mBank S.A. Group

IFRS Condensed Consolidated Financial Statements
for the third quarter of 2017

Contents

Selected financial data

The selected financial data presented below are supplementary information to the condensed consolidated financial statements of mBank S.A. Group for the third quarter of 2017.

SELECTED FINANCIAL DATA FOR THE GROUP		in PLN'000		in EUR'000	
		3 Quarters of 2017 period from 01.01.2017 to 30.09.2017	3 Quarters of 2016 period from 01.01.2016 to 30.09.2016	3 Quarters of 2017 period from 01.01.2017 to 30.09.2017	3 Quarters of 2016 period from 01.01.2016 to 30.09.2016
I.	Interest income	2 995 535	2 869 558	703 739	656 830
II.	Fee and commission income	1 245 392	1 121 625	292 579	256 735
III.	Net trading income	221 081	218 002	51 938	49 900
IV.	Operating profit	1 395 629	1 453 569	327 874	332 716
V.	Profit before income tax	1 115 977	1 217 432	262 176	278 665
VI.	Net profit attributable to Owners of mBank S.A.	779 892	926 765	183 219	212 133
VII.	Net profit attributable to non-controlling interests	3 554	2 636	835	603
VIII.	Net cash flows from operating activities	(5 343 491)	1 683 699	(1 255 343)	385 392
IX.	Net cash flows from investing activities	(223 237)	(29 030)	(52 445)	(6 645)
X.	Net cash flows from financing activities	(307 088)	3 098 467	(72 144)	709 226
XI.	Net increase / decrease in cash and cash equivalents	(5 873 816)	4 753 136	(1 379 931)	1 087 973
XII.	Basic earnings per share (in PLN/EUR)	18,44	21,94	4,33	5,02
XIII.	Diluted earnings per share (in PLN/EUR)	18,43	21,93	4,33	5,02
XIV.	Declared or paid dividend per share (in PLN/EUR)	-	-	-	-

SELECTED FINANCIAL DATA FOR THE GROUP		in PLN'000			in EUR'000		
		As at			As at		
		30.09.2017	31.12.2016	30.09.2016	30.09.2017	31.12.2016	30.09.2016
I.	Total assets	132 478 026	133 743 502	129 780 723	30 743 781	30 231 352	30 097 570
II.	Amounts due to the Central Bank	2	-	-	0	-	-
III.	Amounts due to other banks	8 451 807	8 486 753	11 562 896	1 961 386	1 918 344	2 681 562
IV.	Amounts due to customers	90 677 502	91 417 962	85 188 225	21 043 258	20 664 096	19 756 082
V.	Equity attributable to Owners of mBank S.A.	13 965 261	13 023 756	12 935 287	3 240 877	2 943 887	2 999 835
VI.	Non-controlling interests	2 201	27 405	35 254	511	6 195	8 176
VII.	Share capital	169 245	169 121	169 117	39 276	38 228	39 220
VIII.	Number of shares	42 311 255	42 280 127	42 279 255	42 311 255	42 280 127	42 279 255
IX.	Book value per share (in PLN/EUR)	330.06	308.03	305.95	76.60	69.63	70.95
X.	Total capital ratio	20.47	20.29	18.61	20.47	20.29	18.61

SELECTED FINANCIAL DATA FOR THE BANK		in PLN'000		in EUR'000	
		3 Quartersf of 2017 period from 01.01.2017 to 30.09.2017	3 Quarters of 2016 period from 01.01.2016 to 30.09.2016	3 Quartersf of 2017 period from 01.01.2017 to 30.09.2017	3 Quarters of 2016 period from 01.01.2016 to 30.09.2016
I.	Interest income	2 629 204	2 514 981	617 677	575 669
II.	Fee and commission income	1 047 898	892 983	246 182	204 400
III.	Net trading income	227 349	221 930	53 411	50 799
IV.	Operating profit	1 376 414	1 311 544	323 360	300 207
V.	Profit before income tax	1 064 573	1 160 337	250 099	265 596
VI.	Net profit	777 918	922 184	182 756	211 084
VII.	Net cash flows from operating activities	(5 240 418)	1 642 380	(1 231 128)	375 934
VIII.	Net cash flows from investing activities	(216 233)	172 481	(50 799)	39 480
IX.	Net cash flows from financing activities	(636 245)	2 652 804	(149 473)	607 216
X.	Net increase / decrease in cash and cash equivalents	(6 092 896)	4 467 665	(1 431 400)	1 022 630
XI.	Basic earnings per share (in PLN/EUR)	18,40	21,83	4,32	5,00
XII.	Diluted earnings per share (in PLN/EUR)	18,39	21,82	4,32	4,99
XIII.	Declared or paid dividend per share (in PLN/EUR)	-	-	-	-

SELECTED FINANCIAL DATA FOR THE BANK	in PLN'000			in EUR'000		
	As at			As at		
	30.09.2017	31.12.2016	30.09.2016	30.09.2017	31.12.2016	30.09.2016
I. Total assets	126 657 687	128 215 265	124 466 288	29 393 072	28 981 751	28 865 095
II. Amounts due to the Central Bank	2	-	-	-	-	0
III. Amounts due to other banks	8 592 747	8 503 014	11 568 125	1 994 093	1 922 019	2 682 775
IV. Amounts due to customers	98 761 881	98 960 320	92 456 191	22 919 376	22 368 969	21 441 603
V. Own equity	13 963 053	13 023 803	12 931 101	3 240 364	2 943 898	2 998 864
VI. Share capital	169 245	169 121	169 117	39 276	38 228	39 220
VII. Number of shares	42 311 255	42 280 127	42 279 255	42 311 255	42 280 127	42 279 255
VIII. Book value per share (in PLN/EUR)	330.01	308.04	305.85	76.58	69.63	70.93
IX. Total capital ratio	24.16	24.07	21.69	24.16	24.07	21.69

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

- for items of the statement of financial position – exchange rate announced by the National Bank of Poland as at 30 September 2017: EUR 1 = PLN 4.3091, 31 December 2016: EUR 1 = PLN 4.4240, 30 September 2016: EUR 1 = PLN 4.3120.

- for items of the income statement – exchange rate calculated as the arithmetic mean of exchange rates announced by the National Bank of Poland as at the end of each month of the three quarter of 2017 and 2016: EUR 1 = PLN 4.2566 and EUR 1 = PLN 4.3688 respectively.

Introduction

In Q3 2017, mBank Group continued its efforts to generate high level of income (mainly core income), while maintaining cost discipline. Total income increased quarter on quarter thanks to higher core income and positive trends in net trading income. The profit before tax generated by mBank Group in Q3 2017 stood at PLN 403.8 million, representing an increase of 5.6% quarter on quarter. The increase of income was partially offset by higher net impairment losses on loans and advances. Net profit attributable to the shareholders of mBank reached PLN 291.4 million.

The main factors determining the Group's financial results in Q3 2017 were as follows:

- **Higher total income** at PLN 1,149.4 million, i.e. +6.3% quarter on quarter, mainly thanks to higher net interest income and trading income.
- **Stable operating expenses** (including amortisation) at PLN 485.9 million (PLN 485.1 million a quarter earlier).
- **Increase in net impairment losses on loans and advances** to PLN 164.4 million. Consequently, the cost of risk[a] reached 78 basis points in Q3 2017, compared with 58 basis points a quarter earlier.
- **Tax on the Group's balance sheet items** slightly increased quarter on quarter and stood at PLN 95.5 million.
- **Continued organic growth and business expansion** as demonstrated by:
    - **increase in the individual client base** to 5,259.0 thousand (+25.4 thousand clients quarter on quarter);
    - **increase in the number of corporate clients** to 21,825 clients (+325 clients quarter on quarter).

As at the end of September 2017, net loans and advances stood at PLN 85,532.0 million, up by PLN 2,154.9 million, i.e. 2.6% compared with the end of June 2017 (excluding reverse repo/buy-sell-back transactions and the FX effect, the value of loans and advances went up by 2.8%).

In Q3, the volume of customer deposits increased by 2.9% compared with the previous quarter and totalled PLN 90,677.5 million, with amounts due to corporate clients rising by 6.1% in the analysed period and stable level of amounts due to individuals (i.e. +0.4%).

As a result of these changes, the loan to deposit ratio[b] of mBank Group stood at 94.3%.

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

- Gross ROE of 12.1% (11.7% in Q2 2017);
- Net ROE of 8.8% (8.2% in Q2 2017).

The level of mBank Group's capital ratios decreased in Q3 2017 due to the TREA increase for the whole loan portfolio partially offset by growing own funds (a half of Q2 2017 profit was included in own funds). As at the end of September 2017, the Total Capital Ratio stood at 20.5% and the Common Equity Tier 1 ratio at 17.8%.

[a] Cost of risk - net impairment losses on loans and advances/the net average volume of loans and advances to clients; the average volume of loans and advances to clients is calculated based on balances at the beginning of a year and at the end of each quarter.
[b] Loan to deposit ratio - loans and advances to clients/amounts due to clients.

Awards and distinctions

mBank recognized as the best digital bank for corporates in Poland

In July 2017, Global Finance magazine named The 2017 World's Best Corporate/Institutional Digital Banks in Central & Eastern Europe. mBank was recognized as a country winner for Poland. The prize has confirmed the strong market position and following the latest trends in digital banking for corporate clients to meet their needs.

Winners were chosen among entries evaluated by a world-class panel of judges at Infosys, a global leader in consulting, technology and outsourcing. Then, Global Finance editors were responsible for the final selection of the best institutions.

Winning banks were decided based on the following criteria: strength of strategy for attracting and servicing digital customers, success in getting clients to use digital offerings, growth of digital customers, breadth of product offerings, evidence of tangible benefits gained from digital initiatives, and web/mobile site design and functionality.

mBank recognised as the best bank for businesses

In September 2017, Forbes magazine announced the results of its ranking for the best bank for business owners and small companies in the Polish banking market. For the second time a row, mBank won this competition and was recognised as the financial institution that to the highest degree meets the needs of entrepreneurs. The bank received 81.4 out of 100 points.

The score included the maximum rating from Forbes editors and the assessment conducted by Kantar Millward Brown market research firm using the mystery shopper method. mBank was appreciated for its quality level and standard of customer service, both in branches and through remote contact channels, as well as the product range for the entrepreneurs.

Moreover, Newsweek Polska, which evaluated the offer for individual customers, distinguished mBank's mobile banking. The new application ranked third in the "Newsweek Bank Friendly" ranking.

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

Change in the Management Board of mBank

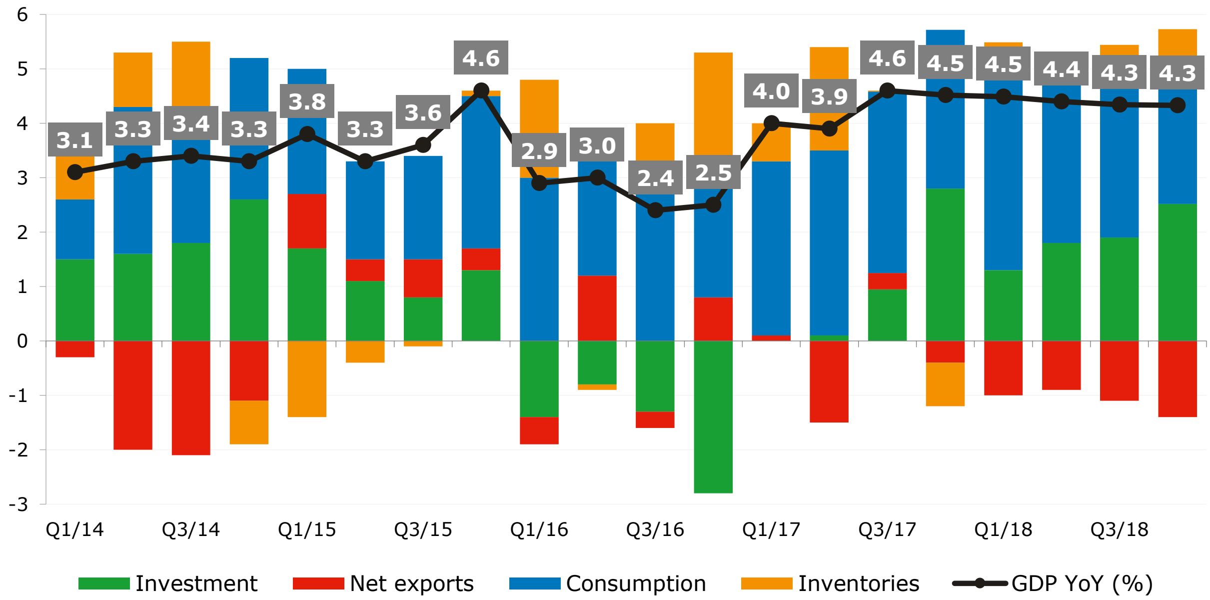
On September 12, 2017, Vice President of the Management Board, Head of Corporate and Investment Banking, Przemysław Gdański resigned from his functions at the Bank with effect from October 25, 2017, without giving the reason for his decision. He was a member of mBank's Management Board since November 2008. On 25 October 2017 the Supervisory Board of mBank S.A. appointed Mr. Adam Pers, as the Bank's Vice-President of the Management Board Head of Corporate and Investment Banking the effect as of October 26, 2017. Until that date Mr. Adam Pers was the Managing Director for the Financial Markets.

Macroeconomic environment in Q3 2017

Economic revival continues

The strong economic revival continued in Q3 2017. According to the Bank's preliminary estimates based on high-frequency data, the growth rate accelerated from 3.9% to 4.6% year on year fuelled by an upturn in industrial output, construction and assembly and retail sales.

Contribution to GDP growth



Going up by ca. 5% year on year, private consumption remained the main engine of growth in the period under review. The strong consumption results from a combination of positive factors which has been observed for several months now with no signs of possible deterioration in the near future. These factors include excellent consumer mood, a solid increase in household incomes (including salaries), a very good situation on the labour market and prospects of its further tightening. What is important, the strong growth in consumption is accompanied by only marginal increase in households' debt and as such it is more stable and is likely to continue also when households will be smoothing their income paths using consumer loans.

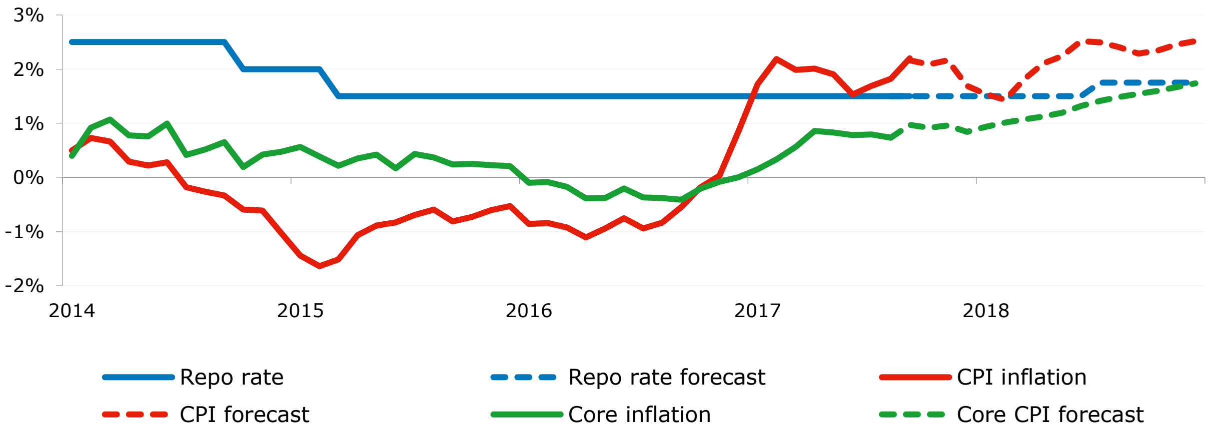
In the Bank's opinion, Q3 saw the long-expected rebound in investment which grew by as much as 5% year on year. The increase is most probably attributable to growth in public investment delayed in the previous quarters. Growth in private investment probably remained moderate (especially, as far as investment of the biggest companies is concerned), but the revival of this component started earlier - in mid-2016. It has been additionally supported by high capacity utilization and the need to substitute labour, which is becoming more expensive, for capital (machines). The current level of public investment (ca. 2 pp of GDP below the peak of 2010-2011) means that there is a lot of room for acceleration in the quarters to come, while the inflow of EU funds from the new financial framework spurs optimism about public investment growth in the coming quarters. The Bank expects the growth in investment to reach 10% in early 2018.

To sum up, the Polish economy will keep growing dynamically in the quarters to come. The Bank expects the Polish GDP to grow by 4.3% year on year in 2017 and 4.5% in 2018.

Inflation remains stable below the target. The Monetary Policy Council (MPC) sees no reason for interest rate changes

Over the last three months, inflation has been growing moderately. Following a local minimum in June (1.5% year on year) the growth in consumer prices accelerated every month to reach 2.2% in September (which had been the highest level since December 2012). The increase in inflation was attributable to higher food and fuel prices, whereas core inflation was close to 0.8% year on year. Due to strong base effects (in late 2016 and early 2017 oil prices were growing following OPEC's decision to decrease production, whereas weather conditions pushed food prices up), growth in consumer prices is expected to fall to ca. 1.6-1.7% in the coming months. The key factors that will influence inflation over the next year will be the labour market situation and growing demand pressure. Their combination will push up core inflation and CPI inflation to more than 2.5% in H2 2018.

CPI Inflation and reference rate

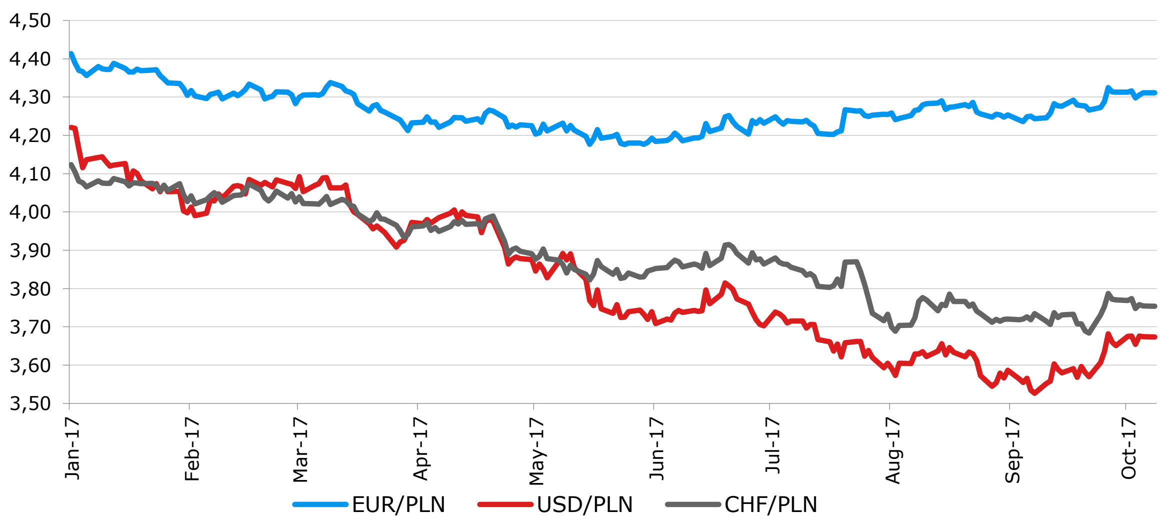


However, as long as such an increase in the inflation rate remains a thing of the future, its impact on the monetary policy will be limited. This is confirmed by the approach and rhetoric of the Monetary Policy Council which have not changed for several months now. In the Council's opinion, inflation will not exceed the target until 2019. Therefore, the MPC has declared that it will not raise the interest rates before the end of 2018. In view of the current strength of the labour market and its impact on salaries and prices, which, in the Bank's opinion, the Council undervalues, the cycle of interest rate hikes is likely to begin earlier, i.e. in H2 2018.

Financial markets - a weaker quarter for Polish assets

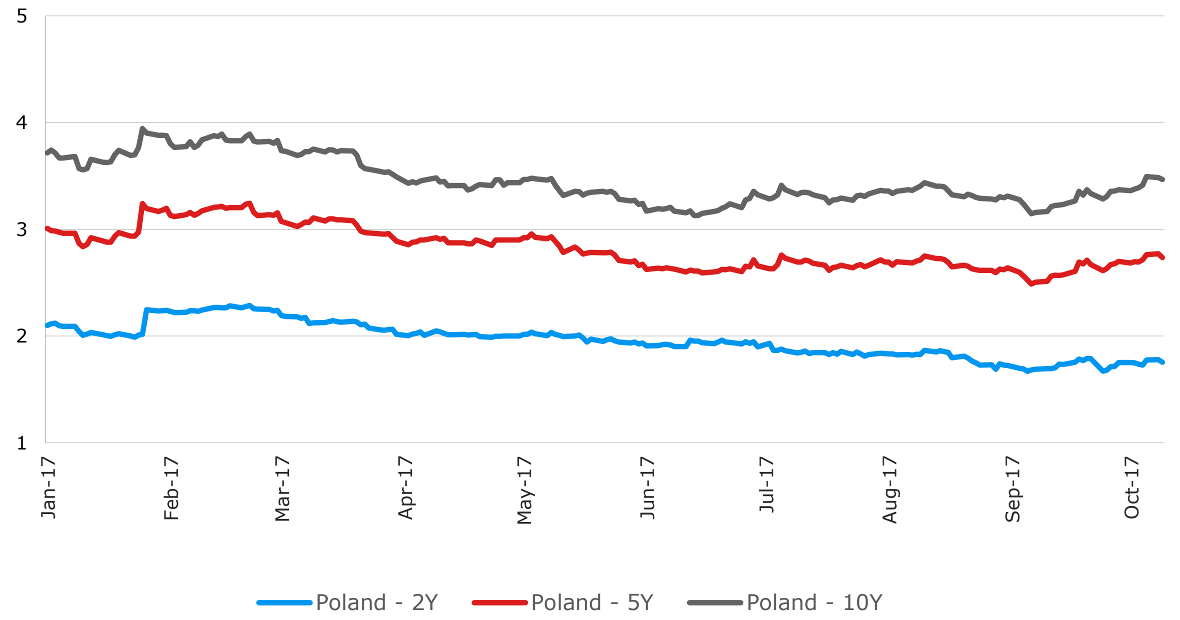
Q3 2017 was mixed when it comes to Polish financial assets: the zloty weakened against the euro by 1.8% and strengthened against the dollar by 2.5%, while the main indices of the Warsaw stock market improved (WIG20 rose by 6.7%); yields on Treasury bonds rose in quarter-on-quarter terms following very strong decreases in mid-September (profitability of 2-year and 10-year bonds dropped to 1.67% and 3.15%, respectively).

