by primary energy sources	6.5.4	8	7, 8, 1 2, 1 3 [8. 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 [3.3. Assumptions and implementation of mBank's CSR Strategy; goal 4]

Environmental assessment of suppliers

EN DMA		Management approach	6, 7.3.1 7.4.3 7.7.3 7.7.5	7, 8, 9		[3.3. Assumptions and implementation of mBank's CSR Strategy; goal 5]
G4-EN32	•	Percentage of suppliers subject to environmental criteria assessment	6.3.5 6.6.6 7.3.1			[3.3. Assumptions and implementation of mBank's CSR Strategy; goal 5]

SOCIAL

LA DMA		Management approach	6.2 6.4 6.3.1 0	1, 3, 6	-	[3.3. Assumptions and implementation of mBank's CSR Strategy; goal 3]
G4-LA1	•	Total number of employees who left the organisation and employee fluctuation by age groups, gender and region	6.4.3		5 8	[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			[3.3. Assumptions and implementation of mBank's CSR Strategy; goal 3]
G4-LA3	•	The percentage of employees who returned to work after maternity/parental leave and the retention ratio by gender	6.4.4		8	[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	[5.2.2. Ergonomics and security at the workplace]
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	[8. Tables with non-financial data]

Miejsce pracy: szkolenia

G4-LA9	•	Average number of training hours per employee		1, 6	4, 5, 8	[8. Tables with non-financial data]
G4-LA10	•	Development programmes	6.3.7 6.3.1 0. 6.4. 6.4.3 .		8	[5.2.1. mBank's training system]
G4-LA11	•	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	6.4.7			[3.3. Assumptions and implementation of mBank's CSR Strategy; goal 3]

Workplace: diversity and equal opportunity						
G4-LA12	●	Composition of governance bodies and breakdown of employee category according to gender, age group, minority group membership, and other indicators of diversity	6.2.3 6.3.7 6.3.1 0 6.4.3	1, 6	5, 8	[8. Tables with non-financial data] [5.1.9. mBank's Diversity Policy]
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	[3.3. Assumptions and implementation of mBank's CSR Strategy; goal 5]
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		[3.3. Assumptions and implementation of mBank's CSR Strategy; goal 5]
Local communities						
SO DMA		Podejście zarządcze	6, 7.3.1 / 7.4.3 / 7.7.3 / 7.7.5	10		[1.4.5. Social capital] [3.3. Assumptions and implementation of mBank's CSR Strategy; goal 3]
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			[1.4.5. Social capital] [2.5. mBank Foundation]
Anti-corruption measures						
SO DMA		Management approach	6, 7.3.1 / 7.4.3 / 7.7.3 / 7.7.5	10 10	1 0 1 0	[3.3. Assumptions and implementation of mBank's CSR Strategy; goal 5]
G4-SO3	●	Percentage and total number of business units assessed in terms of risk related to corruption	6.6.1 6.6.2 6.6.3		1 6	[3.3. Assumptions and implementation of mBank's CSR Strategy; goal 5]
G4-SO4	●	Number 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		1 6	[3.3. Assumptions and implementation of mBank's CSR Strategy; goal 5]
G4-SO5	●	Actions taken as a response to corruption incidents	6.6. 1 6.6. 2 6.6. 3		1 6	[3.3. Assumptions and implementation of mBank's CSR Strategy; goal 5]

Compliance with regulations

G4-SO7	●	Całkowita liczba podjętych wobec organizacji kroków prawnych dotyczących przypadków naruszeń zasad wolnej konkurencji, praktyk monopolistycznych oraz ich skutki.	6.6.1 6.6.2 6.6.5 6.6.7		1 6	[3.3. Assumptions and implementation of mBank's CSR Strategy; goal 1]
G4-SO8	●	Wartość pieniężna kar i całkowita liczba sankcji pozafinansowych z tytułu niezgodności z prawem i regulacjami	4.6		1 6	[3.3. Assumptions and implementation of mBank's CSR Strategy; goal 1]

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 -	[3.3. Assumptions and implementation of mBank's CSR Strategy; goal 1]
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			[3.3. Assumptions and implementation of mBank's CSR Strategy; goal 1]
G4-PR4	●	Incidents of non-compliance with regulations with regard to the information about products and services	4.6 6.7.1 6.7.2 6.7.3 6.7.4 6.7.5 6.7.9	16		[3.3. Assumptions and implementation of mBank's CSR Strategy; goal 1]
G4-PR5	●	Practices related to customer satisfaction measurement process, including the outcome of the customer satisfaction measurement	6.7.1 6.7.2 6.7.6			[3.3. Assumptions and implementation of mBank's CSR Strategy; goal 1]
G4-PR7	●	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes	4.6 6.7.1 6.7.2 6.7.3			In 2017 there were no penalties imposed on mBank regarding non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship.