Currency exchange rates



Polish markets were affected by a range of factors, both domestic and foreign. Domestic factors included an increased political risk related to the judiciary reform, uncertainty regarding the CHF loans restructuring law, and the MPC's approach, which narrowed the gap between Polish interest rates and the interest rates in more developed economies. Worth mentioning in this context is the very good situation of the state budget (a surplus in August), which resulted in a major decrease in supply of bonds and the yield curve falling significantly below the IRS rates, especially for instruments with maturities from 1 to 3 years. Global factors included worries regarding the American economy after a series of devastating hurricanes, an increased political risk (tensions in the Korean Peninsula), expectations regarding relaxation of monetary policies around the world and the subsequent reversal of these expectations driven by Fed's hawkish rhetoric.

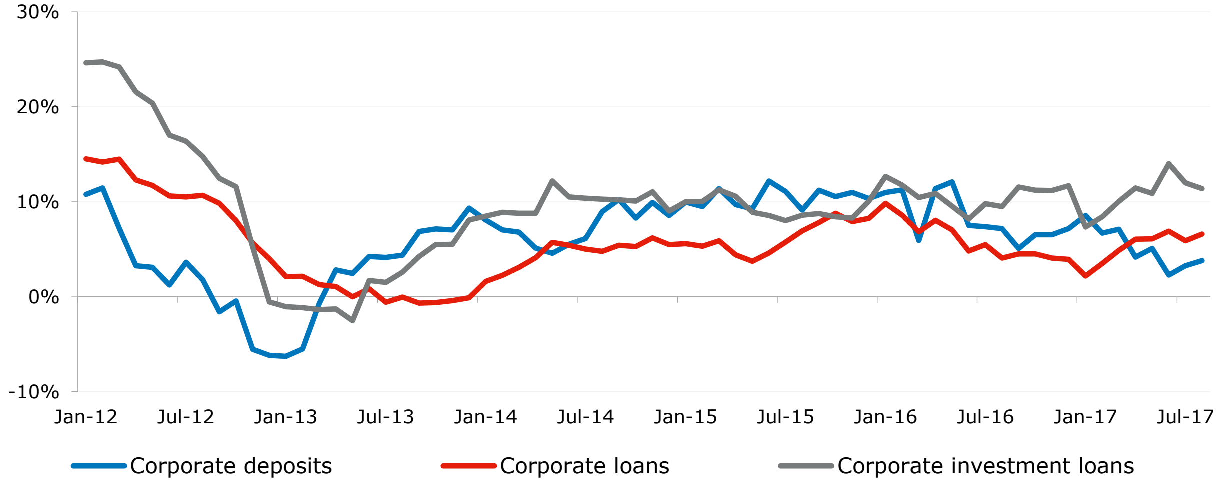
Bond yields



Money supply and the banking sector as the mirror of the economy

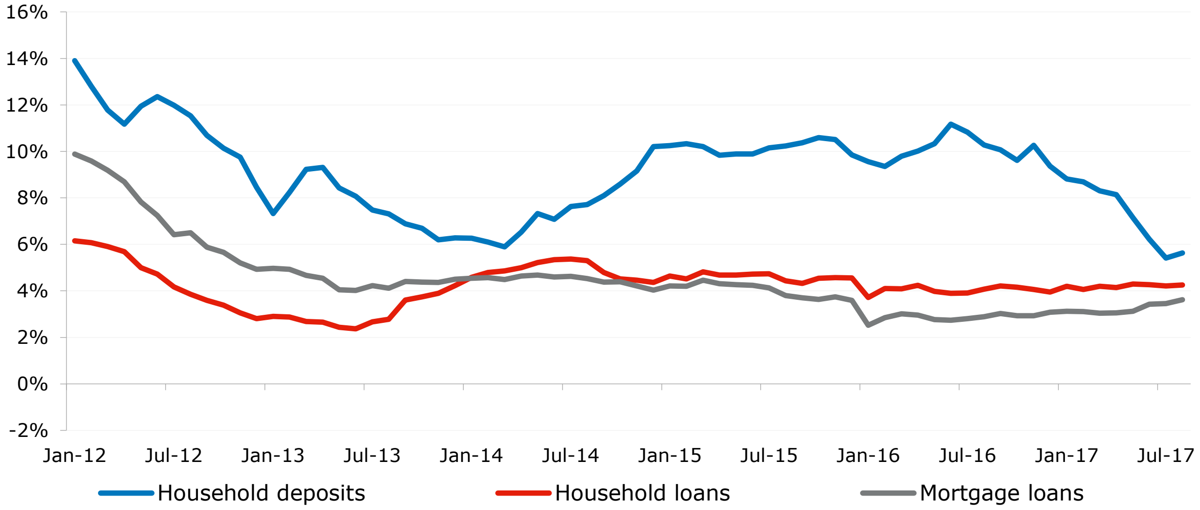
Q3 saw a moderate revival in both corporate and retail lending (in certain categories). An upward trend which began in early 2017 continued - net of FX effects lending to companies grew by 6.6% year on year (data for August this year) hitting the highest level since 2013. Out of all types of corporate loans, the biggest positive contribution still comes from investment loans with a year-on-year growth rate exceeding 10%, which confirms the existence of a stable investment demand from the private sector. The volume of working capital loans has been growing over the recent months as well. Higher labour costs resulting in some companies achieving lower margins may boost demand for working capital loans.

Corporate loans and deposits



Growth in lending to households remained stable in the past months reaching (net of FX effects) 4.2% year on year and thus has not changed considerably in the last 2 years. The structure of lending to households is changing with a slower increase in non-mortgage and non-consumer loans and simultaneous moderate increase in mortgage lending. Growth in mortgage loans accelerated recently (from 2.7-2.8% to 3.5% year on year, net of FX effects), however, high volumes of existing loans and quicker repayments make it impossible to achieve high year-on-year growth rates.

Household loans and deposits



Higher growth in lending was coupled with a weaker increase in retail deposits and a small rebound in corporate deposits - as a consequence, the banking sector's loan-to-deposit ratio remained stable in Q3. In addition to the base effects related to the introduction of the Family 500+ programme in 2016 and the initially small spending of the funds, household deposits were influenced by growing private consumption. Households are also looking for alternative forms of saving, of which investing in the housing market is the most popular. The relatively weak increase in corporate deposits may be attributable to the government's efforts towards closing the tax gap and the strengthening of the zloty in the first half of the year.

Financial position of mBank Group in Q3 2017

Profit and Loss Account of mBank Group

The profit before tax generated by mBank Group in Q3 2017 stood at PLN 403.8 million representing an increase of 5.6% quarter on quarter, which was mainly driven by higher income. The income increased quarter on quarter thanks to positive trends in core income and net trading income. Net profit attributable to the shareholders of mBank increased by 8.1% quarter on quarter and stood at PLN 291.4 million.

PLN M	Q2 2017	Q3 2017	Change in PLN M	Change in %
Interest income	990.3	1,022.7	32.4	3.3%
Interest expense	-225.5	-225.9	-0.4	0.2%
Net interest income	**764.8**	**796.8**	**32.0**	**4.2%**
Fee and commission income	415.3	423.0	7.7	1.8%
Fee and commission expense	-162.7	-166.5	-3.8	2.3%
Net fee and commission income	**252.6**	**256.5**	**3.9**	**1.5%**
Core income	**1,017.4**	**1,053.3**	**35.9**	**3.5%**
Dividend income	3.0	0.1	-2.8	-95.2%
Net trading income	61.1	83.1	22.0	36.1%
Gains less losses from investment securities, investments in subsidiaries and associates	-18.3	-5.8	12.5	-68.4%
The share in profits (losses) of investments in joint ventures	0.0	0.0	0.0	-
Other operating income	102.7	47.9	-54.9	-53.4%
Other operating expenses	-85.0	-29.3	55.7	-65.6%
Total income	**1,080.9**	**1,149.4**	**68.5**	**6.3%**
Net impairment losses on loans and advances	-120.4	-164.4	-44.0	36.6%
Overhead costs and amortization	-485.1	-485.9	-0.8	0.2%
Taxes on bank balance sheet items	-93.0	-95.5	-2.5	2.7%
Result on entities under the equity method	0.0	0.2	0.2	-
Profit before income tax	**382.4**	**403.8**	**21.4**	**5.6%**
Income tax expense	-109.2	-112.4	-3.1	2.8%
Net profit attributable to:	**273.1**	**291.4**	**18.3**	**6.7%**
- Owners of mBank S.A.	**269.7**	**291.4**	**21.7**	**8.1%**
- Non-controlling interests	3.4	0.0	-3,4	-/+
ROA net	0.8%	0.9%		
ROE gross	11.7%	12.1%		
ROE net	8.2%	8.8%		
Cost/Income ratio	44.9%	42.3%		
Net interest margin	2.4%	2.5%		
Common Equity Tier 1 ratio	18.5%	17.8%		
Total capital ratio	21.2%	20.5%		

Income from core operations - calculated as the sum of net interest income and net fee and commission income.
Total income - calculated as the sum of net interest income, net fee and commission income, dividend income, net trading income, gains less losses from investment securities and investments in subsidiaries and associates, share in profits (losses) of investments in joint ventures, other operating income and other operating costs.
Overhead costs and amortization - calculated as the sum of overhead costs and amortization.
Net ROA - net profit attributable to owners of the Bank/average assets value; the average assets value is calculated based on balances at the end of each month.
Gross ROE - profit before tax/average equity value (excluding current year's profit); the average equity value is calculated based on balances at the end of each month.
Net ROE - net profit attributable to owners of the Bank/average equity value (excluding current year's profit); the average equity value is calculated based on balances at the end of each month.
Cost/Income ratio - overhead costs and amortization/total income (excluding taxes on balance sheet items).
Interest margin - net interest income/average interest-earning assets; interest-earning assets are calculated as the sum of the following items: cash, balances with the central bank, loans and advances to banks, trading securities, derivative financial instruments, loans and advances to clients, investment securities. Average interest-earning assets are calculated based on balances at the end of each month.

Income of mBank Group

The total income generated by mBank Group amounted to PLN 1,149.4 million (increase by 6.3% quarter on quarter). The core income, i.e. net interest income and net fee and commission income, grew quarter on quarter (by 3.5%) and stood at PLN 1,053.3 million, the highest level in the Group's history.

mBank Group's net interest income, which went up quarter on quarter (by PLN 32.0 million, i.e. 4.2%), was the main contributor to the total income generated by mBank Group in Q3. Interest income increased by PLN 32.4 million, i.e. 3.3% quarter on quarter and stood at PLN 1,022.7 million mainly due to higher income from loans and advances to customers (PLN 773.6 million, i.e. PLN +35.1 million quarter on quarter). This resulted mainly from the growing level of corporate loans, increasing contribution of non-mortgage loans and a higher number of days in Q3 compared with Q2. Interest income from investment securities also increased on a quarterly basis (+ PLN 4.8 million or 2.8%) thanks to the increased volume and slightly higher yields on bonds.

At the same time, interest expenses remained stable compared with the previous quarter (+PLN 0.4 million, i.e. 0.2%) and totalled PLN 225.9 million. In Q3 2017, costs arising from amounts due to customers increased slightly by PLN 2.4 million, i.e. 2.0%, which is attributable to the higher volume of corporate term deposits. On the other hand, interest expenses arising from amounts due to banks decreased by PLN 1.6 million, i.e. 9.2%, which was connected with a decrease in the volume of loans from other banks related to the stronger zloty.

Net interest margin of mBank Group increased quarter on quarter and reached 2.5% in Q3 2017, compared with 2.4% in Q2 2017.

Net fee and commission income was the second largest item. It also grew slightly (by PLN 3.9 million, i.e. 1.5%) quarter on quarter and stood at PLN 256.5 million.

Fee and commission income rose by PLN 7.7 million, i.e. 1.8% quarter on quarter, mainly due to an increase in payment card-related fees by PLN 7.4 million, i.e. 7.9%, which can be attributed to the higher number of non-cash transactions in the holiday period (the number and value of non-cash transactions made by retail clients went up by 5.1% and 4.7% quarter on quarter, respectively). Credit-related fees and commissions increased by PLN 4.4 million, i.e. 5.6% quarter on quarter, the major driver being the increased origination of corporate loans in Q3.

Fee and commission expenses in Q3 2017 amounted to PLN 166.5 million, which represents a rise by PLN 3.8 million, i.e. 2.3% quarter on quarter, primarily due to an increase in costs related to payment cards (by PLN 6.3 million, i.e. 10.5%).

Net trading income amounted to PLN 83.1 million, representing a growth of PLN 22.0 million quarter on quarter. The increase was driven by higher foreign exchange result, which went up by PLN 29.7 million, i.e. 51.3% quarter on quarter. Other trading income fell by PLN 7.6 million, mainly because of the lower valuation of interest rate instruments.

Gains less loses on investment securities and investments in subsidiaries and associates stood at – PLN 5.8 million, which was mainly related to the settlement of the sale of mLocum shares.

Net other operating income (other operating income net of other operating expenses) remained stable on a quarterly basis and amounted to PLN 18.6 million compared with PLN 17.7 million in Q2 2017. Other operating income and other operating expenses were primarily affected by provisions for future commitments.

Costs of mBank Group

In Q3 2017, total overhead costs (including amortisation) of mBank Group stood at PLN 485.9 million and were stable compared with the previous quarter (+PLN 0.8 million, i.e. 0.2%).

PLN M	Q2 2017	Q3 2017	Change in PLN M	Change in %
Staff-related expenses	-223.9	-227.1	-3.2	1.4%
Material costs, including	-185.3	-180.8	4.5	-2.4%
- logistic costs	-90.0	-86.1	4.0	-4.4%
- IT costs	-42.9	-39.8	3.1	-7.1%
- marketing costs	-29.8	-29.0	0.8	-2.6%
- consulting services costs	-19.4	-21.7	-2.3	12.0%
- other material costs	-3.3	-4.2	-1.0	30.0%
Taxes and fees	-5.5	-6.4	-0.9	16.8%
Contributions and transfer to the Bank Guarantee Fund	-16.9	-15.5	1.4	-8.4%
Contributions to the Social Benefits Fund	-1.9	-2.4	-0.5	24.5%
Amortization	-51.6	-53.7	-2.1	4.2%
Total overhead costs and amortization	**-485.1**	**-485.9**	**-0.8**	**0.2%**
Cost/Income ratio	44.9%	42.3%	-	-
Employment (FTE)	6,514	6,450	-64	-1.0%

Staff-related expenses went up by PLN 3.2 million, i.e., 1.4% quarter on quarter in Q3 2017, mainly due to an increase in the costs of salaries by PLN 6.4 million, i.e. 3,5% driven by higher bonus provision. The headcount in mBank Group fell by 64 FTEs in the period under review.

Material costs in Q3 2017 were down by PLN 4.5 million, i.e. 2.4% quarter on quarter. The period under review was also marked by a decrease in logistic and IT costs, whereas consulting services costs went up due to the strategic and regulatory projects carried out at the bank.

Amortisation increased by 4.2% quarter on quarter to PLN 53.7 million.

Owing to the higher growth of income compared with the growth of costs, cost effectiveness measured by the cost to income ratio improved. It stood at 42.3% in Q3 2017 against 44.9% in Q2 2017.

Net impairment losses on loans and advances

Net impairment losses on loans and advances in mBank Group amounted to PLN 164.4 million in Q3 2017, which represents an increase by PLN 44.0 million or 36.6%.

PLN M	Q2 2017	Q3 2017	Change in PLN M	Change in %
Retail Banking	-79.9	-89.9	-10.0	12.6%
Corporates and Financial Markets	-40.8	-74.8	-34.0	83.4%
Other	0.3	0.3	0.0	7.6%
Total net impairment losses on loans and advances	**-120.4**	**-164.4**	**-44.0**	**36.6%**

Net impairment losses on loans and advances in the Retail Banking segment were higher by PLN 10.0 million quarter on quarter, i.e. stood at PLN 89.9 million in Q3 2017, mainly as a result of a change in the structure of the retail portfolio, with the rising share of unsecured loans.

Net impairment losses on loans and advances in Corporates and Financial Markets stood at PLN 74.8 million, representing an increase by PLN 34.0 million, mainly due to creation of provisions for two larger exposures in K2 segment.

Consolidated statement of financial position

The balance sheet total of mBank Group stood at PLN 132,478.0 million at the end of Q3 2017 and increased by 2.4% compared with the end of June 2017.

Assets of mBank Group

PLN M	30.09.2016	30.06.2017	30.09.2017	QoQ change	YoY change
Cash and balances with Central Bank	5,859.5	5,855.4	6,028.5	3.0%	2.9%
Loans and advances to banks	2,920.7	2,259.1	2,403.9	6.4%	-17.7%
Trading securities	4,177.2	3,296.6	1,990.4	-39.6%	-52.4%
Derivative financial instruments	2,087.4	1,325.1	1,348.8	1.8%	-35.4%
Net loans and advances to customers	81,009.6	83,377.0	85,532.0	2.6%	5.6%
Investment securities	31,257.9	30,469.6	32,448.7	6.5%	3.8%
Non-current assets held for sale	0.0	170.8	0.0	-	-
Intangible assets	501.9	627.9	636.3	1.3%	26.8%
Tangible assets	710.3	711.9	701.8	-1.4%	-1.2%
Other assets	1,256.2	1,323.9	1,387.7	4.8%	10.5%
Total assets	**129,780.7**	**129,417.5**	**132,478.0**	**2.4%**	**2.1%**

Loans and advances to clients were the largest asset category of mBank Group at the end of Q3 2017. Their share in total assets rose slightly to 64.6% from 64.4% at the end of June 2017. At the end of Q3 2017, net loans and advances to clients stood at PLN 85,532.0 million, which represents an increase quarter on quarter (by PLN 2,154.9 million, i.e. 2.6%). Excluding reverse repo/buy-sell-back transactions and the FX effect, the volume of net loans and advances went up by 2.8%.

Gross loans and advances to corporate clients went up quarter on quarter by PLN 2,144.5 million, i.e. 5.9%, to PLN 38,287.5 million (excluding reverse repo/buy-sell-back transactions and the FX effect, the volume of loans and advances to corporate clients grew by 5.5%). The new origination of corporate loans also increased and amounted to PLN 2,877 million, up by 24.7% quarter on quarter.

The volume of loans to individual clients remained almost at the same level compared with the end of Q2 2017 (i.e. +PLN 191.4 million, i.e. 0.4%) and stood at PLN 48,949.1 million. Mortgage and housing loans decreased slightly by 0.9% quarter on quarter, driven primarily by weaker sales of mortgage loans. In Q3 2017 mBank Group sold PLN 817.6 million worth mortgage loans and PLN 1,649.4 million worth non-mortgage loans. Excluding the FX effect, loans to individuals rose by 1.0%.

In Q3 2017, gross loans and advances to the public sector decreased by PLN 45.9 million, i.e. 4.2%. The value of those loans stood at PLN 1,035.3 million at the end of Q3.

At the end of Q3 2017, investment securities were the Bank's second largest asset category and stood at PLN 32,448.7 million, i.e. 24.5% of total assets, up by PLN 1,979.1 million, i.e. 6.5% quarter on quarter, mainly due to an increase of the portfolio of debt securities issued by the central bank. The portfolio of debt securities issued by the government decreased by 4.1% quarter on quarter.

mBank Group's total liabilities and equity

PLN M	30.09.2016	30.06.2017	30.09.2017	QoQ change	YoY change
Amounts due to other banks	11,562.9	8,641.3	8,451.8	-2.2%	-26.9%
Derivative financial instruments	1,766.6	1,114.5	1,014.0	-9.0%	-42.6%
Amounts due to customers	85,188.2	88,155.9	90,677.5	2.9%	6.4%
Debt securities in issue	12,192.2	13,011.7	13,685.2	5.2%	12.2%
Subordinated liabilities	3,851.4	2,232.8	2,204.5	-1.3%	-42.8%
Liabilities held for sale	0.0	61.6	0.0	-	-
Other liabilities	2,248.9	2,519.2	2,477.5	-1.7%	10.2%
Total Liabilities	**116,810.2**	**115,737.1**	**118,510.6**	**2.4%**	**1.5%**
Total Equity	**12,970.5**	**13,680.4**	**13,967.5**	**2.1%**	**7.7%**
Total Liabilities and Equity	**129,780.7**	**129,417.5**	**132,478.0**	**2.4%**	**2.1%**

In Q3 2017, amounts due to customers, which are the Group's principal source of funding, rose by PLN 2,521.6 million, i.e. 2.9% quarter on quarter. The share of amounts due to clients in total liabilities and equity reached 68.4%, compared with 68.1% at the end of June 2017.

Amounts due to corporate clients increased by PLN 1,988.0 million, i.e. 6.1% compared with the end of June 2017, and stood at PLN 34,725.1 million at the end of Q3 2017. An inflow of funds observed in term deposits (by PLN 2,269.2 million, i.e. 36.9% quarter on quarter) was partially offset by the outflow of funds in current accounts.

Amounts due to individuals remained stable in the period under review (+PLN 202.0 million or 0.4%) and amounted to PLN 54,037.2 million.

Amounts due to the public sector stood at PLN 1,915.2 million, representing an increase of PLN 331.6 million, i.e. 20.9%.

Debt securities in issue were mBank Group's second largest liabilities and equity category. They rose by PLN 673.5 million or 5.2% quarter on quarter and stood at PLN 13,685.2 million, mainly due to the issue of 5-year covered bonds by mBank Hipoteczny.

Amounts due to other banks stood at PLN 8,451.8 million at the end of Q3 2017, accounting for 6.4% of total liabilities and equity of mBank Group. Compared with Q2 2017, amounts due to other banks dropped slightly by PLN 189.5 million, i.e. 2.2%, driven mainly by the appreciation of zloty.

The share of equity in total liabilities and equity of mBank Group decreased slightly to 10.5%, compared with 10.6% at the end of June 2017.

Quality of the loan portfolio of mBank Group

As at September 30, 2017, the volume of non-performing loans (NPL) increased compared to the end of June 2017. The NPL ratio increased quarter on quarter to 5.2%.

PLN M	30.06.2017	30.09.2017	Change in %
Provisions for receivables with impairment	2,611.4	2,707.5	3.7%
Impairment provisions for exposures analyzed according to portfolio approach	232.9	244.7	5.0%
Provisions for receivables	**2,844.3**	**2,952.2**	**3.8%**
Receivables with impairment	**4,340.9**	**4,579.7**	**5.5%**
Receivables without impairment	**81,880.5**	**83,904.5**	**2.5%**
NPL ratio	5.3%	5.2%	
Coverage ratio	65.5%	64.5%	

NPL Ratio – receivables with impairment/total (gross) loans and advances to customers.

Coverage ratio – provisions for receivables with impairment/receivables with impairment.

When compared to the data published in the consolidated financial statements of mBank Group as of 30 June 2017, the amount of not impaired receivables was increased by PLN 226,9 million and the amount of impaired receivables was decreased by PLN 226,9 million due to the correction of the identified mathematical mistake. The Group accordingly recalculated the NPL and coverage ratios as of 30 June 2017 based on the corrected data.

The provision for loans and advances to clients increased slightly quarter on quarter (by PLN 107.9 million) and stood at PLN 2,952.2 million. At the same time, the provision for IBNI (Incurred But Not Identified) losses increased from PLN 232.9 million to PLN 244.7 million in the period under review.

The coverage ratio (including IBNI provisions) decreased quarter on quarter from 65.5% to 64.5%.

Performance of segments and the business lines

In Q3 2017, the Retail Banking segment made the biggest contribution to the profit before tax of mBank Group at 64.3%, i.e. a significant increase quarter on quarter compared with 54.5% in Q2 2017. The contribution of the Corporate and Investment Banking segment was 28.4% (compared to 35.0% in Q2 2017) and the profit before tax of the Financial Markets segment was 5.4% (compared to 6.6% a quarter earlier).

The result of the Retail Banking segment was mainly driven by an increase in income by 4.4% (whereas the core income rose by 2.2% quarter on quarter) and a decrease in overhead costs. At the same time, net impairment losses on loans and advances increased by PLN 10.0 million quarter on quarter.

The Corporate and Investment Banking segment's lower contribution to the Group's results was primarily due to higher net impairment losses on loans and advances by PLN 33.6 million against Q2 2017 and an increase of overhead costs connected with the relocation of the contribution to the Bank Guarantee Fund within business lines. Simultaneously, the core income increased by 8.2% quarter on quarter.

Total income of the Financial Markets segment reached PLN 53.8 million, up by 33.0% quarter on quarter, which was mainly due to an improvement of net trading income. However, the increase in income was offset by a considerable increase in overhead costs relating to the relocation of the contribution to the Bank Guarantee Fund within business lines.

PLN M	Q2 2017	Q3 2017	Change in PLN M	Change in %	% share in profit before tax
Retail Banking	208.5	259.8	51.2	24.6%	64.3%
Corporate and Investment Banking	134.0	114.8	-19.2	-14.3%	28.4%
Financial Markets	25.3	21.8	-3.5	-13.9%	5.4%
Other	14.5	7.4	-7.1	-49.1%	1.8%
Profit before tax of mBank Group	**382.4**	**403.8**	**21.4**	**5.6%**	**100.0%**

Retail Banking

mBank's Retail Banking segment serves 5,259 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 332 branches. The Bank offers a broad range of products and services including current and savings accounts, accounts for microenterprises, credit products, deposit products, payment cards, investment products, insurance products, brokerage services, and leasing for microenterprises.

Key highlights

- Increase of core income to PLN 661.8 million in Q3 2017 i.e. up by 2.2% quarter on quarter and up by 11.6% year on year.
- Increase in the share of mBank in non-mortgage loans market to 5.4%.
- Stable level of retail deposits quarter on quarter, up by 6.5% year on year, mainly current accounts; 5.9% share of mBank in retail deposits market .
- Increase in the percentage of sign-in to the mobile application to 52.2% at the end of September 2017.
- Brokerage Bureau share in the WSE bonds market at 11.0% (7.3% in Q2 2017); share in the options turnover at 12.5%.
- The new mobile application ranked third in the "Newsweek Bank Friendly" ranking.

Key financial data:

PLN M	Q3 2016	Q2 2017	Q3 2017	QoQ change	YoY change
Net interest income	456.4	497.8	515.8	3.6%	13.0%
Net fee and commission income	136.5	149.8	146.0	-2.5%	7.0%
Dividend income	0.0	0.0	0.0	-	-
Net trading income	24.5	27.9	28.7	2.9%	17.2%
Gains less losses from investment securities, investments in subsidiaries and associates	-0.1	0.0	0.0	-	-
Net other operating income	-9.8	-13.2	0.8	+/-	+/-
Total income	**607.5**	**662.2**	**691.3**	**4.4%**	**13.8%**
Net impairment losses on loans and advances	-74.4	-79.9	-89.9	12.6%	20.9%
Overhead costs and amortization	-280.3	-325.2	-292.4	-10.1%	4.3%
Taxes on bank balance sheet items	-48.9	-48.6	-49.2	1.3%	0.6%
Profit before tax of Retail Banking	**203.9**	**208.5**	**259.8**	**24.6%**	**27.4%**

Key business data (Bank and mBank Hipoteczny only):

thou.	30.09.2016	30.06.2017	30.09.2017	QoQ change	YoY change
Number of retail clients*, including:	**4,957.4**	**5,233.6**	**5,259.0**	**0.5%**	**6.1%**
Poland	4,103.3	4,338.4	4,358.9	0.5%	6.2%
Foreign branches	854.1	895.2	900.1	0.5%	5.4%
The Czech Republic	600.9	629.2	631.2	0.3%	5.0%
Slovakia	253.3	266.1	268.9	1.1%	6.2%
PLN M					
Loans to retail clients, including:	**48,081.9**	**48,731.1**	**48,918.4**	**0.4%**	**1.7%**
Poland	**43,893.6**	**44,455.8**	**44,463.1**	**0.0%**	**1.3%**
mortgage loans	33,439.7	32,825.7	32,396.5	-1.3%	-3.1%
non-mortgage loans	10,453.9	11,630.1	12,066.6	3.8%	15.4%
Foreign branches	**4,188.3**	**4,275.3**	**4,455.3**	**4.2%**	**6.4%**
The Czech Republic	3,229.6	3,391.2	3,571.2	5.3%	10.6%
Slovakia	958.7	884.1	884.1	0.0%	-7.8%
Deposits of retail clients, including:	**50,923.2**	**54,024.6**	**54,176.9**	**0.3%**	**6.4%**
Poland	**43,635.6**	**45,523.2**	**45,391.8**	**-0.3%**	**4.0%**
Foreign branches	**7,287.6**	**8,501.4**	**8,785.1**	**3.3%**	**20.5%**
The Czech Republic	5,248.7	6,046.5	6,261.3	3.6%	19.3%
Slovakia	2,038.9	2,454.9	2,523.9	2.8%	23.8%
Investment funds (incl. closed-end investment funds, Poland)	**5,860.4**	**6,747.0**	**7,157.3**	**6.1%**	**22.1%**
thou.					
Credit cards, including	**338.2**	**352.8**	**358.5**	**1.6%**	**6.0%**
Poland	307.3	318.9	323.0	1.3%	5.1%
Foreign branches	30.9	33.9	35.5	4.8%	14.9%
Debit cards, including:	**3,365.5**	**3,566.4**	**3,664.3**	**2.7%**	**8.9%**
Poland	2,814.7	3,000.4	3,094.0	3.1%	9.9%
Foreign branches	550.7	566.0	570.3	0.8%	3.5%

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

Corporates and Financial Markets

The Corporates and Financial Markets segment serves 21,825 corporate clients including large enterprises (K1 - annual sales exceeding PLN 500 million), mid-sized enterprises (K2 - annual sales of PLN 30 – 500 million) and small enterprises (K3 - annual sales below PLN 30 million) through a network of dedicated 46 branches. mBank Group's offer of products and services for corporate clients focuses on traditional banking products and services (including corporate accounts, domestic and international money transfers, payment cards, cash services, and liquidity management products), corporate finance products, hedging instruments, equity capital market (ECM) services, debt capital market (DCM) instruments, mergers and acquisitions (M&A), leasing and factoring. The segment comprises two areas: Corporate and Investment Banking, and Financial Markets.

Key highlights

- Increase in income by 10.5% quarter on quarter and 13.2% year on year.
- Increase in corporate loans by 6.5% quarter on quarter, and increase in the share of mBank in loans for enterprises market to 6.6%.
- Increase in corporate deposits by 6.7% quarter on quarter and increase in the share of mBank in deposits for enterprises market to 9.4%
- mKantor and the FX platform (mPlatforma Walutowa) available 24/7 for retail banking clients.
- Net Promoter Score (NPS) for corporate clients, who indicated mBank as their main bank, reached 42% (market average at 22%), i.e. +6 p.p. year on year*.
- mBank recognised as the best bank for businesses by Forbes.

** Source: Kantar Millward Brown, August 2017.*

Key financial data:

Corporate and Investment Banking:

PLN M	Q3 2016	Q2 2017	Q3 2017	QoQ change	YoY change
Net interest income	189.4	198.5	213.9	7.8%	12.9%
Net fee and commission income	93.9	99.4	108.3	8.9%	15.3%
Dividend income	0	0.0	0.0	-	-
Net trading income	56.1	58.1	63.7	9.7%	13.6%
Gains less losses from investment securities, investments in subsidiaries and associates	0.0	-7.3	0.0	-	-
Net other operating income	5.7	4.9	4.7	-4.0%	-17.6%
Total income	**345.2**	**353.6**	**390.7**	**10.5%**	**13.2%**
Net impairment losses on loans and advances	-60.9	-41.4	-75.0	81.3%	23.2%
Overhead costs and amortization	-184.1	-142.9	-164.3	15.0%	-10.7%
Taxes on bank balance sheet items	-33.1	-35.3	-36.6	3.4%	10.4%
Profit before tax of Corporate and Investment Banking	**67.1**	**134.0**	**114.8**	**-14.3%**	**71.0%**

Financial Markets:

PLN M	Q3 2016	Q2 2017	Q3 2017	QoQ change	YoY change
Net interest income	71.5	66.3	64.6	-2.6%	-9.6%
Net fee and commission income	-1.6	-2.0	-1.5	-27.0%	-5.8%
Dividend income	0.4	0.0	0.0	-62.0%	-
Net trading income	-7.9	-24.5	-8.9	-63.5%	13.1%
Gains less losses from investment securities, investments in subsidiaries and associates	2.5	1.5	0.4	-74.1%	-83.9%
Net other operating income	-0.4	-0.9	-0.8	-6.7%	97.0%
Total income	**64.5**	**40.5**	**53.8**	**33.0%**	**-16.6%**
Net impairment losses on loans and advances	-0.3	0.6	0.2	-72.2%	+/-
Overhead costs and amortization	-27.5	-8.1	-23.8	195.5%	-13.5%
Taxes on bank balance sheet items	-7.0	-7.7	-8.4	9.2%	19.1%
Profit before tax of Financial Markets	**29.7**	**25.3**	**21.8**	**-13.9%**	**-26.6%**

Key business data (Bank only):

	30.09.2016	30.06.2017	30.09.2017	QoQ change	YoY change
Number of corporate clients	**20,695**	**21,500**	**21,825**	**1.5%**	**5.5%**
K1	2,149	2,119	2,126	0.3%	-1.1%
K2	5,987	6,835	6,980	2.1%	16.6%
K3	12,559	12,546	12,719	1.4%	1.3%
PLN M					
Loans to corporate clients, including	**21,563.1**	**22,324.9**	**23,739.4**	**6.3%**	**10.1%**
K1	5,506.5	5,115.9	5,908.0	15.5%	7.3%
K2	12,926.4	14,124.1	14,667.2	3.8%	13.5%
K3	2,953.9	2,863.7	2,966.5	3.6%	0.4%
Reverse repo/buy sell back transactions	62.1	93.8	55.6	-40.7%	-10.4%
Other	114.2	127.4	142.2	11.6%	24.5%
Deposits of corporate clients, including	**29,842.4**	**29,833.5**	**31,748.6**	**6.4%**	**6.4%**
K1	10,741.7	11,605.4	12,530.0	8.0%	16.6%
K2	11,203.2	12,038.5	12,201.5	1.4%	8.9%
K3	5,474.6	4,768.2	4,826.0	1.2%	-11.8%
Repo transactions	2,011.4	1,034.6	1,788.5	72.9%	-11.1%
Other	411.5	386.9	402.5	4.1%	-2.2%

Summary of results of mBank Group's subsidiaries

In Q3 2017, the consolidated profits before tax generated by mBank Group subsidiaries amounted to PLN 27.0 million, compared with PLN 79.8 million a quarter earlier. The quarter-on quarter decrease was a result of the first stage of the sale of mLocum shares to Archicom (51%of the company's share capital) and lower results of mLeasing. The negative result in the "Other" was mainly connected with the agreement concluded in August 2017 with mBank, Garbary, TeleTech Investment (TTI) and Bank Pekao, in which, in return for payment of fixed amount, Bank Pekao renounced the mBank, Garbary and TTI claims arising from pending court proceedings.

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

The table below presents the profit before tax of the subsidiaries in Q3 2017, compared with Q2 2017.

PLN M	Q2 2017	Q3 2017	Change in %
mFinanse (f. Aspiro)	34.7	33.2	-4.3%
mLeasing	17.1	12.7	-25.7%
mBank Hipoteczny	5.9	9.7	64.4%
mFaktoring	3.0	3.8	26.7%
mLocum	21.2	0.0	-
Other[1]	-2	-32.5	16.3x
Total	**79.8**	**27.0**	**-66.2%**

[1] Other subsidiaries include mFinance France, mCentrum Operacji, BDH Development, Garbary, Tele-Tech Investment and Future Tech.

mFinanse

An open platform for financial services sale on the intermediaries market

The offer comprises loans, deposits, insurance products, investments and savings for both individual customers and companies

mFinanse reported a seasonal decrease in sales of mortgage loans by 26.7% in Q3 2017 (PLN 302.1 million in Q3 2017 compared to PLN 412.2 million in the previous quarter).

In Q3 2017, the company's profit from selling car loans dedicated to car dealers decreased compared to Q2 2017 (PLN 71.7 million compared to PLN 77.7 million in Q2 2017). On the other hand, in Q3 2017, the company improved sales results in the area of car leasing (PLN 9.5 million in Q3 2017 compared to PLN 8.3 million a quarter earlier).

In Q3 2017, the profit before tax of mFinanse stood at PLN 33.2 million compared to PLN 34.7 million a quarter earlier, driven by lower sales of mortgage loans.

mLeasing

Financing offer in the form of leasing or rent, and car fleet management

4th position on the overall leasing market in Poland with 7.4% market share

The total value of contracts signed in Q3 2017 amounted to PLN 1,192 million compared to PLN 1,225 million in Q2 2017, which represents a decrease by 2.7% quarter on quarter, which can be explained by seasonal factors.

The value of new movable assets purchased by mLeasing in Q3 2017 stood at PLN 1,075.1 million, giving it a 6.7% share in the market. The immovables held by the subsidiary were worth PLN 116.9 million, securing it a market share of 76.0%.

IFRS Condensed Consolidated Financial Statements for the third quarter of 2017 PLN (000's)

In Q3 2017, mLeasing generated a profit before tax of PLN 12.7 million, down by 25.7% quarter on quarter, mainly driven by higher cost of funding and operating costs.

mBank Hipoteczny

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

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

Outstanding securities worth PLN 4.7 billion

The issuing activity of mBank Hipoteczny (mBH) on the public market in Q3 2017 is summarized in the table below.

Volume	Currency	Date of issue	Maturity	Tenor (in years)	Coupon
500 million	PLN	September 29, 2017	September 10, 2022	5	WIBOR 3M + 0.75%

On October 11, 2017, mBH placed the biggest issue of covered bonds in PLN in the history of the Polish capital market. It was worth PLN 1,000 million and had a maturity of 6 years. The interest equals WIBOR 3M + 0.82% per annum.

Additionally, mBank Hipoteczny issued new unsecured bonds. At the end of Q3 2017, 33 series of such bonds worth a total of PLN 941.5 million were issued. mBH offers zero-coupon and coupon bonds denominated in PLN with maturities ranging from two months to one year.

In Q3 2017, mBank Hipoteczny's gross loan portfolio totalled PLN 10.9 billion compared with PLN 10.3 billion at the end of Q2 2017, up by 6.2%. This increase was attributable mainly to growth in the portfolio of new mortgage loans granted to retail clients. Even though mBank Hipoteczny stopped offering retail loans on July 22, 2017 with mBank becoming the only entity to sell such loans in mBank Group, the value of contracts signed in Q3 was PLN 488.9 million, whereas sales of commercial loans stood at PLN 658.4 million.

In Q3 2017, the subsidiary's profit before tax amounted to PLN 9.7 million, up by PLN 3.9 million compared to Q2 2017. The increase was primarily attributable to a higher net interest income related to considerable prepayments in the corporate loans sector and a higher net fee and commission income.

IFRS Condensed Consolidated Financial Statements for the third quarter of 2017 PLN (000's)

Condensed consolidated income statement

	Note	3th Quarter (current year) period from 01.07.2017 to 30.09.2017	3 Quarters (current year) period from 01.01.2017 to 30.09.2017	3th Quarter (previous year) period from 01.07.2016 to 30.09.2016	3 Quarters (previous year) period from 01.01.2016 to 30.09.2016
Interest income	5	1 022 706	2 995 535	977 024	2 869 558
Interest expense	5	(225 944)	(684 987)	(258 312)	(789 985)
Net interest income		**796 762**	**2 310 548**	**718 712**	**2 079 573**
Fee and commission income	6	422 976	1 245 392	404 432	1 121 625
Fee and commission expense	6	(166 462)	(486 712)	(170 069)	(465 814)
Net fee and commission income		**256 514**	**758 680**	**234 363**	**655 811**
Dividend income	7	142	3 266	442	3 028
Net trading income, including:	8	83 116	221 081	74 402	218 002
Foreign exchange result		*87 606*	*221 925*	*82 162*	*220 044*
Other net trading income and result on hedge accounting		*(4 490)*	*(844)*	*(7 760)*	*(2 042)*
Gains less losses from investment securities, investments in subsidiaries and associates, including:	9	(5 780)	(22 442)	2 350	250 532
Gains less losses from investment securities		*397*	*(8 523)*	*2 347*	*250 971*
Gains less losses from investments in subsidiaries and associates		*(6 177)*	*(13 919)*	*3*	*(439)*
The share in the profits (losses) of joint ventures		-	-	(19)	(107)
Other operating income	10	47 889	196 937	46 157	195 325
Net impairment losses on loans and advances	11	(164 422)	(367 742)	(139 452)	(325 715)
Overhead costs	12	(432 140)	(1 392 243)	(447 196)	(1 301 570)
Amortisation		(53 740)	(156 418)	(52 691)	(169 788)
Other operating expenses	13	(29 261)	(156 038)	(37 660)	(151 522)
Operating profit		**499 080**	**1 395 629**	**399 408**	**1 453 569**
Taxes on the Group balance sheet items		(95 521)	(279 844)	(89 824)	(236 137)
Share in profits (losses) of entities under the equity method		192	192	-	-
Profit before income tax		**403 751**	**1 115 977**	**309 584**	**1 217 432**
Income tax expense	24	(112 352)	(332 531)	(78 883)	(288 031)
Net profit		**291 399**	**783 446**	**230 701**	**929 401**
Net profit attributable to:					
- Owners of mBank S.A.		291 414	779 892	230 479	926 765
- Non-controlling interests		(15)	3 554	222	2 636

Net profit attributable to Owners of mBank S.A.		**291 414**	**779 892**	**230 479**	**926 765**
Weighted average number of ordinary shares	14	**42 288 178**	**42 283 023**	**42 253 034**	**42 243 662**
Earnings per share (in PLN)	14	**6.89**	**18.44**	**5.45**	**21.94**
Weighted average number of ordinary shares for diluted earnings	14	**42 313 217**	**42 308 062**	**42 277 564**	**42 268 192**
Diluted earnings per share (in PLN)	14	**6.89**	**18.43**	**5.45**	**21.93**

IFRS Condensed Consolidated Financial Statements for the third quarter of 2017 PLN (000's)

Condensed consolidated statement of comprehensive income

	3th Quarter (current year) period from 01.07.2017 to 30.09.2017	3 Quarters (current year) period from 01.01.2017 to 30.09.2017	3th Quarter (previous year) period from 01.07.2016 to 30.09.2016	3 Quarters (previous year) period from 01.01.2016 to 30.09.2016
Net profit	**291 399**	**783 446**	**230 701**	**929 401**
Other comprehensive income net of tax, including:	**16 190**	**153 812**	**(59 186)**	**(241 473)**
Items that may be reclassified subsequently to the income statement				
Exchange differences on translation of foreign operations (net)	500	651	(1 363)	(1 170)
Change in valuation of available for sale financial assets (net)	20 187	154 544	(56 741)	(239 837)
Cash flows hedges (net)	(4 497)	(1 389)	(1 082)	(466)
Items that will not be reclassified to the income statement				
Actuarial gains and losses relating to post-employment benefits (net)	-	6	-	-
Total comprehensive income (net)	**307 589**	**937 258**	**171 515**	**687 928**
Total comprehensive income (net), attributable to:				
- Owners of mBank S.A.	307 604	933 704	171 293	685 292
- Non-controlling interests	(15)	3 554	222	2 636

IFRS Condensed Consolidated Financial Statements for the third quarter of 2017 PLN (000's)

Condensed consolidated statement of financial position

ASSETS	Note	30.09.2017	31.12.2016	30.09.2016
Cash and balances with the Central Bank		6 028 470	9 164 281	5 859 485
Loans and advances to banks		2 403 911	3 082 855	2 920 734
Trading securities	15	1 990 360	3 800 634	4 177 242
Derivative financial instruments	16	1 348 821	1 808 847	2 087 395
Loans and advances to customers	18	85 531 969	81 763 277	81 009 630
Hedge accounting adjustments related to fair value of hedged items		-	-	36
Investment securities	19	32 448 706	31 393 352	31 257 850
Investments in associates		28 387	-	-
Investments in joint ventures		-	-	7 252
Intangible assets	21	636 272	582 663	501 917
Tangible assets	22	701 845	757 371	710 268
Current income tax assets		8 770	1 310	1 067
Deferred income tax assets	24	561 590	540 756	486 712
Other assets		788 925	848 156	761 135
Total assets		**132 478 026**	**133 743 502**	**129 780 723**