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	-	1 6	[3.3. Assumptions and implementation of mBank's CSR Strategy; goal 1]
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Sector specific indicators

d. FS1	●	Social and environmental policies			1 0	[3.3. Assumptions and implementation of mBank's CSR Strategy; goal 2]
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d. FS2	●		Procedures for screening social and environmental risks			1 0	[3.3. Assumptions and implementation of mBank's CSR Strategy; goal 2]
d. FS3	●		Process of monitoring the implementation of social and environmental recommendations by clients			1 0	[3.3. Assumptions and implementation of mBank's CSR Strategy; goal 2]
FS6	●		Portfolio structure by region and the type of client			1 , 8 , 9	[4.3.2. Retail banking] [4.3.3. Corporates and Financial Markets] [4.4. Activities of subsidiaries of mBank Group]
FS13	●		Availability of financial services in scarcely populated or economically disadvantaged areas			1, 8, 1 0	Assumptions and implementation of mBank's CSR Strategy; goal 1]
FS14	●		Availability of banking services to the disadvantaged people			1 , 8 , 1 0	Assumptions and implementation of mBank's CSR Strategy; goal 1]

10. Glossary

A

ABB – Accelerated book building

AIRB – Advanced Internal Rating-Based

ALM – Asset and Liability Management

ANL – Available Net Liquidity

B

BaFin – Bundesanstalt für Finanzdienstleistungsaufsicht, the Federal Financial Supervisory Authority

Banking - online using of banking services or products, e.g. using a mobile application, without visiting a branch

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

BPV – Basis Point Value

C

C/I ratio – Cost to Income; calculated as: (overhead costs + amortisation)/total income (including net other operating income/costs)

CATI – Computer Assisted Telephone Interview (survey)

CDS – Credit default swap; a derivative instrument as collateral in the event of default

CEE - Central and Eastern Europe

Advisory Centres– mBank branches located in high-class office buildings; their offer includes a full range of retail, corporate and private banking services, as well as products of selected mBank Group subsidiaries

CET 1 ratio – Core Tier 1 ratio, core equity capital ratio, calculated as: Tier 1 capital (calculated with accordance with CRR resolution)/total risk exposure amount

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

D

Dochód – 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 the profits (losses) of joint ventures + Other operating income – Other operating expenses

E

EaR - Earnings at Risk - measure the amount that the net income, or earnings, changes when there is a change in interest rates

ECB – European Central Bank

EIB – European Investment Bank

ESMA – European Securities and Market Authority

EURIBOR – Euro Interbank Offer Rate – a daily reference rate, published by the European Money Market Institute; European equivalent of LIBOR

F

Factoring with recourse - involves the purchase of receivables by the factor without taking over the risk of insolvency of the customer's recipients. The customer is responsible for the solvency of contractors. Full factoring means that the factoring party undertakes to take over the risk of customer's insolvency.

Inverters - power converters; an electrical device that converts DC (i.e. direct current) to which it is supplied, to AC (i.e. alternating current) with adjustable output frequency.

Fed – US Federal Reserve

FTE – Full Time Equivalent

G

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

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

I

IBNI – Incured but Not Identified

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

K

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)

KIR – National Clearing House (pol. Krajowa Izba Rozliczeniowa S.A.)

PFSA – Polish Financial Supervision Authority (pol. KNF)

KSF – Financial Stability Committee

KUKE – Medium-term lending insured in Export Credit Insurance Corporation

L

Lean philosophy – a way of comprehensive, rational process management in a company. It consists in limiting the resources needed for the process, including employee energy, investment spendings, time and other resources, while striving to maximize their use. The goal of Lean is to "slim down" the company, i.e. to optimize and improve the quality of processes, among others by eliminating the waste of time, resources or employee creativity resources.

Leasing – under the lease agreement, one of the parties provides the other party with the right to use a particular item for a period agreed upon in the leasing contract, in exchange for fixed installments.

"Light" branches – mBank's branches located in shopping centers. Their business is focused on customer acquisition and sales of unsecured loans.

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, 1 month, 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

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

mFinanse outlets – points of sale of financial products of various financial entities in Poland. The branches offer, among others group and individual insurance.

mKiosks – small points of service, usually with 1-2 employees, dedicated to provide limited scope of services and products (excluding cashier services). The customer can use self-service stations, an ATM and a deposit cash machines without any additional charges.

ML – Mortgage Loans

MPC – Monetary Policy Council (in Polish: **RPP**)

N

Net interest margin – net interest income / average interest earning assets

NFC –Near Field Communication

NML – Non-Mortgage Loans - unsecured loans or loans with other collateral

NPL – Non-Performing Loans – impaired loans

NSFR – Net Stable Funding Ratio

P

P/BV ratio – Share Price/Book value per share

P/E ratio – Share Price/Earnings per share

PD – Probability of Default

PPS – Purchasing Power Standard

R

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

S

SME – Small and Medium Enterprises; entities employing up to 250 employees

SoFFin – Sonderfonds Finanzmarktstabilisierung), Germany's Financial Market Stabilisation Fund

ST – Stress Test

T

Tier 1 –Tier 1 capital, calculated according to article 25 of CRR Regulation (CET1 capital + the instrument eligible for AT1)

Tier 2 –Tier 2 capital, calculated according to part II, title 1, chapter 4 of CRR Regulation

TREA – Total Risk Exposure Amount

V

VaR - Value at Risk

W

WIBOR – Warsaw Interbank Offered Rate; Polish equivalent of LIBOR determined for polish zloty in Warsaw

WIG – Warsaw Stock Exchange Index

WSE – Warsaw Stock Exchange (in Polish: GPW)

Z

ZBP – The Polish Bank Association