LIABILITIES AND EQUITY				
Liabilities				
Amounts due to the Central Bank		2	-	-
Amounts due to other banks		8 451 807	8 486 753	11 562 896
Derivative financial instruments	16	1 014 022	1 599 266	1 766 557
Amounts due to customers	22	90 677 502	91 417 962	85 188 225
Debt securities in issue		13 685 190	12 660 389	12 192 188
Hedge accounting adjustments related to fair value of hedged items		57 728	116 871	196 287
Other liabilities		2 125 424	2 178 790	1 796 089
Current income tax liabilities		120 835	104 999	70 449
Provisions for deferred income tax	24	1 380	1 208	910
Provisions	23	172 151	182 754	185 201
Subordinated liabilities		2 204 523	3 943 349	3 851 380
Total liabilities		**118 510 564**	**120 692 341**	**116 810 182**

Equity				
Equity attributable to Owners of mBank S.A.		**13 965 261**	**13 023 756**	**12 935 287**
Share capital:		**3 563 854**	**3 551 096**	**3 550 793**
- Registered share capital		169 245	169 121	169 117
- Share premium		3 394 609	3 381 975	3 381 676
Retained earnings:		**10 261 914**	**9 486 979**	**9 193 161**
- Profit from the previous years		9 482 022	8 267 697	8 266 396
- Profit for the current year		779 892	1 219 282	926 765
Other components of equity		**139 493**	**(14 319)**	**191 333**
Non-controlling interests		**2 201**	**27 405**	**35 254**
Total equity		**13 967 462**	**13 051 161**	**12 970 541**
Total liabilities and equity		**132 478 026**	**133 743 502**	**129 780 723**

Total capital ratio		**20.47**	**20.29**	**18.61**
Common Equity Tier 1 capital ratio		**17.83**	**17.32**	**15.88**
Book value		**13 965 261**	**13 023 756**	**12 935 287**
Number of shares		**42 311 255**	**42 280 127**	**42 279 255**
Book value per share (in PLN)		**330.06**	**308.03**	**305.95**

IFRS Condensed Consolidated Financial Statements for the third quarter of 2017 PLN (000's)

Condensed consolidated statement of changes in equity

Changes from 1 January to 30 September 2017

	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	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	**-**	**-**	**-**	**-**	**-**	**-**	**779 892**	**651**	**154 544**	**(1 389)**	**6**	**933 704**	**3 554**	**937 258**
Dividends paid	-	-	-	-	-	-	-	-	-	-	-	-	(5 486)	(5 486)
Transfer to general banking risk reserve	-	-	-	-	22 300	(22 300)	-	-	-	-	-	-	-	-
Transfer to supplementary capital	-	-	2 782 628	-	-	(2 782 628)	-	-	-	-	-	-	-	-
Issue of shares	124	-	-	-	-	-	-	-	-	-	-	124	-	124
Change in the scope of consolidation and change of share in consolidated company	-	-	-	-	-	-	-	-	-	-	-	-	(23 272)	(23 272)
Stock option program for employees	-	12 634	-	(4 957)	-	-	-	-	-	-	-	7 677	-	7 677
- value of services provided by the employees	-	-	-	*7 677*	-	-	-	-	-	-	-	*7 677*	-	*7 677*
- settlement of exercised options	-	*12 634*	-	*(12 634)*	-	-	-	-	-	-	-	-	-	-
Equity as at 30 September 2017	**169 245**	**3 394 609**	**7 727 317**	**92 930**	**1 153 753**	**508 022**	**779 892**	**(5 353)**	**151 476**	**(2 934)**	**(3 696)**	**13 965 261**	**2 201**	**13 967 462**

Changes from 1 January to 31 December 2016

	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	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	**-**	**-**	**-**	**-**	**-**	**-**	**1 219 282**	**422**	**(445 422)**	**(2 404)**	**279**	**772 157**	**2 942**	**775 099**
Dividends paid	-	-	-	-	-	-	-	-	-	-	-	-	(8 155)	(8 155)
Transfer to general banking risk reserve	-	-	-	-	36 000	(36 000)	-	-	-	-	-	-	-	-
Transfer to supplementary capital	-	-	61 087	-	-	(61 087)	-	-	-	-	-	-	-	-
Issue of shares	165	-	-	-	-	-	-	-	-	-	-	165	-	165
Stock option program for employees	-	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**

IFRS Condensed Consolidated Financial Statements for the third quarter of 2017 PLN (000's)

Changes from 1 January to 30 September 2016

	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 - restated	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	**-**	**-**	**-**	**-**	**-**	**-**	**926 765**	**(1 170)**	**(239 837)**	**(466)**	**-**	**685 292**	**2 636**	**687 928**
Transfer to general banking risk reserve	-	-	-	-	36 000	(36 000)	-	-	-	-	-	-	-	-
Transfer to supplementary capital	-	-	61 087	-	-	(61 087)	-	-	-	-	-	-	-	-
Issue of shares	161	-	-	-	-	-	-	-	-	-	-	161	-	161
Stock option program for employees	-	14 874	-	(7 386)	-	-	-	-	-	-	-	7 488	-	7 488
- value of services provided by the employees	-	-	-	*7 488*	-	-	-	-	-	-	-	*7 488*	-	*7 488*
- settlement of exercised options	-	*14 874*	-	*(14 874)*	-	-	-	-	-	-	-	-	-	-
Equity as at 30 September 2016	**169 117**	**3 381 676**	**4 944 689**	**96 586**	**1 131 453**	**2 093 668**	**926 765**	**(7 596)**	**202 517**	**393**	**(3 981)**	**12 935 287**	**35 254**	**12 970 541**

IFRS Condensed Consolidated Financial Statements for the third quarter of 2017 PLN (000's)

Condensed consolidated statement of cash flows

	Period from 01.01.2017 to 30.09.2017	Period from 01.01.2016 to 30.09.2016
A. Cash flows from operating activities	**(5 343 491)**	**1 683 699**
Profit before income tax	**1 115 977**	**1 217 432**
Adjustments:	***(6 459 468)***	***466 267***
Income taxes paid	(372 611)	(332 947)
Amortisation, including amortisation of fixed assets provided under operating lease	191 933	205 182
Foreign exchange (gains) losses related to financing activities	(845 509)	156 979
(Gains) losses on investing activities	2 465	(253 311)
Impairment of financial assets	20 004	8 119
Dividends received	(3 266)	(3 028)
Interest income (income statement)	(2 995 535)	(2 869 558)
Interest expense (income statement)	684 987	789 985
Interest received	3 211 161	2 821 211
Interest paid	(418 608)	(741 586)
Changes in loans and advances to banks	(277 533)	111 421
Changes in trading securities	64 792	56 778
Changes in assets and liabilities on derivative financial instruments	(62 574)	(69 272)
Changes in loans and advances to customers	(3 874 069)	(2 563 784)
Changes in investment securities	(1 041 647)	(618 132)
Changes in other assets	61 224	201 126
Changes in amounts due to other banks	508 187	(792 385)
Changes in amounts due to customers	(1 133 273)	3 732 137
Changes in debt securities in issue	(123 408)	628 061
Changes in provisions	(10 603)	(40 215)
Changes in other liabilities	(45 585)	39 486
Net cash generated from/(used in) operating activities	**(5 343 491)**	**1 683 699**
B.Cash flows from investing activities	**(223 237)**	**(29 030)**
Investing activity inflows	**68 711**	**226 939**
Disposal of shares in subsidiaries, net of cash disposed	32 863	2 000
Disposal of intangible assets and tangible fixed assets	32 582	22 879
Dividends received	3 266	3 028
Other investing inflows	-	199 032
Investing activity outflows	**291 948**	**255 969**
Acquisition of shares in subsidiaries	12 639	310
Purchase of intangible assets and tangible fixed assets	279 309	255 659
Net cash generated from/(used in) investing activities	**(223 237)**	**(29 030)**
C. Cash flows from financing activities	**(307 088)**	**3 098 467**
Financing activity inflows	**1 821 930**	**3 878 864**
Proceeds from loans and advances from other banks	-	570 635
Proceeds from other loans and advances	422 466	439 000
Issue of debt securities	1 399 340	2 869 068
Issue of ordinary shares	124	161
Financing activity outflows	**2 129 018**	**780 397**
Repayments of loans and advances from other banks	-	311 884
Repayments of other loans and advances	12 942	12 844
Redemption of debt securities	400 000	350 000
Decrease of subordinated liabilities	1 611 840	-
Payments of financial lease liabilities	677	452
Dividends and other payments to shareholders	5 486	-
Interest paid from loans and advances received from other banks and from subordinated liabilities	98 073	105 217
Net cash generated from/(used in) financing activities	**(307 088)**	**3 098 467**
Net increase / decrease in cash and cash equivalents (A+B+C)	**(5 873 816)**	**4 753 136**
Effects of exchange rate changes on cash and cash equivalents	37 228	(10 989)
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	**9 163 461**	**11 398 529**

IFRS Condensed Consolidated Financial Statements for the third quarter of 2017 PLN (000's)

mBank S.A. stand-alone financial information

Income statement

	Note	3th Quarter (current year) period from 01.07.2017 to 30.09.2017	3 Quarters (current year) period from 01.01.2017 to 30.09.2017	3th Quarter (previous year) period from 01.07.2016 to 30.09.2016	3 Quarters (previous year) period from 01.01.2016 to 30.09.2016
Interest income		897 402	2 629 204	855 001	2 514 981
Interest expense		(196 530)	(597 872)	(229 685)	(706 524)
Net interest income		**700 872**	**2 031 332**	**625 316**	**1 808 457**
Fee and commission income		361 664	1 047 898	333 232	892 983
Fee and commission expense		(148 942)	(426 947)	(149 151)	(413 475)
Net fee and commission income		**212 722**	**620 951**	**184 081**	**479 508**
Dividend income		142	166 123	442	133 940
Net trading income, including:		83 318	227 349	78 066	221 930
Foreign exchange result		*86 384*	*222 805*	*82 502*	*218 299*
Other net trading income and result on hedge accounting		*(3 066)*	*4 544*	*(4 436)*	*3 631*
Gains less losses from investment securities, investments in subsidiaries and associates, including:		(1 354)	(10 274)	2 350	250 707
Gains less losses from investment securities		*323*	*(8 597)*	*2 347*	*251 146*
Gains less losses from investments in subsidiaries and associates		*(1 677)*	*(1 677)*	*3*	*(439)*
Other operating income		66 046	86 787	17 091	52 170
Net impairment losses on loans and advances		(143 309)	(328 010)	(127 561)	(295 508)
Overhead costs		(378 205)	(1 217 876)	(390 741)	(1 106 934)
Amortisation		(47 841)	(139 150)	(47 235)	(151 843)
Other operating expenses		(20 623)	(60 818)	(26 211)	(80 883)
Operating profit		**471 768**	**1 376 414**	**315 598**	**1 311 544**
Taxes on the Bank's balance sheet items		(89 042)	(262 145)	(84 809)	(224 674)
Share in profits (losses) of entities under the equity method		4 102	(49 696)	53 468	73 467
Profit before income tax		**386 828**	**1 064 573**	**284 257**	**1 160 337**
Income tax expense		(98 438)	(286 655)	(60 986)	(238 153)
Net profit		**288 390**	**777 918**	**223 271**	**922 184**

Net profit		**288 390**	**777 918**	**223 271**	**922 184**
Weighted average number of ordinary shares	14	**42 288 178**	**42 283 023**	**42 253 034**	**42 243 662**
Earnings per share (in PLN)	14	**6.82**	**18.40**	**5.28**	**21.83**
Weighted average number of ordinary shares for diluted earnings	14	**42 313 217**	**42 308 062**	**42 277 564**	**42 268 192**
Diluted earnings per share (in PLN)	14	**6.82**	**18.39**	**5.28**	**21.82**

IFRS Condensed Consolidated Financial Statements for the third quarter of 2017 PLN (000's)

mBank S.A. stand-alone financial information

Statement of comprehensive income

	3th Quarter (current year) period from 01.07.2017 to 30.09.2017	3 Quarters (current year) period from 01.01.2017 to 30.09.2017	3th Quarter (previous year) period from 01.07.2016 to 30.09.2016	3 Quarters (previous year) period from 01.01.2016 to 30.09.2016
Net profit	**288 390**	**777 918**	**223 271**	**922 184**
Other comprehensive income net of tax, including:	**16 221**	**153 531**	**(58 885)**	**(241 075)**
Items that may be reclassified subsequently to the income statement				
Exchange differences on translation of foreign operations (net)	468	743	(1 254)	(1 170)
Change in valuation of available for sale financial assets (net)	19 316	151 177	(56 724)	(239 296)
Cash flow hedges (net)	(4 497)	(1 389)	(1 082)	(466)
Share in other comprehensive income of entities under the equity method (net)	934	3 000	175	(143)
Items that will not be reclassified to the income statement				
Actuarial gains and losses relating to post-employment benefits (net)	-	-	-	-
Total comprehensive income net of tax, total	**304 611**	**931 449**	**164 386**	**681 109**

IFRS Condensed Consolidated Financial Statements for the third quarter of 2017 PLN (000's)

mBank S.A. stand-alone financial information

Statement of financial position

ASSETS	30.09.2017	31.12.2016	30.09.2016
Cash and balances with the Central Bank	6 021 685	9 158 751	5 819 523
Loans and advances to banks	7 635 501	7 308 769	6 530 792
Trading securities	2 041 620	3 837 606	4 281 538
Derivative financial instruments	1 354 284	1 818 306	2 087 394
Loans and advances to customers	74 672 195	72 304 131	72 110 630
Hedge accounting adjustments related to fair value of hedged items	-	-	36
Investment securities	31 368 783	30 467 780	30 568 532
Investments in subsidiaries	1 998 119	1 782 219	1 762 442
Investments in associates	28 387	-	-
Intangible assets	581 688	540 452	463 718
Tangible assets	435 871	481 695	440 008
Current income tax assets	5 003	1 067	1 067
Deferred income tax assets	101 158	146 693	107 085
Other assets	413 393	367 796	293 523
Total assets	**126 657 687**	**128 215 265**	**124 466 288**
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the Central Bank	2	-	-
Amounts due to other banks	8 592 747	8 503 014	11 568 125
Derivative financial instruments	1 043 062	1 644 250	1 830 202
Amounts due to customers	98 761 881	98 960 320	92 456 191
Hedge accounting adjustments related to fair value of hedged items	38 977	87 566	148 386
Other liabilities	1 766 000	1 792 740	1 448 331
Current income tax liabilities	115 301	77 475	47 440
Provisions for deferred income tax	83	100	83
Provisions	172 058	182 648	185 049
Subordinated liabilities	2 204 523	3 943 349	3 851 380
Total liabilities	**112 694 634**	**115 191 462**	**111 535 187**
Equity			
Share capital:	**3 563 854**	**3 551 096**	**3 550 793**
- Registered share capital	169 245	169 121	169 117
- Share premium	3 394 609	3 381 975	3 381 676
Retained earnings:	**10 259 851**	**9 486 890**	**9 188 441**
- Profit for the previous years	9 481 933	8 267 551	8 266 257
- Net profit for the current year	777 918	1 219 339	922 184
Other components of equity	**139 348**	**(14 183)**	**191 867**
Total equity	**13 963 053**	**13 023 803**	**12 931 101**
Total liabilities and equity	**126 657 687**	**128 215 265**	**124 466 288**
Total capital ratio	**24.16**	**24.07**	**21.69**
Common Equity Tier 1 capital ratio	**21.08**	**20.59**	**18.49**
Book value	**13 963 053**	**13 023 803**	**12 931 101**
Number of shares	**42 311 255**	**42 280 127**	**42 279 255**
Book value per share (in PLN)	**330.01**	**308.04**	**305.85**

IFRS Condensed Consolidated Financial Statements for the third quarter of 2017 PLN (000's)

mBank S.A. stand-alone financial information

Statement of changes in equity

Changes from 1 January to 30 September 2017

	Share capital		Retained earnings					Other components of equity					
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	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	Share in other comprehensive income of entities under the equity method	Total equity
Equity as at 1 January 2017	**169 121**	**3 381 975**	**4 384 011**	**26 891**	**1 095 143**	**3 980 845**	**-**	**(5 953)**	**(2 431)**	**(1 545)**	**(3 517)**	**(737)**	**13 023 803**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**777 918**	**743**	**151 177**	**(1 389)**	**-**	**3 000**	**931 449**
Transfer to general banking risk reserve	-	-	-	-	20 000	(20 000)	-	-	-	-	-	-	-
Transfer to supplementary capital	-	-	2 761 506	-	-	(2 761 506)	-	-	-	-	-	-	-
Issue of shares	124	-	-	-	-	-	-	-	-	-	-	-	124
Stock option program for employees	-	12 634	-	(4 957)	-	-	-	-	-	-	-	-	7 677
- value of services provided by the employees	-	-	-	*7 677*	-	-	-	-	-	-	-	-	*7 677*
- settlement of exercised options	-	*12 634*	-	*(12 634)*	-	-	-	-	-	-	-	-	-
Equity as at 30 September 2017	**169 245**	**3 394 609**	**7 145 517**	**21 934**	**1 115 143**	**1 199 339**	**777 918**	**(5 210)**	**148 746**	**(2 934)**	**(3 517)**	**2 263**	**13 963 053**

Changes from 1 January to 31 December 2016

	Share capital		Retained earnings					Other components of equity					
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	Exchange differences on translation of foreign operations	Valuation of available for sale financial assets	Actuarial gains and losses relating to post-employment benefits	Actuarial gains (losses) on defined benefit pension plans	Share in profits (losses) of entities under the equity method	Total equity
Equity as at 1 January 2016	**168 956**	**3 366 802**	**4 384 011**	**32 976**	**1 065 143**	**2 791 517**	**-**	**(6 290)**	**441 758**	**859**	**(3 850)**	**465**	**12 242 347**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**1 219 339**	**337**	**(444 189)**	**(2 404)**	**333**	**(1 202)**	**772 214**
Transfer to general banking risk reserve	-	-	-	-	30 000	(30 000)	-	-	-	-	-	-	-
Issue of shares	165	-	-	-	-	-	-	-	-	-	-	-	165
Other changes	-	-	-	-	-	(11)	-	-	-	-	-	-	(11)
Stock option program for employees	-	15 173	-	(6 085)	-	-	-	-	-	-	-	-	9 088
- value of services provided by the employees	-	-	-	*9 088*	-	-	-	-	-	-	-	-	*9 088*
- settlement of exercised options	-	*15 173*	-	*(15 173)*	-	-	-	-	-	-	-	-	-
Equity as at 31 December 2016	**169 121**	**3 381 975**	**4 384 011**	**26 891**	**1 095 143**	**2 761 506**	**1 219 339**	**(5 953)**	**(2 431)**	**(1 545)**	**(3 517)**	**(737)**	**13 023 803**

IFRS Condensed Consolidated Financial Statements for the third quarter of 2017 PLN (000's)

Changes from 1 January to 30 September 2016

	Share capital		Retained earnings					Other components of equity					
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	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	Share in other comprehensive income of entities under the equity method	Total equity
Equity as at 1 January 2016	**168 956**	**3 366 802**	**4 384 011**	**32 976**	**1 065 143**	**2 791 517**	**-**	**(6 290)**	**441 758**	**859**	**(3 850)**	**465**	**12 242 347**
Total comprehensive income	-	**-**	**-**	**-**	**-**	**-**	**922 184**	**(1 170)**	**(239 296)**	**(466)**	**-**	**(143)**	**681 109**
Transfer to general banking risk reserve	-	-	-	-	30 000	(30 000)	-	-	-	-	-	-	-
Issue of shares	161	-	-	-	-	-	-	-	-	-	-	-	161
Other changes	-	-	-	-	-	(4)	-	-	-	-	-	-	(4)
Stock option program for employees	-	14 874	-	(7 386)	-	-	-	-	-	-	-	-	7 488
- value of services provided by the employees	-	-	-	*7 488*	-	-	-	-	-	-	-	-	*7 488*
- settlement of exercised options	-	*14 874*	-	*(14 874)*	-	-	-	-	-	-	-	-	-
Equity as at 30 September 2016	**169 117**	**3 381 676**	**4 384 011**	**25 590**	**1 095 143**	**2 761 513**	**922 184**	**(7 460)**	**202 462**	**393**	**(3 850)**	**322**	**12 931 101**

IFRS Condensed Consolidated Financial Statements for the third quarter of 2017 PLN (000's)

mBank S.A. stand-alone financial information

Statement of cash flows

	Period from 01.01.2017 to 30.09.2017	Period from 01.01.2016 to 30.09.2016
A. Cash flows from operating activities	**(5 240 418)**	**1 642 380**
Profit before income tax	**1 064 573**	**1 160 337**
Adjustments:	***(6 304 991)***	***482 043***
Income taxes paid	(240 735)	(256 196)
Amortisation	139 150	151 843
Foreign exchange (gains) losses related to financing activities	(845 509)	156 979
(Gains) losses on investing activities	47 514	(328 518)
Impairment of financial assets	12 262	8 119
Dividends received	(166 123)	(133 940)
Interest income (income statement)	(2 629 204)	(2 514 981)
Interest expense (income statement)	597 872	706 524
Interest received	2 885 243	2 500 139
Interest paid	(536 721)	(706 834)
Changes in loans and advances to banks	(1 581 099)	(710 331)
Changes in trading securities	52 702	(45 972)
Changes in assets and liabilities on derivative financial instruments	(81 710)	(39 771)
Changes in loans and advances to customers	(2 432 413)	(744 952)
Changes in investment securities	(773 570)	(644 914)
Changes in other assets	(41 690)	(18 801)
Changes in amounts due to banks	633 288	(1 027 500)
Changes in amounts due to customers	(1 316 481)	4 080 836
Changes in provisions	(10 590)	(40 295)
Changes in other liabilities	(17 177)	90 608
Net cash generated from/(used in) operating activities	**(5 240 418)**	**1 642 380**
B.Cash flows from investing activities	**(216 233)**	**172 481**
Investing activity inflows	**199 377**	**335 109**
Disposal of shares in subsidiaries	32 863	2 000
Disposal of intangible assets and tangible fixed assets	391	137
Dividends received	166 123	133 940
Other investing inflows	-	199 032
Investing activity outflows	**415 610**	**162 628**
Acquisition of shares in subsidiaries	224 839	-
Purchase of intangible assets and tangible fixed assets	190 771	162 628
Net cash generated from/(used in) investing activities	**(216 233)**	**172 481**
C. Cash flows from financing activities	**(636 245)**	**2 652 804**
Financing activity inflows	**1 214 310**	**3 165 796**
Proceeds from loans and advances from banks	-	570 635
Proceeds from other loans and advances	422 466	439 000
Issue of ordinary shares	124	161
Security deposit due to issue of Eurobonds	791 720	2 156 000
Financing activity outflows	**1 850 555**	**512 992**
Repayments of loans and advances from banks	-	287 545
Repayments of other loans and advances	12 942	12 844
Acquisition of shares in subsidiaries - increase of involvement	122 216	100 360
Decrease of subordinated liabilities	1 611 840	-
Payments of financial lease liabilities	5 484	7 026
Interest paid from loans and advances received from banks and subordinated liabilities	98 073	105 217
Net cash generated from/(used in) financing activities	**(636 245)**	**2 652 804**
Net increase / decrease in cash and cash equivalents (A+B+C)	**(6 092 896)**	**4 467 665**
Effects of exchange rate changes on cash and cash equivalents	37 228	(10 989)
Cash and cash equivalents at the beginning of the reporting period	14 987 684	6 892 431
Cash and cash equivalents at the end of the reporting period	**8 932 016**	**11 349 107**

Explanatory notes to the condensed consolidated financial statements

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

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

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

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

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

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

As at 30 September 2017, mBank S.A. Group covered by the condensed consolidated financial statements comprised the following companies:

mBank S.A., the parent entity

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

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

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

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

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

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

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

As at 30 September 2017 the headcount of mBank S.A. amounted to 5 395 FTEs (Full Time Equivalents) and of the Group to 6 450 FTEs (30 September 2016: Bank to 5 322 FTEs, Group 6 497 FTEs).

As at 30 September 2017 the employment in mBank S.A. was 6 339 persons and in the Group 8 440 persons (30 September 2016: Bank 6 264 persons, Group 8 320 persons).

The business activities of the Group are conducted in the following business segments presented in detail under Note 4.

Corporates and Financial Markets Segment, including:

Corporate and Investment Banking

- mBank Hipoteczny S.A., subsidiary (the corporate segment of the company's activity)
- mFaktoring S.A., subsidiary
- mLeasing Sp. z o.o., subsidiary (the corporate segment of the company's activity)
- Garbary Sp. z o.o., subsidiary
- Tele-Tech Investment Sp. z o.o., subsidiary

Financial Markets

- mFinance France S.A., subsidiary
- mBank Hipoteczny S.A., subsidiary (with regard to activities concerning funding)
- mLeasing Sp. z o.o., subsidiary (with regard to activities concerning funding)

Retail Banking Segment (including Private Banking)

- mFinanse S.A. (previously Aspiro S.A.), subsidiary
- mBank Hipoteczny S.A., subsidiary (the retail segment of the company's activity)
- mLeasing Sp. z o.o., subsidiary (the retail segment of the company's activity)

Other

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

Other information concerning companies of the Group

- On 2 June 2017, mBank S.A. signed a preliminary conditional agreement on the sale of mLocum S.A. shares to Archicom S.A. Upon conditions fulfilment (approval of the President of the Office of Competition and Consumer Protection (UOKiK), conclusion of guarantee agreement and registered pledge agreement between mBank S.A. and DKR Investment Sp. z o.o.- majority shareholder of Archicom S.A.), on 31 July 2017 14 120 880 shares, representing 51% of the share capital of mLocum S.A., were sold. Sale of the remaining 8 026 120 shares representing 28.99% of the share capital of mLocum S.A. will take place no later than June 30, 2020. As of 31 July 2017, the mLocum's shares held by Bank are presented in the statement of financial position under "Investments in associates".

  The sale transaction results from mBank Group's concentration on its core financial operations. Selling mLocum S.A. shares to a sector-leading company will allow to make better use of its potential and to achieve business objectives on the Polish market.

- On 22 June 2017, the Future Tech Fundusz Inwestycyjny Zamknięty (the "Fund") was registered, in which mBank acquired 400 000 investment certificates accounting for 100% of the issue, worth in total PLN 221 200 thousand. As at 30 June 2017 the Bank held of 100% of the certificates issued by the Fund, so the Bank consolidate the Fund starting from June 2017. The Fund's capital increased by PLN 2 216 thousand in August 2017. As at 30 September 2017, the Bank held 98.04% of the Fund's investment certificates, while the remaining 1.96% was owned by minority shareholders. Quercus Towarzystwo Funduszy Inwestycyjnych S.A. is the entity managing the Fund S.A.

Information concerning the business conducted by the Group's entities is presented under Note 4 "Business Segments" of these condensed consolidated financial statements.

2. Description of the relevant accounting policies

The most important accounting policies applied to the drafting of these condensed consolidated financial statements are presented below. These principles were applied consistently over all presented periods.

2.1. Accounting basis

The condensed consolidated financial statements of mBank S.A. Group have been prepared for the 9 - month period ended 30 September 2017.

The presented condensed consolidated financial statements of mBank Group for the third quarter of 2017 fulfill the requirements of the International Accounting Standard (IAS) 34 "Interim Financial Reporting", concerning interim financial statements and adopted for application by the European Union.

The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and, therefore, the presented condensed consolidated financial statements for the third quarter of 2017 should be read in conjunction with the mBank S.A. Group Consolidated Financial Statements for the year 2016, which have been prepared in accordance with IFRSs adopted for application by the European Union, on 1 March 2017 approved by the Bank's Management Board. Accounting policies applied to the preparation of the condensed consolidated financial statements are consistent with those applied in the Group's annual consolidated financial statements for the year ended 31 December 2016, with the exception of the application of new or amended standards and interpretations binding for annual periods beginning on or after 1 January 2017 and described under Note 2.30.

The data for the year 2016 presented in these mBank S.A. Group condensed consolidated financial statements was audited by the auditor, while the data for the third quarter of 2016 years was reviewed by an auditor.

The preparation of the financial statements in compliance with IFRS requires the application of specific accounting estimates. It also requires the Management Board to use its own judgment when applying the accounting policies adopted by the Bank. The issues in relation to which a greater degree of judgment is required, more complex issues, or such issues where estimates or judgments are material to the financial statements are disclosed in Note 3.

These condensed consolidated financial statements were prepared under the assumption that the Group's companies continue as a going concern in the foreseeable future, i.e. in the period of at least 12 months following the reporting date.

The Management Board of mBank S.A. approved these condensed consolidated financial statements for issue on 26 October 2017.

2.2. Consolidation

Subsidiaries

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

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

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The Group recognises directly in the equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received and attributes it to the owners of the parent.

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

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

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

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

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

Company	30.09.2017		31.12.2016		30.09.2016	
	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method
mFinanse S.A. (previously Aspiro S.A.)	100%	full	100%	full	100%	full
BDH Development Sp. z o.o.	100%	full	100%	full	100%	full
Garbary Sp. z o.o.	100%	full	100%	full	100%	full
mBank Hipoteczny S.A.	100%	full	100%	full	100%	full
mCentrum Operacji Sp. z o.o.	100%	full	100%	full	100%	full
mFaktoring S.A.	100%	full	100%	full	100%	full
mLeasing Sp. z o.o.	100%	full	100%	full	100%	full
Tele-Tech Investment Sp. z o.o.	100%	full	100%	full	100%	full
Future Tech Fundusz Inwestycyjny Zamknięty	98.04%	full	-	-	-	-
mFinance France S.A.	99.998%	full	99.998%	full	99.998%	full
mLocum S.A.	28.99%	-	79.99%	full	79.99%	full

The Company mLocum S.A. was consolidated until 31 July 2017, i.e. until the date of sale of 51% Company's shares, as described in Note 1. From that date, the company is presented under the item "Investments in associates".

Beginning in June 2017, the Group started the consolidation of the Fund Future Tech Fundusz Inwestycyjny Zamknięty. Information about the Fund are 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.

2.3. Associates and joint ventures

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights in governing bodies. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Investments in associates and joint ventures are settled using the equity method of accounting. Under the equity method, on initial recognition the investment in an associate or a joint venture is recognised at cost. The carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Goodwill forms part of the carrying amount of an investment in an associate or a joint venture and it is neither amortised nor tested for impairment.

After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment with respect to its net investment in the associate or joint venture. At each reporting date the Group determines whether there was an objective evidence for impairment of an investment in an associate or a joint venture. If there was an objective evidence for impairment, the Group calculates impairment comparing the recoverable amount of the investment with its carrying value.

The share of the Group in the profits (losses) of associates and joint ventures since the date of acquisition is recognised in the income statement, whereas its share in equity since the date of acquisition – in other comprehensive income. The carrying amount of the investment is adjusted by the total changes of share of net assets. When the share of the Group in the losses of an associate or a joint ventures becomes equal to or greater than the share of the Group in that associate or in join ventures, possibly covering receivables other than secured claims, the Group discontinues the recognition of any further losses, unless it has assumed obligations or has settled payments on behalf of the respective associate or a joint venture.

Unrealised gains on transactions between the Group and its associates are eliminated proportionally to the extent of the Group's interest in the respective associate. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies applied by associates and joint ventures have been adjusted, wherever necessary, to assure consistency with the accounting principles applied by the Group.

The Group discontinues the use of the equity method from the date when its investment ceases to be an associate or a joint venture. If the retained interest in the former associate or joint venture is a financial asset, the Group measures the retained interest at fair value. The Group recognises in profit or loss any difference between the carrying amount of the investment at the date the equity method was discontinued and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture.

2.4. Interest income and expenses

All interest income on financial instruments carried at amortised cost using the effective interest rate method is recognised in the income statement as well as interest income from financial assets held for trading and available for sale.

The effective interest rate method is a method of calculation of the amortised initial value of financial assets or financial liabilities and allocation of interest income or interest expense to the proper periods. The effective interest rate is the interest rate at which the discounted future payments or future cash inflows in the expected life of the financial instrument, are equal to the net present carrying value of the respective financial asset or liability. When calculating the effective interest rate, the Group estimates the cash flows taking into account all the contractual terms of the financial instrument, but without taking into account possible future losses on account of non-recovered loans and advances. This calculation takes into account all the fees paid or received between the parties to the contract, which constitute an integral component of the effective interest rate, as well as transaction expenses and any other premiums or discounts.

Following the recognition of an impairment loss on a financial asset or a group of similar financial assets, the interest income is calculated on the net value of financial assets and recognised using the interest rate at which the future cash flows were discounted for the purpose of valuation of impairment.

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

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

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

Income and expenses related to the interest component of the result on interest rate derivatives and resulting from current calculation of swap points on currency derivatives classified into banking book are presented in the interest results in the position Interest income/expense on derivatives classified into banking book. The banking book includes transactions, which are not concluded for trading purposes i.e.

not aimed at generating a profit in a short-term period (up to 6 months) and those that do not constitute hedging a risk arising from the operations assigned into trading book.

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

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

2.5. Fee and commission income

Income on account of fees and commissions is recognised on the accrual basis, at the time of performance of the respective services. Fees charged for the granting of loans which are likely to be drawn down are deferred (together with the related direct costs) and included in the calculation of the effective interest rate charge on the loan. Fees on account of syndicated loans are recognised as income at the time of closing of the process of organisation of the respective syndicate, if the Group has not retained any part of the credit risk on its own account or has retained a part of the risk of a similar level as other participants. Commissions and fees on account of negotiation or participation in the negotiation of a transaction on behalf of a third party, such as the acquisition of shares or other securities, or the acquisition or disposal of an enterprise, are recognised at the time of realisation of the transaction. Portfolio management fees and other fees for management, advisory and other services are recognized on the basis of service contracts, usually in proportion to the passage of time.The same principle is applied in the case of management of client assets, financial planning and custody services, which are continuously provided over an extended period of time.

Fee and commissions collected by the Group on account of issuance, renewal and change in the limit of credit and payment cards, guarantees granted as well as opening, extension and increase of letters of credit are accounted for a straight-line basis.

Fee and commissions collected by the Group on account of cash management operations, keeping of customer accounts, money transfers and brokerage business activities are recognised directly in the income statement as one-off.

In addition, revenue from fee and commission include income from a fee on insurance products sold through the Internet platform for the distribution of premium in installments. The fee for the distribution of premium in installments is settled in time in accordance with the duration of the policy.

The Group's fee and commission income comprises also income from offering insurance products of third parties. In case of selling insurance products that are not bundled with loans, the revenues are recognized as upfront income or in majority of cases settled on a monthly basis.

2.6. Revenue and expenses from sale of insurance products bundled with loans

The Group treats insurance products as bundled with loans, in particular when insurance product was offered to the customer only with the loan, i.e. it was not possible to purchase from the Group the insurance product which is identical in a legal form, content and economic conditions without purchasing the loan.

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

The remuneration included in interest income is recognised over time as part of effective interest rate calculation for the bundled loan. The remuneration included in fee and commission income is recognised partly as upfront income and partly including deferring over time based on the analysis of the stage of completion of the service.

Expenses directly linked to the sale of insurance products are recognised using the same pattern as in case of income observing the matching concept. A part of expenses is treated as an element adjusting the calculation of effective interest rate for interest income and the remaining part of expenses is recognised in fee and commission expenses as upfront cost or as cost accrued over time.

The Group estimates also the part of remuneration which in the future will be returned due to early termination of insurance contract and appropriately decreases interest income or fee and commission income to be recognised.

In connection with entry into force of Recommendation U concerning best practices in the area of bancassurance, starting from 31 March 2015 the Group does not receive remuneration from the sale of insurance products which would have been treated as boundled with loans.

2.7. Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group), whose operating results are regularly reviewed by the Group's chief operating decision-maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. As defined in IFRS 8, the Group has determined the Management Board of the Bank as its chief operating decision-maker.

In accordance with IFRS 8, the Group has the following business segments: Corporates and Financial Markets including the sub-segments *Corporate and Investment Banking* as well as *Financial Markets*, Retail Banking (including Private Banking), and the Other business.

2.8. Financial assets

The Group classifies its financial assets to the following categories: financial assets valued at fair value through the income statement; loans and receivables; financial assets held to maturity; financial assets available for sale. The classification of financial assets is determined by the Management at the time of their initial recognition.

Standardised purchases and sales of financial assets at fair value through the income statement, held to maturity and available for sale are recognised on the settlement date – the date on which the Group delivers or receives the asset. Changes in fair value in the period between trade and settlement date with respect to assets carried at fair value is recognised in profit or loss or in other components of equity. Loans are recognised when cash is advanced to the borrowers. Derivative financial instruments are recognised beginning from the date of transaction.

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

<u>Financial assets valued at fair value through the income statement</u>

This category comprises two subcategories: financial assets held for trading and financial assets designated at fair value through the income statement upon initial recognition. A financial asset is classified in this category if it was acquired principally for the purpose of short-term resale or if it was classified in this category by the companies of the Group. Derivative instruments are also classified as "held for trading", unless they were designated for hedging according to IAS 39.

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

The Group classifies financial assets/financial liabilities as measured at fair value through the income statement if they meet either of the following conditions:

- assets/liabilities are classified as held for trading i.e. they are acquired or incurred principally for the purpose of selling or repurchasing them in the near term, they are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit making or they are derivatives (except for derivatives that are designated as and being effective hedging instruments and financial guarantee contracts),
- upon initial recognition, assets/liabilities are designated by the entity at fair value through the income statement according to IAS 39.

If a contract contains one or more embedded derivatives, the Group designates the entire hybrid (combined) contract as a financial asset or financial liability at fair value through the income statement unless:

- the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or
- it is clear with little or no analysis when a similar hybrid instrument is first considered that separation of the embedded derivative(s) is prohibited, such as a prepayment option embedded in a loan that permits the holder to prepay the loan for approximately its amortised cost.

The Group also designates the financial assets/financial liabilities at fair value through the income statement when doing so results in more relevant information, because either:

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

Financial assets and financial liabilities classified to this category are valued at fair value upon initial recognition.

Interest income/expense on financial assets/financial liabilities designated at fair value (Note 2.4), except for derivatives the recognition of which is discussed in Note 2.14, is recognised in net interest income. The valuation and result on disposal of financial assets/financial liabilities designated at fair value is recognised in trading income.

As presented in this financial statements reporting periods, the Group did not designate any financial instrument on initial recognition as financial assets at fair value through the income statement.

Loans and receivables

Loans and receivables consist of financial assets not classified as derivative instruments, with payments either determined or possible to determine, not listed on an active market. They arise when the Group supplies monetary assets, goods or services directly to the debtor without any intention of trading the receivable. Loans and receivables are entered into books on the transaction date.

Financial assets held to maturity

Investments held to maturity comprise listed on active markets financial assets, not classified as derivative instruments, where the payments are determined or possible to determine and with specified maturity dates, and which the Group intends and is capable of holding until their maturity.

In the case of sale by the Group before maturity of a part of assets held to maturity which cannot be deemed insignificant the held to maturity portfolio is tainted, and there with all the assets of this category are reclassified to the available for sale category.

In reporting periods presented in these financial statements, there were no assets held to maturity at the Group.

Financial assets available for sale

Available for sale investments consist of investments which the Group intends to hold for an undetermined period of time. They may be sold, e.g., in order to improve liquidity, in reaction to changes of interest rates, foreign exchange rates, or prices of equity instruments.

Interest income and expense from available for sale financial assets are presented in net interest income. Gains and losses from sale of available for sale financial assets are presented in gains and losses from investment securities.
Available for sale financial assets and financial assets measured at fair value through the income statement are valued at the end of the reporting period according to their fair value. Loans and receivables, as well as investments held to maturity are measured at adjusted cost of acquisition (amortised cost), applying the effective interest rate method. Gains and losses resulting from changes in the fair value of "financial assets measured at fair value through the income statement" are recognised in the income statement in the period in which they arise.

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

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

If the application of valuation techniques does not ensure obtaining a reliable fair value of investments in equity instruments not quoted on an active market, they are stated at cost.

2.9. Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The conditions mentioned above are not satisfied and offsetting is inappropriate when: different financial instruments are used to emulate the features of a single financial instrument, financial assets and liabilities arise from financial instruments having the same risk exposure but involve different counterparties, financial or other assets are pledged as collaterals for non-recourse financial liabilities, financial assets are set aside in trust by a debtor for the purpose of discharging an obligation without those assets having been accepted by the creditor in the settlement of the obligation, or obligations incurred as a result of events giving rise to losses are expected to be recovered from a third party by virtue of a claim made under an insurance contract.

2.10. Impairment of financial assets

Assets carried at amortised cost

At the end of each reporting period, the Group estimates whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there are objective evidences of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the future cash flows of the asset or group of financial assets that can be reliably estimated. Loss events were divided into definite ("hard") loss events of which occurrence requires that there is a need to classify the client into the default category, and indefinite ("soft") loss events of which occurrence may imply that there is a need to classify the client into the default category.

The Group measures impairment of loan exposures in accordance with the International Accounting Standard 39. The process of classification of customers to default portfolio and calculation of impairment write-off has been described below.

Impairment triggers - corporate portfolio

Loss events were divided into definite ('hard') loss events of which occurrence requires the client to be classified into the default category, and indefinite ('soft') loss events of which occurrence may imply that there is a need to classify the client into the default category. Credit analyst assesses additionally whether the event impacted adversely the obligor's creditworthiness. Indefinite loss events have been introduced in order to signal situations that may increase the credit risk of the debtor, which may result in the loss of the debtor's ability to repay loan to the Bank.

<u>The list of definite loss events:</u>

1. The number of days past due of any debtor's exposure with credit obligation nature is above 90 days (14 days in the case of banks) and the overdue amount exceeds PLN 3,000.
2. The Bank has sold exposures with a significant economic loss related to the decrease of the debtor creditworthiness.
3. The Bank performed enforced restructuring of the exposure, which resulted in the change of the loan/transaction service schedule due to the lack of possibility of the obligor to meet his obligations under loan/transaction agreement, as initially stipulated, which resulted in:
   a) remitting part of these obligations, or
   b) postponing the repayment of the substantial part of the principal, interest or (if it refers to) commission; provided that the lack of approval for restructuring would cause more than 90 calendar days delay in repayment of substantial part of the obligation.
4. Filing by the Bank, the parent or subsidiary entity of the Bank a bankruptcy motion against debtor or filing similar motion in respect of credit obligations of the debtor towards the Bank, the parent or subsidiary entity of the Bank.
5. Bankruptcy of debtor or acquiring by him a similar legal protection resulting in his evasion of or delay in repayment of credit obligations towards the Bank, the parent or subsidiary entity of the Bank.
6. Termination of part or whole credit agreement by the Bank and the beginning of restructuring/collection procedures.

7. Client's fraud.

<u>The list of required conditions for indefinite loss events is prepared separately for each following entity type:</u>

a) governments and central banks,
b) banks,
c) corporations, including specialised lending,
d) local government units,
e) insurers,
f) pension fund managing companies, investment fund managing companies.

Defining separately the conditions for indefinite loss events for particular types of entities aims at reflecting specificity of particular types of entities in identification of loss events.

In order to assess if the impairment loss has occurred, identification of credit exposures with premises for impairment is carried out. Subsequently the comparison of the gross balance sheet credit exposure with the value of estimated future cash flows discounted at the original effective interest rate is carried out, which leads to the conclusion whether the impairment loss has occurred. If the discounted value of future cash flow is higher than the gross balance sheet value, the impairment charge is not recognised.

In case of specific situation, when the future cash flows are clearly dependent on individual events (based on discrete metric), the Bank estimates the probability of such events as the basis for calculating the impairment charge.

Impairment triggers - retail portfolio

In the Bank's retail banking in Poland, a debtor-oriented approach, including all exposures of the customers, is applied for identification of impairment triggers. Transactional approach, in which each exposure is analysed independently, is applied in the foreign branches.

The main impairment trigger is delay in repayment, which is identified in different ways depending on the abovementioned approach. In the retail banking in Poland, impairment trigger is identified, when the total of all customer's exposures past due more than 30 days exceeds PLN 500 and the eldest delay exceeds 90 days.

In the Czech and Slovak branches, an individual exposure is considered impaired when the overdue amount exceeds CZK 3000 or EUR 120, respectively, while the delay is more than 90 days.

Additionally, the following events are treated as impairment triggers in all branches:

a. enforced restructuring of debt,
b. bankruptcy of debtor,
c. recognition of the contract as fraudulent,
d. sale of the exposure with considerable economic loss,
e. uncollectable status of debt,
f. payout of low downpayment insurance by the insurance company.

Calculation of impairment losses and provisions - corporate portfolio

The intranet application IMPAIRMENT-KORPO is a tool used to calculate impairment losses for impaired exposures granted to corporate customers and banks. The classification of customers to default portfolio and calculation of impairment write-off is as follows:

a) identifying impairment indicator on individual basis (loss events) and if they exist, classifying a customer to a default category;

b) assessing estimated future cash flows both from collateral and from repayments by a customer;

c) calculating impairment losses taking into account the current amount of estimated future recovery discounted at the effective interest rate;

d) booking of impairment losses and provisions.

In the case of customers with evidence for impairment, a comparison of the carrying value of the gross credit exposure with the value of estimated future cash flows, discounted at the original effective interest rate is made. An impairment is recognized when the discounted value of future cash flows is lower than the gross carrying amount. This results in the impairment charge for balance sheet credit exposure and/or provision for off-balance sheet credit exposure.

In the case of exposures for which the discounted value of future cash flows is higher than the gross carrying amount, impairment is not recognized and the exposure is classified to the IBNR (Incurred But Not Reported loss) portfolio, covered by a group provision. IBNR group charge for this portfolio is created in the amount of 5% of the gross carrying amount.

Calculation of IBNR provision for portfolio with no evidence for impairment - corporate portfolio

The amount of provision is an estimate of incurred loss and is assumed at the expected level of exposure at the impairment date, considering the book value of loss (in percentage terms) and the probability of default.

The probability of disclosure of a loss is modelled using logistic regression based on financial indicators and qualitative data on financed entity. The model is calibrated on the Bank's internal data, comprising a several years' period of observation of the corporate portfolio. On the basis of the monitoring period existing in the Bank, it was estimated that 6-8 months (depending on the size of the company) is the average period between the loss event occurrence and the possibility of its identification by the Bank (loss identification period "LIP"). Therefore, the Bank performs calculations on the basis of 6-8-month horizon for probability of default obtained via scaling the original 12-month PD-rating coming from the corporate PD model. The value of incurred loss is assumed at the level of the expected value of exposure in case of default (EAD) multiplied by PD and LGD.

In the opinion of the Management Board, the profile of the corporate rating system as a model sensitive to changes in economic cycle (Point-in-Time) as well as recognition of interim financial data and warning indicators as rating assessment drivers should ensure adequate reflection of the amounts of the calculated portfolio provision to the changing market environment.

Calculation of impairment losses and provisions - retail portfolio

In the retail area, impairment charges and provisions are determined for the portfolio exposure both with evidence for impairment and with no evidence for impairment. For the purpose of measuring impairment in the retail area, the Bank applies two approaches for determining credit risk parameters. In the case of the Polish market, the Bank applies parameters analogous to those derived from the AIRB methodology (advanced internal ratings based approach for calculating capital requirement for credit risk), after necessary adjustments aimed at elimination of differences between AIRB and IAS 39. In the case of the Czech and Slovak markets, risk parameters are estimated based on migration matrices.

12-month loss identification period (LIP) based on the current internal data on banking processes and abilities to detect the incurred losses is applied in the retail area to estimate the probability of default.

Assets measured at fair value available for sale

At the end of the reporting period the Group estimates whether there is an objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity instruments classified as assets available for sale, a significant or prolonged decline in the fair value of the security below its cost resulting from higher credit risk is considered when determining whether the assets are impaired. If such kind of evidence concerning available for sale financial assets exists, the cumulative loss – determined as the difference between the cost of acquisition and the current fair value – is removed from other comprehensive income and recognised in the income statement. The above indicated difference should be reduced by the impairment concerning the given asset which was previously recognised in the income statement. Impairment losses concerning equity instruments recorded in the income statement are not reversed through the income statement, but through other comprehensive income. If the fair value of a debt instrument classified as available for sale increases in a subsequent period, and such increase can be objectively related to an event occurring after the recording of the impairment loss in the income statement, then the respective impairment loss is reversed in the income statement.

Renegotiated agreements

The Group considers renegotiations on contractual terms of loans and advances as impairment indicator unless the renegotiation was not due to the situation of the debtor but had been carried out on normal business terms. In such a case the Group makes an assessment whether the impairment of such loans and advances should be recognised on either individual or group basis.

2.11. Financial guarantee contracts

The financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

When a financial guarantee contract is recognised initially, it is measured at the fair value. After initial recognition, an issuer of such a contract measures it at the higher of:

- the amount determined in accordance with IAS 37 "*Provisions, Contingent Liabilities and Contingent Assets*", and
- the amount initially recognised less, when appropriate, cumulative amortization recognised in accordance with IAS 18 "*Revenue*".

2.12. Cash and cash equivalents

Cash and cash equivalents comprise items with maturities of up to three months from the date of their acquisition, including: cash in hand and cash held at the Central Bank with unlimited availability for disposal, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks and government securities acquired for the purpose of short-term resale. Cash and cash equivalents are settled using amortised cost.

2.13. Sale and repurchase agreements

Repo and reverse-repo transactions are defined as selling and purchasing securities for which a commitment has been made to repurchase or resell them at a contractual date and for a specified contractual price and are recognised when the money is transferred.

Securities sold with a repurchase clause (repos/sell buy back) are reclassified in the financial statements as pledged assets if the entity receiving them has the contractual or customary right to sell or pledge them as collateral security. The liability towards the counterparty is recognised as amounts due to other banks, deposits from other banks, other deposits or amounts due to customers, depending on its nature. Securities purchased together with a resale clause (reverse repos/buy sell back) are recognised as loans and advances to other banks or other customers, depending on their nature.

When concluding a repo or reverse repo transaction, mBank S.A. Group sells or buys securities with a repurchase or resale clause specifying a contractual date and price. Such transactions are presented in the statement of financial position as financial assets held for trading or as investment financial assets, and also as liabilities in the case of "sell-buy-back" transactions and as receivables in the case of "buy-sell-back" transactions.

Securities borrowed by the Group under "sell-buy-back" transactions are not recognised in the financial statements, unless they are sold to third parties. In such case the purchase and sale transactions are recorded with a gain or a loss included in trading income. The obligation to return them is recorded at fair value as amounts due to customers. Securities borrowed under "buy-sell-back" transactions and then lent under "sell-buy-back" transactions are not recognised as financial assets.

As a result of "sell-buy-back" transactions concluded on securities held by the Group, financial assets are transferred in such way that they do not qualify for derecognition. Thus, the Group retains substantially all risks and rewards of ownership of the financial assets.

2.14. Derivative financial instruments and hedge accounting

Derivative financial instruments are recognised at fair value from the date of transaction. Fair value is determined based on prices of instruments listed on active markets, including recent market transactions, and on the basis of valuation techniques, including models based on discounted cash flows and options pricing models, depending on which method is appropriate in the particular case. All derivative instruments with a positive fair value are recognised in the statement of financial position as assets, those with a negative value as liabilities.

The best fair value indicator for a derivative instrument at the time of its initial recognition is the price of the transaction (i.e., the fair value of the paid or received consideration). If the fair value of the particular instrument may be determined by comparison with other current market transactions concerning the same instrument (not modified) or relying on valuation techniques based exclusively on market data that are available for observation, then the Group recognises the respective gains or losses from the first day in accordance with the principles described under Note 2.15.

Embedded derivative instruments are treated as separate derivative instruments if the risks attached to them and their characteristics are not strictly linked to the risks and characteristics of the underlying contract and the underlying contract is not measured at fair value through the income statement. Embedded derivative instruments of this kind are measured at fair value and the changes in fair value are recognised in the income statement.

In accordance with IAS 39 AG 30: (i), there is no need to separate the prepayment option from the host debt instrument for the needs of consolidated financial statements, because the option's exercise price is approximately equal on each exercise date to the amortised cost of the host debt instrument. If the value of prepayment option was not to be closely related to the underlying debt instrument, the option should be separated and fair valued in the consolidated financial statements of the Group; (ii), exercise price of a prepayment option reimburses the lender for an amount up to the approximate present value of lost interest for the remaining term of the host contract. Lost interest is the product of the principal amount prepaid multiplied by the interest rate differential. The interest rate differential is the excess of the effective interest rate of the host contract over the effective interest rate the entity would receive at the prepayment date if it reinvested the principal amount prepaid in a similar contract for the remaining term of the host contract.

The assessment of whether the call or put option is closely related to the host debt contract is made before separating the equity element of a host debt instrument in accordance with IAS 32.

The method of recognising the resulting fair value gain or loss depends on whether the given derivative instrument is designated as a hedging instrument, and if it is, it also depends on the nature of the hedged item. The Group designates some derivative instruments either as (1) fair value hedges against a recognised asset or liability or against a binding contractual obligation (fair value hedge), or as (2) hedges against highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge). Derivative instruments designated as hedges against positions maintained by the Group are recorded by means of hedge accounting, subject to the fulfilment of the criteria specified in IAS 39:

- at the inception of the hedge there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instruments effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk;
- the hedge is expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship;
- for cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss;
- the effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured;
- the hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

The Group documents the objectives of risk management and the strategy of concluding hedging transactions, as well as at the time of concluding the respective transactions, the relationship between the hedging instrument and the hedged item. The Group also documents its own assessment of the effectiveness of fair value hedging and cash flow hedging transactions, measured both prospectively and retrospectively from the time of their designation and throughout the period of duration of the hedging relationship between the hedging instrument and the hedged item.

Due to the split of derivatives classified into banking book and into trading book, the Group applies a different approach to the presentation of interest income/expense for each of these groups of derivatives that is described in Note 2.4 "Interest income and expenses". The remaining result from fair value measurement of derivatives is recognised in "Net trading income".

<u>Fair value hedges</u>

Changes in the fair value of derivative instruments designated and qualifying as fair value hedges are recognised in the income statement together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

In case a hedge has ceased to fulfil the criteria of hedge accounting, the adjustment to the carrying value of the hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity. The adjustment to the carrying amount of the hedged equity security remains in other comprehensive income until the disposal of the equity security.

Cash flow hedges

The effective part of the fair value changes of derivative instruments designated and qualifying as cash flow hedges is recognised in other comprehensive income. The gain or loss concerning the ineffective part is recognised in the income statement of the current period.

The amounts recognised in other comprehensive income are transferred to the income statement and recognised as income or cost of the same period in which the hedged item will affect the income statement (e.g., at the time when the forecast sale that is hedged takes place).

In case the hedging instrument has expired or has been sold, or the hedge has ceased to fulfil the criteria of hedge accounting, any aggregate gains or losses recognised at such time in other comprehensive income remain in other comprehensive income until the time of recognition in the income statement of the forecast transaction. When a forecast transaction is no longer expected to occur, the aggregate gains or losses recorded in other comprehensive income are immediately transferred to the income statement.

Derivative instruments not fulfilling the criteria of hedge accounting

Changes of the fair value of derivative instruments that do not meet the criteria of hedge accounting are recognised in the income statement of the current period.

The Group holds the following derivative instruments in its portfolio:

Market risk instruments:

- Futures contracts for bonds, index futures
- Options for securities and for stock-market indices
- Options for futures contracts
- Forward transactions for securities
- Commodity swaps

Interest rate risk instruments:

- Forward Rate Agreement (FRA)
- Interest Rate Swap (IRS), Overnight Index Swap (OIS)
- Interest Rate Options

Foreign exchange risk instruments:

- Currency forwards, fx swap, fx forward
- Cross Currency Interest Rate Swap (CIRS)
- Currency options.

2.15. Gains and losses on initial recognition

The best evidence of fair value of a financial instrument at initial recognition is the transaction price (i.e., the fair value of the payment given or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

The transaction for which the fair value determined using a valuation model (where inputs are both observable and non-observable data) and the transaction price differ, the initial recognition is at the transaction price. The Group assumes that the transaction price is the best indicator of fair value, although the value obtained from the valuation model may differ. The difference between the transaction price and the model value, commonly referred to as "day one profit and loss", is amortised over the period of time.

The timing of recognition of deferred day one profit and loss is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable date, or realised through settlement. The financial instrument is subsequently measured at fair value, adjusted for the deferred day one profit and loss. Subsequent changes in fair value are recognised immediately in the income statement without reversal of deferred day one profits and losses.

2.16. Borrowings and deposits taken

Borrowings and deposits taken are initially recognized at fair value reduced by the incurred transaction costs. After the initial recognition, borrowings are recorded at adjusted cost of acquisition (amortised cost using the effective interest method). Any differences between the amount received (reduced by transaction costs) and the redemption value are recognized in the income statement over the period of duration of the respective agreements according to the effective interest rate method.

2.17. Intangible assets

The Group measures intangible assets initially at cost. After initaial recognition, intangible assets are recognised at their cost of acquisition adjusted by the costs of improvement (rearrangement, development, reconstruction or modernisation) less any accumulated amortization and any accumulated impairment losses. Amortization is accrued by the straight line method taking into account the expected period of economic useful life of the respective intangible assets.

Goodwill

Goodwill as of the acquisition date is initially measured as cost of acquisition the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquire over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill on acquisition of subsidiaries is included in "Intangible assets". Goodwill is not amortised, but it is tested annually for impairment and if there have been any indication that it may be impaired, and it is carried in the statement of financial position at cost reduced by accumulated impairment losses. The Group assesses at the end of each reporting period whether there is any indication that cash generaing unit to which goodwill is allocated may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. Goodwill impairment losses should not be reversed.

Gains and losses on the disposal of the activity include the carrying amount of goodwill relating to the sold activity. Goodwill is allocated to cash generating units or groups of cash generating units for the purpose of impairment testing. The allocation is made as at the date of purchase to those cash-generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose, not bigger than operating segments in accordance with IFRS 8 irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Computer software

Purchased computer software licences are capitalised in the amount of costs incurred for the purchase and adaptation for use of specific computer software. These costs are amortised on the basis of the expected useful life of the software (2-11 years). Expenses attached to the maintenance of computer software are expensed when incurred. Expenses directly linked to the development of identifiable and unique proprietary computer programmes controlled by the Group, which are likely to generate economic benefits in excess of such costs expected to be gained over a period exceeding one year, are recognised as intangible assets. Direct costs comprise personnel expenses directly related to the software.

Capitalised costs attached to the development of software are amortised over the period of their estimated useful life (2-11 years).

Computer software directly connected with the functioning of specific information technology hardware is recognised as "Tangible fixed assets".

Development costs

The Group identifies development costs as intangible asset as the asset will generate probable future economic benefits and fulfil the following requirements described in IAS 38, i.e., the Group has the intention and technical feasibility to complete and to use the intangible asset, the availability of adequate technical, financial and other resources to complete and to use the intangible asset and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

"Development costs" useful lives are finite and the amortization period does not exceed 3 years. Amortization rates are adjusted to the period of economic utilisation. The Group shows separately additions from internal development and separately those acquired through business combinations.

Development expenditure comprises all expenditure that is directly attributable to research and development activities.

Intangible assets are tested in terms of possible impairment always after the occurrence of events or change of circumstances indicating that their carrying value in the statement of financial position might not be possible to be recovered.

2.18. Tangible fixed assets

Tangible fixed assets are carried at historical cost reduced by accumulated depreciation and accumulated impairment losses. Historical cost takes into account the expenses directly attached to the acquisition of the respective assets.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only where it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Any other expenses incurred on repairs and maintenance are expensed to the income statement in the reporting period in which they were incurred.

Land is not depreciated. Depreciation of other fixed assets is accounted for according to the straight line method in order to spread their initial value reduced by the residual value over the period of their useful life which is estimated as follows for the particular categories of fixed assets:

Buildings and structures	25-40 years,
Equipment	2-10 years,
Vehicles	5 years,
Information technology hardware	2-5 years,
Investments in third party fixed assets	10-40 years, no longer when the period of the lease contract,
Office equipment, furniture	5-10 years.

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

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

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

The carrying amount of tangible fixed assets is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from from the derecognition of tangible fixed assets are included in profit or loss when the item is derecognised. Gains are not classified as revenue.

Gains and losses on account of the disposal of fixed assets are determined by comparing the proceeds from their sale against their carrying value in the statement of financial position and they are recognised in the income statement.

2.19. Inventories

Inventories are stated at the lower of: cost of purchase/cost of construction and net realisable value. Cost of construction of inventories comprises direct construction costs, the relevant portion of fixed indirect production costs incurred in the construction process and the borrowing costs, which can be directly allocated to the purchase or construction of an asset. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling costs. The amount of any inventory write-downs to the net realisable value and any inventory losses are recorded as costs of the period in which a write-down or a loss occurred and they are classified as other operating costs. Reversals of inventory write-downs resulting from increases in their net realisable value are recorded as a reduction of the inventories recognised as cost of the period in which the reversals took place. Inventory issues are valued through detailed identification of the individual purchase prices or costs of construction of the assets which relate to the realisation of the individual separate undertakings. In particular, inventories comprise land and rights to perpetual usufruct of land designated for use as part of construction projects carried out. They also comprise assets held for lease as well as assets taken over as a result of terminated lease agreements.

2.20. Non-current assets held for sale and discontinued operations

The Group classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sale of such assets and its sale must be highly probable, i.e., the appropriate level of management must be committed to a plan to sell the asset, and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale are priced at the lower of: carrying value and fair value less costs to sell. Assets classified in this category are not depreciated.

When criteria for classification to non-current assets held for sale are not met, the Group ceases to classify the assets as held for sale and reclassifies them into appropriate category of assets. The Group measures a non-current asset that ceases to be classified as held for sale (or ceases to be included in a disposal group classified as held for sale) at the lower of:

- its carrying amount at a date before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognised had the asset (or disposal group) not been classified as held for sale, and
- its recoverable amount at the date of the subsequent decision not to sell.

Discontinued operations are a component of the Group that either has been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operation or is a subsidiary acquired exclusively with a view to resale.

The classification to this category takes places at the moment of sale or when the operation meets criteria of the operation classified as held for sale, if this moment took place previously. Disposal group which is to be taken out of usage may also be classified as discontinued operation.

2.21. Deferred income tax

The Group creates a deferred income tax on the temporary difference arising between the carrying amount of an asset or liability in the statement of financial position and its tax base. A taxable net difference is recognised in liabilities as "Provisions for deferred income tax". A deductible net difference is recognised under "Deferred income tax assets". Any change in the balance of the deferred tax assets and liabilities in relation to the previous accounting period is recorded under the item "Income Tax". The balance sheet method is applied for the calculation of the deferred corporate income tax.

Liabilities or assets for deferred corporate income tax are recognised in their full amount according to the balance sheet method in connection with the existence of temporary differences between the tax value of assets and liabilities and their carrying value. Such liabilities or assets are determined by application of the tax rates in force by virtue of law or of actual obligations at the end of the reporting period. According to expectations such tax rates applied will be in force at the time of realisation of the assets or settlement of the liabilities for deferred corporate income tax.

The main temporary differences arise on account of impairment write-offs recognised in relation to the loss of value of credits and granted guarantees of repayment of loans, amortization of fixed assets and intangible assets, finance leases treated as operating leases for tax purposes, revaluation of certain financial assets and liabilities, including contracts concerning derivative instruments and forward transactions, provisions for retirement benefits and other benefits following the period of employment, and also deductible tax losses.

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

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

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

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

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

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

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

2.22. Assets repossessed for debt

Assets repossessed for debt represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, financial assets or other assets depending on their nature and the Group's intention in respect of recovery of these assets. In case the fair value of repossessed collateral exceeds the receivable from the debtor, the difference constitutes a liability toward the debtor.

Repossessed assets are subsequently measured and accounted for in accordance with the accounting policies relevant for these categories of assets.

2.23. Prepayments, accruals and deferred income

Prepayments are recorded if the respective expenses concern the months succeeding the month in which they were incurred. Prepayments are presented in the statement of financial position under "Other assets".

Accruals include costs of supplies delivered to the Group but not yet resulting in its payable liabilities. Deferred income includes received amounts of future benefits. Accruals and deferred income are presented in the statement of financial position under the item "Other liabilities".

Deferred income comprises reinsurance and co-insurance commissions, resulting from insurance agreements included in reinsurance and co-insurance agreements, which are subject to settlement over the period in the proportional part to the future reporting periods.

Acquisition costs in the part attributable to future reporting periods are subject to settlement, proportionally to the duration of the relevant insurance agreements.

2.24. Leasing

A lease arrangement is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. Title may or may not eventually be transferred. A lease arrangement is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

The Group determines whether an arrangement is, or contains, a lease based on the substance of the arrangement and assessment of whether fulfilment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset.

<u>mBank S.A. Group as a lessor</u>

In the case of assets in use on the basis of a finance lease agreement, the amount equal to the net investment in the lease is recognised as receivables and presented as "Loans and advances to customers". The difference between the gross receivable amount and the present value of the receivables is recognised as unrealised financial income.

Revenue from leasing agreements is recognised as follows:

- Interests on finance lease

Revenue from finance lease is recognised on the accruals basis, based on the fixed rate of return calculated on the basis of all the cash flows related to the realisation of a given lease agreement, discounted using the lease interest rate.

- Net revenue from operating lease

Revenue from operating lease and the depreciation cost of fixed assets provided by the Group under operating lease, incurred in order to obtain this revenue are recognised in net amount as other operating income in the profit and loss account.

Revenue from operating lease is recognised as income on a straight-line basis over the lease period, unless application of a different systematic method better reflects the time allocation of benefits drawn from the leased asset.

mBank S.A. Group as a lessee

The leases entered into by the Group are primarily operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

2.25. Provisions

The value of provisions for contingent liabilities such as unutilised guarantees and (import) letters of credit, as well as for unutilised irreversible unconditionally granted credit limits, is measured in compliance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

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

Technical-insurance provisions for unpaid claims, benefits and premiums concern insurance activity.

Provision for unpaid claims and benefits is created in the amount of the established or expected final value of future claims and benefits paid in connection with events before the reporting period date, including related claims handling costs.

Provision for unpaid claims and benefits which were notified to the insurer and in relation to which the information held does not enable to assess the value of claims and benefits is calculated using the lump sum method.

Provision for premiums is created individually for each insurance agreement as premium written, attributed to subsequent reporting periods, proportionally to the period for which the premium was written on the daily basis. However, in case of insurance agreements whose risk is not evenly apportioned over the period of duration of insurance, provision is created proportionally to the expected risk in subsequent reporting periods.

At each reporting date, the Group tests for adequacy of technical-insurance provisions to ensure whether the technical-insurance provisions deducted by deferred acquisition costs are sufficient. The adequacy test is carried out using up-to-date estimates of future cash flows arising from insurance agreements, including costs of claims handling and policy-related costs.

If the assessment reveals that the technical-insurance provisions are insufficient in relation to estimated future cash flows, then the whole disparity is promptly recognised in the consolidated income statement through impairment of deferred acquisition costs or/and supplementary provisions.

2.26. Post-employment employee benefits and other employee benefits

Post-employment employee benefits

The Group forms provisions against future liabilities on account of post-employment benefits determined on the basis of an estimation of liabilities of that type, using an actuarial model. The Group uses a principle of recognition of actuarial gains or losses from the measurement of post-employment benefits related to changes in actuarial assumptions in other comprehensive income that will not be reclassified to the income statement. The Group recognizes service cost and net interest on the net defined benefit liability in the "Overhead cost" and in other interest expenses, respectively.

Equity-settled share-based payment transactions

The Group runs programmes of remuneration based on and settled in own shares as well as based on shares of the ultimate parent of the Bank and settled in cash. Equity-settled share-based payment transactions are accounted for in compliance with IFRS 2 *Share-based Payment*. In case of the part of the programme settled in shares, the fair value of the service rendered by employees in return for options and shares granted increases the costs of the respective period corresponding to own equity. The total amount which needs to be expensed over the period when the outstanding rights of the employees for their options and shares to become exercisable are vested is determined on the basis of the fair value of the granted options and shares. There are no market vesting conditions that shall be taken into account when estimating the fair value of share options and shares at the measurement date. Non-market vesting conditions are not taken into account when estimating the fair value of share options and shares but they are taken into account through adjustment on the number of equity instruments. At the end of each reporting period, the Bank revises its estimates of the number of options and shares that are expected to become exercised. In accordance with IFRS 2 it is not necessary to recognise the change in fair value of the share-based payment over the term of the programmes.

Cash-settled share-based payment transactions

In case of the part of the programme based on cash-settled share-based payments based on shares of the ultimate parent of the Bank, the fair value of the service rendered by employees in return for right to options/share appreciation rights increases the costs of the respective period, corresponding to liabilities. Until the liability related to the cash-settled share-based payments transactions is settled, the Bank measures the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

Other employee benefits

From September 2012, in mBank Hipoteczny has been functioning the incentive programme based on phantom shares of this bank which is considered as incentive programme according to IAS 19.

2.27. Equity

Equity consists of capital and own funds attributable to owners of the Bank, and non-controlling interest created in compliance with the respective provisions of the law, i.e., the appropriate legislative acts, the By-laws or the Company Articles of Association.

Registered share capital

Share capital is presented at its nominal value, in accordance with the By-laws and with the entry in the business register.

- Own shares

In the case of acquisition of shares in the Bank by the Bank the amount paid reduces the value of equity as own shares until the time when they are cancelled. In the case of sale or reallocation of such shares, the payment received in return is recognised in equity.

Share premium

Share premium is formed from the share premium obtained from the issue of shares reduced by the attached direct costs incurred with that issue.

Costs directly connected with the issue of new shares and options reduce the proceeds from the issue recognized in equity.

Moreover, share premium takes into account the settlements related to incentive programs based on Bank's shares.

Retained earnings

Retained earnings include:

- other supplementary capital,
- other reserve capital,
- general risk reserve,
- undistributed profit for the previous year,
- net profit (loss) for the current year.

Other supplementary capital, other reserve capital and general risk reserve are formed from allocations of profit and they are assigned to purposes specified in the By-laws or other regulations of the law.

Moreover, other reserve capital comprises valuation of incentive programs based on Bank's shares.

Dividends for a given year, which have been approved by the General Meeting but not distributed at the end of the reporting period, are shown under the liabilities on account of dividends payable under the item "Other liabilities".

Other components of equity

Other components of equity result from:

- valuation of available for sale financial instruments,
- exchange differences on translation of foreign operations,
- actuarial gains and losses relating to post-employment benefits,
- valuation of derivative financial instruments held for cash flow hedging in relation to the effective portion of the hedge.

2.28. Valuation of items denominated in foreign currencies

Functional currency and presentation currency

The items contained in financial reports of particular entities of the Group, including foreign branches of the Bank, are valued in the currency of the basic economic environment in which the given entity conducts its business activities ("functional currency"). The financial statements are presented in the Polish zloty, which is the presentation currency of the Group and the functional currency of the Bank.

Transactions and balances

Transactions denominated in foreign currencies are converted to the functional currency at the exchange rate in force at the transaction date. Foreign exchange gains and losses on such transactions as well as balance sheet revaluation of monetary assets and liabilities denominated in foreign currency are recognised in the income statement.

Foreign exchange differences arising on account of such monetary items as financial assets measured at fair value through the income statement are recognised under gains or losses arising in connection with changes of fair value. Foreign exchange differences on account of such monetary assets as equity instruments classified as available for sale financial assets are recognised under other comprehensive income.

At the end of each reporting period non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction, and non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange differences component of that gain or loss is recognised in other comprehensive income. Coversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange differences component of that gain or loss is recognised in profit or loss.

Changes in fair value of monetary items available for sale cover foreign exchange differences arising from valuation at amortised cost, which are recognised in the income statement.

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

Companies belonging to the Group

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

- assets and liabilities in each presented statement of financial position are converted at the average rate of exchange of the National Bank of Poland (NBP) in force at the end of this reporting period,
- revenues and expenses in each income statement are converted at the rate equal to the arithmetical mean of the average rates quoted by NBP on the last day of each of 9 months of each presented periods,
- all resulting foreign exchange differences are recognised as a distinct item of other comprehensive income.

Upon consolidation, foreign exchange differences arising from the conversion of net investments in companies operating abroad are recognised in other comprehensive income. Upon the disposal of a foreign operation, such foreign exchange differences are recognised in the income statement as part of the profit or loss arising upon disposal.

Leasing business

Gains and losses on foreign exchange differences from the valuation of liabilities on account of credit financing of purchases of assets under operating leasing schemes are recognised in the income statement. In the operating leasing agreements recognised in the statement of financial position the fixed assets subject to the respective contracts are recognised at the starting date of the appropriate contract as converted to PLN, whereas the foreign currency loans with which they were financed are subject to valuation according to the respective foreign exchange rates.

In the case of finance lease agreements the foreign exchange differences arising from the valuation of leasing receivables and liabilities denominated in foreign currency are recognised through the income statement at the end of the reporting period.

2.29. Trust and fiduciary activities

mBank S.A. operates trust and fiduciary activities including domestic and foreign securities and services provided to investment and pension funds.

The assets concerned are not shown in these financial statements as they do not belong to the Group.

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

2.30. New standards, interpretations and amendments to published standards

These financial statements include the requirements of all the International Accounting Standards and the International Financial Reporting Standards endorsed by the European Union, and the related with them interpretations which have been endorsed and binding for annual periods starting on 1 January 2017.

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

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

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

Standards and interpretations approved by the European Union:

- IFRS 9, *Financial Instruments*, published by the International Accounting Standards Board on 24 July 2014, approved by European Union on 22 November 2016, represents the final version of the standard, replaces earlier versions of IFRS 9 and completes the International Accounting Standards Board's project to replace IAS 39 *Financial Instruments*: *Recognition and Measurement*. The new standard addresses classification and measurement of financial assets and financial liabilities, impairment methodology and hedge accounting. IFRS 9 does not include macro hedge accounting, which is a separate project of International Accounting Standards Board. The Group continues to apply IAS 39 accounting for macro hedges. The new standard is effective for annual periods beginning on or after 1 January 2018.

  IFRS 9 introduces a new impairment model based on the concept of „expected credit losses", changes to the rules of classification and measurement of financial instruments (particularly of financial assets) as well as a new approach towards hedge accounting.

  In June 2015 the Bank launched an IFRS 9 implementation project which actively engages the Bank's and Group companies organizational units responsible for accounting, financial reporting and risk management as well as business, IT and organisation department.

  The Group is currently implementing necessary solutions for the particular requirements based on the results of gap analysis and defined methodological assumptions. The Group intends to complete the project by December 2017.

  As at 30 September 2017, it is not possible to reliably estimate the overall impact of IFRS 9 implementation on the Group's financial situation and own funds. In the Group's opinion, disclosing quantitative data that would not reflect the potential impact of all aspects of IFRS 9 on the Group's financial situation and own funds could have a negative impact on the informative value of the financial statements for its users. Nevertheless, taking into account the current regulations, changes in the requirements regarding classification and measurement and impairment of financial assets would have moderately negative impact on the Group's own funds. However, the impact of changes can be reliably estimated only in the consecutive periods.

Qualitative information, including the analysis of main changes resulting from adoption of the standard on the presentation and valuation of financial instruments in the financial statements, was presented under Note 2.33 of the mBank Group Consolidated Financial Statements for the year 2016 published on 1 March 2017.

- IFRS 15, *Revenue from Contracts with Customers*, published by the International Accounting Standards Board on 28 May 2014, approved by European Union on 22 September 2016, binding for annual periods beginning on or after 1 January 2018.

  Amendments to IFRS 15 were published by International Accounting Standards Board on 11 September 2015, approved by European Union on 22 September 2016, binding for annuals periods starting on or after 1 January 2018.

  IFRS 15 introduces new principles of revenue recognition. The core principle is that an entity recognizes revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. According to a new IFRS 15 revenue is recognized when the customer obtains control of these goods or services. Depending on the fulfilment of certain conditions revenues are either recognized over time throughout the duration of the contract if a performance obligation is satisfied over time, or at a point in time when the customer obtains control of these goods or services.

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

Standards and interpretations not yet approved by the European Union:

- Amendments to IAS 12, *Recognition of Deferred Tax Assets for Unrealised Losses*, published by the International Accounting Standards Board on 19 January 2016, binding for annual periods starting on or after 1 January 2017.

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

- Amendments to IAS 7, *Disclosure Initiative*, published by the International Accounting Standards Board on 29 January 2016, binding for annual periods starting on or after 1 January 2017.

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

- Annual Improvements to IFRS Standards 2014-2016 Cycle, changing 3 standards (IFRS 1, IFRS 12, IAS 28), published by International Accounting Standards Board on 8 December 2016, binding for annuals periods starting on or after 1 January 2017 or on or after 1 January 2018.

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

- Amendments to IFRS 15, *Clarifications to IFRS 15 Revenue from Contracts with Customers*, published by International Accounting Standards Board on 12 April 2016, binding for annuals periods starting on or after 1 January 2018.

  Amendments to IFRS 15 clarify the guidance on the identification of performance obligation, the accounting of licensing of intellectual property and principal versus agent considerations in the context of presenting income on gross or net basis. The practical expedients on transition were also added when applying a new standard.

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

- IFRS 16, *Leases*, published by the International Accounting Standards Board on 13 January 2016, binding for annual periods starting on or after 1 January 2019.

  IFRS 16 introduces new principles for the recognition of leases. The main amendment is the elimination of the classification of leases as either operating leases or finance leases and instead, the introduction of a single lessee accounting model. Applying a single accounting model, a lessee is required to recognize lease assets and corresponding liability in the statement of financial position, except for leases with a term of less than 12 months and leases with underlying asset of low value.

A lessee is also required to recognize depreciation costs of lease asset separately from interest costs on lease liabilities in the income statement.

IFRS 16 substantially carries forward the lessor accounting approach. It means that lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group is of the opinion that the application of a new standard will have an impact on the recognition, presentation, measurement and disclosure of lease assets and corresponding liability in the financial statements of the Group as lessee. The Bank is of the opinion that the application of a new standard will have no significant impact on recognition of previous finance lease in the financial statements of the Bank.

- Amendments to IFRS 2, *Classification and measurement of share-based payment transactions*, published by International Accounting Standards Board on 20 June 2016, binding for annuals periods starting on or after 1 January 2018.

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

- Amendments to IFRS 4, *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*, published by International Accounting Standards Board on 12 September 2016, binding for annuals periods starting on or after 1 January 2018.

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

- Amendments to IAS 40, *Transfers of Investment Property*, published by International Accounting Standards Board on 8 December 2016, binding for annuals periods starting on or after 1 January 2018.

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

- IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*, published by International Accounting Standards Board on 8 December 2016, binding for annuals periods starting on or after 1 January 2018.

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

- IFRIC Interpretation 23 Uncertainty over Income Tax Treatments, published by International Accounting Standards Board on 7 June 2017, binding for annuals periods starting on or after 1 January 2019.

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

- Amendments to IFRS 9: Prepayment Features with Negative Compensation, published by International Accounting Standards Board on 12 October 2017, binding for annuals periods starting on or after 1 January 2019.

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

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

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

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

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

2.31. Comparative data

The data as at 31 December 2016 and as at 30 September 2016 are comparable with the current accounting period and therefore has not been adjusted.

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

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

Impairment of loans and advances

The Group reviews its loan portfolio in terms of possible impairments at least once per quarter. In order to determine whether any impairment loss should be recognised in the income statement, the Group assesses whether any evidence exists that would indicate some measurable reduction of estimated future cash flows attached to the loan portfolio. The methodology and the assumptions (on the basis of which the estimated cash flow amounts and their anticipated timing are determined) are regularly verified. If the current value of estimated cash flows for portfolio of loans and advances which are impaired, change by +/-10%, the estimated loans and advances impairment would either decrease by PLN 46.0 million or increase by PLN 50.2 million as at September 30, 2017, respectively. This estimation was performed for portfolio of loans and advances individually assessed for impairment on the basis of future cash flows due to repayments and recovery from collateral. The rules of determining write-downs and provisions for impairment of credit exposures have been described under Note 2.10.

Fair value of derivatives and other financial instruments

The fair value of financial instruments not listed on active markets is determined by applying valuation techniques. All the models are approved prior to being applied and they are also calibrated in order to assure that the obtained results indeed reflect the actual data and comparable market prices. As far as possible, observable market data originating from an active market are used in the models. Methods for determining the fair value of financial instruments were described under Note 3.16 of the mBank Group consolidated financial statements for the year 2016, published on 1 March 2017. If the current value of interest rates used for valuation change by +/- 1 bp, the fair value of financial instruments would either decrease or increase by PLN 9.6 million PLN as at September 30, 2017, respectively.

Impairment of available for sale financial assets

The Group reviews its debt securities classified as available for sale investments at each reporting date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances. The Group also records impairment charges on available for sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires professional judgment. In making this judgment, the Group evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available, against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits.

Revenue and expenses from sale of insurance products bundled with loans

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

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

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

Liabilities due to post-employment employee benefits

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

Leasing classification

The Group makes judgement classifying lease agreements as finance lease or operating lease based on the economic substance of the transaction basing on professional judgment whether substantially all the risk and rewards incidental to ownership of an asset were transferred or not.

4. Business segments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Business segment reporting on the activities of mBank S.A. Group
for the period from 1 January to 30 September 2017
(PLN'000)

	Corporates & Financial Markets		Retail Banking (including Private Banking)	Other	Total figure for the Group	Statement of financial position reconciliation/ income statement reconciliation
	Corporate and Investment Banking	Financial Markets				
Net interest income	**605 637**	**211 987**	**1 486 921**	**6 003**	**2 310 548**	**2 310 548**
- sales to external clients	657 093	448 255	1 201 923	3 277	2 310 548	
- sales to other segments	(51 456)	(236 268)	284 998	2 726	-	
Net fee and commission income	**308 343**	**(5 086)**	**444 951**	**10 472**	**758 680**	**758 680**
Dividend income	**-**	**11**	**-**	**3 255**	**3 266**	**3 266**
Trading income	**182 336**	**(43 417)**	**83 144**	**(982)**	**221 081**	**221 081**
Gains less losses from investment securities, investments in subsidiaries and associates	**(6 982)**	**3 210**	**-**	**(18 670)**	**(22 442)**	**(22 442)**
Other operating income	**45 816**	**792**	**33 427**	**116 902**	**196 937**	**196 937**
Net impairment losses on loans and advances	**(122 789)**	**2 216**	**(248 365)**	**1 196**	**(367 742)**	**(367 742)**
Overhead costs	**(466 163)**	**(91 827)**	**(813 429)**	**(20 824)**	**(1 392 243)**	**(1 392 243)**
Amortisation	**(52 648)**	**(6 983)**	**(94 329)**	**(2 458)**	**(156 418)**	**(156 418)**
Other operating expenses	**(30 201)**	**(3 205)**	**(49 072)**	**(73 560)**	**(156 038)**	**(156 038)**
Operating profit	**463 349**	**67 698**	**843 248**	**21 334**	**1 395 629**	**1 395 629**
Taxes on Group balance sheet items	**(105 141)**	**(22 818)**	**(147 507)**	**(4 378)**	**(279 844)**	**(279 844)**
Share in profits (losses) of entities under the equity method	**-**	**-**	**-**	**192**	**192**	**192**
Gross profit of the segment	**358 208**	**44 880**	**695 741**	**17 148**	**1 115 977**	**1 115 977**
Income tax					(332 531)	(332 531)
Net profit attributable to Owners of mBank S.A.					779 892	779 892
Net profit attributable to non-controlling interests					3 554	3 554
Assets of the segment	**37 603 106**	**41 909 935**	**51 562 819**	**1 402 166**	**132 478 026**	**132 478 026**
Liabilities of the segment	**30 496 550**	**31 669 625**	**56 015 731**	**328 658**	**118 510 564**	**118 510 564**
Other items of the segment	-	-	-	-	-	
Expenditures incurred on fixed assets and intangible assets	106 694	5 535	111 392	1 058	224 679	

Business segment reporting on the activities of mBank S.A. Group
for the period from 1 January to 31 December 2016
(PLN'000)

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

Business segment reporting on the activities of mBank S.A. Group
for the period from 1 January to 30 September 2016
(PLN'000)

	Corporates & Financial Markets		Retail Banking (including Private Banking)	Other	Total figure for the Group	Statement of financial position reconciliation/ income statement reconciliation
	Corporate and Investment Banking	Financial Markets				
Net interest income	**552 636**	**227 919**	**1 294 919**	**4 099**	**2 079 573**	**2 079 573**
- sales to external clients	543 876	529 100	1 004 059	2 538	2 079 573	
- sales to other segments	8 760	(301 181)	290 860	1 561	-	
Net fee and commission income	**271 845**	**(3 257)**	**375 271**	**11 952**	**655 811**	**655 811**
Dividend income	**-**	**410**	**5**	**2 613**	**3 028**	**3 028**
Trading income	**182 017**	**(44 399)**	**75 036**	**5 348**	**218 002**	**218 002**
Gains less losses from investment securities, investments in subsidiaries and associates	**20 973**	**6 839**	**230 394**	**(7 674)**	**250 532**	**250 532**
The share in the profits (losses) of joint ventures	**-**	**-**	**-**	**(107)**	**(107)**	**(107)**
Other operating income	**43 920**	**38**	**31 935**	**119 432**	**195 325**	**195 325**
Net impairment losses on loans and advances	**(108 124)**	**14**	**(214 733)**	**(2 872)**	**(325 715)**	**(325 715)**
Overhead costs	**(481 034)**	**(71 144)**	**(724 240)**	**(25 152)**	**(1 301 570)**	**(1 301 570)**
Amortisation	**(55 852)**	**(6 820)**	**(104 812)**	**(2 304)**	**(169 788)**	**(169 788)**
Other operating expenses	**(29 585)**	**(96)**	**(38 843)**	**(82 998)**	**(151 522)**	**(151 522)**
Operating profit	**396 796**	**109 504**	**924 932**	**22 337**	**1 453 569**	**1 453 569**
Taxes on Group balance sheet items	**(87 150)**	**(18 749)**	**(128 291)**	**(1 947)**	**(236 137)**	**(236 137)**
Gross profit of the segment	**309 646**	**90 755**	**796 641**	**20 390**	**1 217 432**	**1 217 432**
Income tax					(288 031)	(288 031)
Net profit attributable to Owners of mBank S.A.					926 765	926 765
Net profit attributable to non-controlling interests					2 636	2 636
Assets of the segment	**34 601 920**	**43 826 701**	**50 243 889**	**1 108 213**	**129 780 723**	**129 780 723**
Liabilities of the segment	**28 150 055**	**35 811 743**	**52 145 087**	**703 297**	**116 810 182**	**116 810 182**
Other items of the segment					**-**	
Expenditures incurred on fixed assets and intangible assets	116 018	4 851	62 456	642	183 967	

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Geographical areas reporting on the activities of mBank S.A. Group for the period	from 1 January to 30 September 2017			from 1 January to 31 December 2016			from 1 January to 30 September 2016		
	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total
Net interest income	2 196 713	113 835	**2 310 548**	2 688 897	143 946	**2 832 843**	1 973 654	105 919	**2 079 573**
Net fee and commission income	751 829	6 851	**758 680**	897 425	9 020	**906 445**	650 412	5 399	**655 811**
Dividend income	3 266	-	**3 266**	3 327	-	**3 327**	3 028	-	**3 028**
Trading income	215 792	5 289	**221 081**	238 867	5 764	**244 631**	214 167	3 835	**218 002**
Gains less losses from investment securities, investments in subsidiaries and associates	(22 442)	-	**(22 442)**	216 977	44 304	**261 281**	206 298	44 234	**250 532**
The share in the profits (losses) of joint ventures	-	-	**-**	(107)	-	**(107)**	(107)	-	**(107)**
Other operating income	194 568	2 369	**196 937**	235 153	8 596	**243 749**	188 653	6 672	**195 325**
Net impairment losses on loans and advances	(361 797)	(5 945)	**(367 742)**	(359 198)	(6 196)	**(365 394)**	(321 779)	(3 936)	**(325 715)**
Overhead costs	(1 294 790)	(97 453)	**(1 392 243)**	(1 618 554)	(121 089)	**(1 739 643)**	(1 211 722)	(89 848)	**(1 301 570)**
Amortisation	(153 268)	(3 150)	**(156 418)**	(219 558)	(4 083)	**(223 641)**	(166 901)	(2 887)	**(169 788)**
Other operating expenses	(154 172)	(1 866)	**(156 038)**	(193 995)	(2 820)	**(196 815)**	(150 295)	(1 227)	**(151 522)**
Operating profit	1 375 699	19 930	**1 395 629**	1 889 234	77 442	**1 966 676**	1 385 408	68 161	**1 453 569**
Taxes on the Group balance sheet items	(262 793)	(17 051)	**(279 844)**	(308 055)	(20 884)	**(328 939)**	(221 197)	(14 940)	**(236 137)**
Share in profits (losses) of entities under the equity method	192	-	**192**	-	-	**-**	-	-	**-**
Gross profit of the segment	**1 113 098**	**2 879**	**1 115 977**	**1 581 179**	**56 558**	**1 637 737**	**1 164 211**	**53 221**	**1 217 432**
Income tax			(332 531)			(415 513)			(288 031)
Net profit attributable to Owners of mBank S.A.			779 892			1 219 282			926 765
Net profit attributable to non-controlling interests			3 554			2 942			2 636
Assets of the segment, including:	126 547 914	5 930 112	**132 478 026**	128 304 364	5 439 138	**133 743 502**	124 979 637	4 801 086	**129 780 723**
- tangible assets	1 327 419	10 698	1 338 117	1 327 824	12 210	1 340 034	1 202 525	9 660	1 212 185
- deferred income tax assets	559 039	2 551	561 590	538 184	2 572	540 756	484 075	2 637	486 712
Liabilities of the segment	109 648 459	8 862 105	**118 510 564**	112 706 515	7 985 826	**120 692 341**	109 477 288	7 332 894	**116 810 182**

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5. Net interest income

the period	from 01.01.2017 to 30.09.2017	from 01.01.2016 to 30.09.2016
Interest income		
Loans and advances including the unwind of the impairment provision discount	2 219 068	2 035 118
Investment securities	515 935	533 931
Cash and short-term placements	43 896	40 562
Trading debt securities	53 665	51 668
Interest income on derivatives classified into banking book	99 866	149 909
Interest income on derivatives concluded under the fair value hedge	49 036	43 590
Interest income on derivatives concluded under the cash flow hedge	10 780	11 893
Other	3 289	2 887
Total interest income	**2 995 535**	**2 869 558**
Interest expense		
Arising from amounts due to banks	(45 876)	(58 185)
Arising from amounts due to customers	(371 213)	(495 688)
Arising from issue of debt securities	(203 170)	(177 196)
Arising from subordinated liabilities	(52 144)	(50 950)
Other	(12 584)	(7 966)
Total interest expense	**(684 987)**	**(789 985)**

Interest income related to impaired financial assets amounted to PLN 76 601 thousand (for the period ended 30 September 2016: PLN 76 948 thousand).

6. Net fee and commission income

the period	from 01.01.2017 to 30.09.2017	from 01.01.2016 to 30.09.2016
Fee and commission income		
Payment cards-related fees	282 620	262 788
Credit-related fees and commissions	242 709	222 896
Commissions for agency service regarding sale of insurance products of external financial entities	140 565	120 141
Fees from brokerage activity and debt securities issue	104 315	93 537
Commissions from bank accounts	137 978	126 146
Commissions from money transfers	87 692	81 723
Commissions due to guarantees granted and trade finance commissions	52 040	43 252
Commissions for agency service regarding sale of other products of external financial entities	105 720	83 291
Commissions on trust and fiduciary activities	19 846	18 901
Fees from portfolio management services and other management-related fees	10 971	9 833
Fees from cash services	39 957	37 349
Other	20 979	21 768
Total fee and commission income	**1 245 392**	**1 121 625**

the period	from 01.01.2017 to 30.09.2017	from 01.01.2016 to 30.09.2016
Fee and commission expense		
Payment cards-related fees	(179 812)	(170 874)
Commissions paid to external entities for sale of the Bank's products	(96 510)	(90 821)
Commissions paid for agency service regarding sale of insurance products of external financial entities	(1 831)	(1 667)
Discharged brokerage fees	(21 699)	(37 326)
Cash services	(36 669)	(33 566)
Fees to NBP and KIR	(8 530)	(7 529)
Other discharged fees	(141 661)	(124 031)
Total fee and commission expense	**(486 712)**	**(465 814)**

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7. Dividend income

the period	from 01.01.2017 to 30.09.2017	from 01.01.2016 to 30.09.2016
Trading securities	11	415
Securities available for sale	3 255	2 613
Total dividend income	**3 266**	**3 028**

8. Net trading income

the period	from 01.01.2017 to 30.09.2017	from 01.01.2016 to 30.09.2016
Foreign exchange result	**221 925**	**220 044**
Net exchange differences on translation	69 628	225 468
Net transaction gains/(losses)	152 297	(5 424)
Other net trading income and result on hedge accounting	**(844)**	**(2 042)**
Interest-bearing instruments	4 871	2 661
Equity instruments	16	(367)
Market risk instruments	4 977	3 100
Result on fair value hedge accounting, including:	(4 012)	5 716
- Net profit on hedged items	59 143	(96 284)
- Net profit on fair value hedging instruments	(63 155)	102 000
Ineffective portion of cash flow hedge	(6 696)	(13 152)
Total net trading income	**221 081**	**218 002**

"Foreign exchange result" includes profit/(loss) on spot transactions and forward contracts, options, futures and translation of assets and liabilities denominated in foreign currencies. "Interest-bearing instruments" include the profit/(loss) on money market instrument trading, swap contracts for interest rates, options and other derivative instruments. "Equity instruments" include the valuation and profit/(loss) on global trade in equity securities. "Market risk instruments" include profit/(loss) on: bond futures, index futures, security options, stock exchange index options, and options on futures contracts as well as the result from securities forward transactions and commodity swaps and futures.

The Group applies fair value hedge accounting and cash flow hedge accounting. Detailed information on the hedge applied by the Group are included in Note 17 "Hedge accounting".

9. Gains and losses from investment securities and investments in subsidiaries and associates

the period	from 01.01.2017 to 30.09.2017	from 01.01.2016 to 30.09.2016
Sale/redemption of financial assets available for sale	3 739	258 648
Gains less losses related to sale of subsidiaries and associates	(6 177)	3
Impairment of available for sale equity securities	(4 751)	(7 677)
Impairment of available for sale debt securities	(7 511)	-
Impairment of investments in subsidiaries	(7 742)	(442)
Total gains less losses from investment securities and investments in subsidiaries and associates	**(22 442)**	**250 532**

In 2017 gains less losses related to sale of subsidiaries and associates relates to the sale of mLocum S.A. shares to Archicom S.A. The item "Impairment of investments in subsidiaries" relates to the mLocum shares in connection with these sale transaction, as described under Note 1.

In 2017 and 2016, the impairment of equity securities available for sale relates to the company Polski Standard Płatności Sp. z o. o.

In 2017, the impairment of debt securities relates to the bonds issued by the Sygnity S.A.

In 2016, the impairment of investments in subsidiaries relates to the Call Center Poland S.A. that was sold by the Group in the first quarter of 2016.

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10. Other operating income

the period	from 01.01.2017 to 30.09.2017	from 01.01.2016 to 30.09.2016
Income from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories	125 407	121 929
Income from services provided	15 313	19 664
Net income from operating lease	4 009	6 739
Income due to release of provisions for future commitments	25 676	1 656
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	1 264	2 090
Income from compensations, penalties and fines received	373	174
Other	24 895	43 073
Total other operating income	**196 937**	**195 325**

Income from sale or liquidation of tangible fixed assets, intangible assets as well as assets held for disposal and inventories comprises primarily income of the company mLocum S.A. from developer activity, until the date of sale of the majority share of the Company's shares (see Note 1).

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

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

Net income from operating lease for the three quarters of 2017 and the three quarters of 2016 is presented below.

the period	from 01.01.2017 to 30.09.2017	from 01.01.2016 to 30.09.2016
Net income from operating lease, including:		
- Income from operating lease	39 524	42 133
- Depreciation cost of fixed assets provided under operating lease	(35 515)	(35 394)
Total net income from operating lease	**4 009**	**6 739**

11. Net impairment losses on loans and advances

the period	from 01.01.2017 to 30.09.2017	from 01.01.2016 to 30.09.2016
Net impairment losses on amounts due from banks	(68)	456
Net impairment losses on loans and advances to customers	(336 138)	(320 988)
Net impairment losses on contingent liabilities due to customers	(31 536)	(5 183)
Total net impairment losses on loans and advances	**(367 742)**	**(325 715)**

12. Overhead costs

the period	from 01.01.2017 to 30.09.2017	from 01.01.2016 to 30.09.2016
Staff-related expenses	(674 251)	(656 282)
Material costs, including:	(530 338)	(502 944)
- logistics cost	(265 067)	(253 687)
- IT costs	(121 080)	(106 983)
- marketing costs	(81 791)	(92 190)
- consulting costs	(52 297)	(41 263)
- other material costs	(10 103)	(8 821)
Taxes and fees	(17 077)	(24 320)
Contributions and transfers to the Bank Guarantee Fund	(164 551)	(112 517)
Contributions to the Social Benefits Fund	(6 026)	(5 507)
Total overhead costs	**(1 392 243)**	**(1 301 570)**

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Staff-related expenses for the three quarters of 2017 and the three quarters of 2016 is presented below.

the period	from 01.01.2017 to 30.09.2017	from 01.01.2016 to 30.09.2016
Wages and salaries	(549 560)	(538 404)
Social security expenses	(91 395)	(87 394)
Employee contributions related to post-employment benefits	(50)	-
Remuneration concerning share-based payments, including:	(8 429)	(8 704)
- share-based payments settled in mBank S.A. shares	(7 677)	(7 488)
- cash-settled share-based payments	(752)	(1 216)
Other staff expenses	(24 817)	(21 780)
Total staff-related expenses	**(674 251)**	**(656 282)**

13. Other operating expenses

the period	from 01.01.2017 to 30.09.2017	from 01.01.2016 to 30.09.2016
Costs arising from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories	(90 422)	(90 675)
Provisions for future commitments	(23 908)	(14 077)
Donations made	(2 560)	(2 564)
Compensation, penalties and fines paid	(1 341)	(598)
Costs arising from provisions created for other receivables (excluding loans and advances)	(1 124)	(2 422)
Costs of sale of services	(1 061)	(1 270)
Costs arising from receivables and liabilities recognised as prescribed, remitted and uncollectible	(4)	(113)
Impairment losses on non-financial assets	-	(788)
Impairment provisions created for tangible fixed assets and intangible assets	-	(1 000)
Other operating costs	(35 618)	(38 015)
Total other operating expenses	**(156 038)**	**(151 522)**

Costs arising from a sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories comprise primarily the expenses incurred by mLocum S.A. in connection with its developer activity, until the date of sale of the majority share of the Company's shares (see Note 1).

Costs of services provided concern non-banking services.

14. Earnings per share

Earnings per share for 9 months – mBank S.A. Group consolidated data

the period	from 01.01.2017 to 30.09.2017	from 01.01.2016 to 30.09.2016
Basic:		
Net profit attributable to Owners of mBank S.A.	779 892	926 765
Weighted average number of ordinary shares	42 283 023	42 243 662
Net basic profit per share (in PLN per share)	**18.44**	**21.94**
Diluted:		
Net profit attributable to Owners of mBank S.A., applied for calculation of diluted earnings per share	779 892	926 765
Weighted average number of ordinary shares	42 283 023	42 243 662
Adjustments for:		
- share options	25 039	24 530
Weighted average number of ordinary shares for calculation of diluted earnings per share	42 308 062	42 268 192
Diluted earnings per share (in PLN per share)	**18.43**	**21.93**

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Earnings per share for 9 months – mBank S.A. stand-alone data

the period	from 01.01.2017 to 30.09.2017	from 01.01.2016 to 30.09.2016
Basic:		
Net profit	777 918	922 184
Weighted average number of ordinary shares	42 283 023	42 243 662
Net basic profit per share (in PLN per share)	**18.40**	**21.83**
Diluted:		
Net profit applied for calculation of diluted earnings per share	777 918	922 184
Weighted average number of ordinary shares	42 283 023	42 243 662
Adjustments for:		
- share options	25 039	24 530
Weighted average number of ordinary shares for calculation of diluted earnings per share	42 308 062	42 268 192
Diluted earnings per share (in PLN per share)	**18.39**	**21.82**

15. Trading securities

	30.09.2017			31.12.2016			30.09.2016		
	Trading securities without pledge	Pledged trading securities	Total trading securities	Trading securities without pledge	Pledged trading securities	Total trading securities	Trading securities without pledge	Pledged trading securities	Total trading securities
Debt securities:	**405 953**	**1 581 571**	**1 987 524**	**3 042 194**	**754 263**	**3 796 457**	**2 861 967**	**1 303 381**	**4 165 348**
Issued by government	178 174	1 581 571	1 759 745	2 748 766	754 263	3 503 029	2 552 087	1 303 381	3 855 468
- government bonds	178 174	1 581 571	1 759 745	2 748 766	754 263	3 503 029	2 552 087	1 303 381	3 855 468
Other debt securities	227 779	-	227 779	293 428	-	293 428	309 880	-	309 880
- bank's bonds	58 912	-	58 912	109 904	-	109 904	167 976	-	167 976
- deposit certificates	15 120	-	15 120	16 146	-	16 146	20 607	-	20 607
- corporate bonds	153 747	-	153 747	167 378	-	167 378	121 297	-	121 297
Equity securities:	**2 836**	**-**	**2 836**	**4 177**	**-**	**4 177**	**11 894**	**-**	**11 894**
- listed	2 681	-	2 681	4 022	-	4 022	9 357	-	9 357
- unlisted	155	-	155	155	-	155	2 537	-	2 537
Total debt and equity securities:	**408 789**	**1 581 571**	**1 990 360**	**3 046 371**	**754 263**	**3 800 634**	**2 873 861**	**1 303 381**	**4 177 242**

16. Derivative financial instruments

	30.09.2017		31.12.2016		30.09.2016	
	assets	liabilities	assets	liabilities	assets	liabilities
Held for trading derivative financial instruments classified into banking book	226 790	94 397	118 395	160 894	192 871	82 323
Held for trading derivative financial instruments classified into trading book	1 035 793	999 364	1 639 881	1 607 660	1 709 210	1 807 768
Derivative financial instruments held for fair value hedging	174 515	44 283	196 634	26 026	282 525	4 116
Derivative financial instruments held for cash flow hedging	21 162	6 697	30 926	1 786	23 569	378
Offsetting effect	(109 439)	(130 719)	(176 989)	(197 100)	(120 780)	(128 028)
Total derivative financial instruments assets/liabilities	**1 348 821**	**1 014 022**	**1 808 847**	**1 599 266**	**2 087 395**	**1 766 557**

The Group uses the following derivative instruments:

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

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

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

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

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

17. Derivatives held for hedges

The Group applies fair value hedge accounting for:

- eurobonds issued by mFinance France, subsidiary of mBank. An Interest Rate Swap is the hedging instrument changing the fixed interest rate to a variable interest rate;
- mortgage bonds issued by mBank Hipoteczny, subsidiary of mBank. An Interest Rate Swap is the hedging instrument changing the fixed interest rate to a variable interest rate;
- loan received by mBank from European Investment Bank. An Interest Rate Swap is the hedging instrument changing the fixed interest rate to a variable interest rate.

In all cases described above, the risk of changes in interest rates is the only type of risk hedged within hedge accounting applied by the Group. The result of the valuation of hedged items and hedging instruments is presented in the position "Other net trading income and result on hedge accounting" in Note 8.

The Group applies cash flow hedge accounting of the part of loans portfolio at a variable interest rate indexed to the market rate, granted by the Bank. An Interest Rate Swap is the hedging instrument changing the variable interest rate to a fixed interest rate. The interest rate risk is the hedged risk within applied by the Group cash flow hedge accounting. The ineffective portion of the gains or losses on the hedging instrument is presented in Note 8 "Other net trading income and result on hedge accounting". Portion of the gains or losses on the hedging instrument that is an effective hedge, is presented in the statement of comprehensive income as "Cash flow hedges (net)".

The period from October 2017 to September 2022 is the period in which the cash flows are expected, and when they are expected to have an impact on the result.

The fair value equal to book value of derivatives hedging both the fair value and cash flow was presented in Note 16 "Derivative Financial Instruments".

Total result on fair value hedge accounting recognised in the income statement

the period	from 01.01.2017 to 30.09.2017	from 01.01.2016 to 30.09.2016
Interest income on derivatives concluded under the fair value hedge (Note 5)	49 036	43 590
Net profit on hedged items (Note 8)	59 143	(96 284)
Net profit on fair value hedging instruments (Note 8)	(63 155)	102 000
The total results of fair value hedge accounting recognised in the income statement	**45 024**	**49 306**

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The following note presents other comprehensive income due to cash flow hedges as at 30 September 2017 and 30 September 2016.

the period	from 01.01.2017 to 30.09.2017	from 01.01.2016 to 30.09.2016
Other comprehensive income from cash flow hedge at the beginning of the period (gross)	**(1 907)**	**1 061**
- Unrealised gains/losses included in other comprehensive income during the reporting period	(1 715)	(575)
Accumulated other comprehensive income at the end of the reporting period (gross)	**(3 622)**	**486**
Deferred income tax on accumulated other comprehensive income at the end of the reporting period	688	(93)
Accumulated net other comprehensive income at the end of the reporting period	**(2 934)**	**393**
Impact on other comprehensive income in the reporting period (gross)	(1 715)	(575)
Deferred tax on cash flow hedges	326	109
Impact on other comprehensive income in the reporting period (net)	**(1 389)**	**(466)**

the period	from 01.01.2017 to 30.09.2017	from 01.01.2016 to 30.09.2016
Gains/losses rocognised in comprehensive income (gross) during the reporting period, including:		
- Unrealised gains/losses included in other comprehensive income (gross)	(1 715)	(575)
- Amount included as interest income in income statement in the reporting period	10 780	11 893
- Ineffective portion of hedge recognised in other net trading income	(6 696)	(13 152)
Impact on other comprehensive income in the reporting period (gross)	**2 369**	**(1 834)**

Total result on cash flow hedge accounting recognised in the income statement

the period	from 01.01.2017 to 30.09.2017	from 01.01.2016 to 30.09.2016
Interest income on derivatives concluded under the cash flow hedge (Note 5)	10 780	11 893
Ineffective portion of cash flow hedge (Note 8)	(6 696)	(13 152)
The total results of cash flow hedge accounting recognised in the income statement	**4 084**	**(1 259)**

18. Loans and advances to customers

	30.09.2017	31.12.2016	30.09.2016
Loans and advances to individuals:	**48 949 143**	**48 949 829**	**48 119 192**
- current receivables	7 244 258	6 458 369	6 505 968
- term loans, including:	41 704 885	42 491 460	41 613 224
- housing and mortgage loans	33 693 342	35 369 113	34 624 536
- other	-	-	-
Loans and advances to corporate entities:	**38 287 508**	**34 174 289**	**34 528 046**
- current receivables	5 750 421	4 125 405	4 735 447
- term loans:	30 451 837	28 267 897	28 005 900
- corporate & institutional enterprises	5 327 095	5 037 182	5 172 154
- medium & small enterprises	25 124 742	23 230 715	22 833 746
- reverse repo / buy-sell-back transactions	55 649	56 676	62 129
- other	2 029 601	1 724 311	1 724 570
Loans and advances to public sector	**1 035 255**	**1 228 230**	**1 310 185**
Other receivables	**212 273**	**228 424**	**241 433**
Total (gross) loans and advances to customers	**88 484 179**	**84 580 772**	**84 198 856**
Provisions for loans and advances to customers (negative amount)	(2 952 210)	(2 817 495)	(3 189 226)
Total (net) loans and advances to customers	**85 531 969**	**81 763 277**	**81 009 630**

Short-term (up to 1 year)	27 829 313	26 909 693	27 182 340
Long-term (over 1 year)	57 702 656	54 853 584	53 827 290

Under the item "Loans and advances to individuals", the Group also presents loans to micro enterprises provided by Retail Banking of mBank S.A.

Loans to micro enterprises in the presented reporting periods amounted to respectively: 30 September 2017: PLN 5 771 911 thousand, 31 December 2016 – PLN 5 340 274 thousand, 30 September 2016 – PLN 5 342 173 thousand.

The table below presents the currency structure of housing and mortgage loans granted to individual customers.

	30.09.2017	31.12.2016	30.09.2016
Housing and mortgage loans to individuals (in PLN 000's), including:	**33 693 342**	**35 369 113**	**34 624 536**
- PLN	10 770 562	9 500 619	9 178 329
- CHF	16 129 299	18 725 950	18 413 068
- EUR	3 518 873	3 915 620	3 888 470
- CZK	2 975 764	2 850 232	2 783 383
- USD	266 446	336 694	316 866
- Other currency	32 398	39 998	44 420
Housing and mortgage loans to individuals in original currencies (main currencies in 000's)			
- PLN	10 770 562	9 500 619	9 178 329
- CHF	4 287 541	4 548 114	4 626 167
- EUR	816 615	885 086	899 913
- CZK	17 980 447	17 411 313	17 439 743
- USD	72 961	80 562	82 179

Provisions for loans and advances

	30.09.2017	31.12.2016	30.09.2016
Incurred but not identified losses			
Gross balance sheet exposure	83 904 487	80 043 614	79 249 902
Impairment provisions for exposures analysed according to portfolio approach	(244 678)	(226 430)	(242 536)
Net balance sheet exposure	**83 659 809**	**79 817 184**	**79 007 366**
Receivables with impairment			
Gross balance sheet exposure	4 579 692	4 537 158	4 948 954
Provisions for receivables with impairment	(2 707 532)	(2 591 065)	(2 946 690)
Net balance sheet exposure	**1 872 160**	**1 946 093**	**2 002 264**

The table below presents the structure of concentration of mBank Group's exposures in particular sectors according to the new sector division based on the chain value concept introduced in January 2017, where under one single sector have been focused entities operating activities related to a given market (suppliers, manufacturers, vendors). Data as at 31 December 2016 and 30 September 2016 were adjusted accordingly and presented in a new breakdown according to the classification binding in the Group.

No.	Sectors	Principal exposure (in PLN thousand) 30.09.2017	%	Principal exposure (in PLN thousand) 31.12.2016	%	Principal exposure (in PLN thousand) 30.09.2016	%
1.	Household customers	48 949 143	55.32	48 949 829	57.87	48 119 192	57.15
2.	Real estate activities	5 993 797	6.77	6 082 294	7.19	5 883 817	6.99
3.	Construction	4 038 898	4.56	3 814 574	4.51	3 759 613	4.47
4.	Food sector	2 455 633	2.78	2 323 053	2.75	2 403 157	2.85
5.	Transport and logistics	2 250 714	2.54	2 074 745	2.45	2 161 827	2.57
6.	Metals	1 995 538	2.26	1 941 590	2.30	1 985 140	2.36
7.	Motorization	1 931 025	2.18	1 516 123	1.79	1 507 984	1.79
8.	Construction materials	1 721 550	1.95	1 178 707	1.39	1 358 802	1.61
9.	Chemicals and chemical products	1 596 971	1.80	1 276 245	1.51	1 275 612	1.52
10.	Wood, furniture and paper products	1 497 490	1.69	1 212 920	1.43	1 302 996	1.55
11.	Rental and leasing activities	1 295 914	1.46	1 213 395	1.43	1 273 566	1.51
12.	Wholesale trade	1 189 951	1.34	976 637	1.15	975 121	1.16
13.	Scientific and technical activities	1 147 889	1.30	688 975	0.81	843 431	1.00
14.	Fuels	1 100 534	1.24	1 002 124	1.19	1 031 208	1.22
15.	Retail trade	1 017 782	1.15	894 650	1.06	1 015 738	1.21
16.	Power, power and heating distribution	1 009 360	1.14	1 294 717	1.53	1 216 737	1.45
17.	Financial activities	779 417	0.88	249 696	0.30	226 124	0.27
18.	Information and communication	776 674	0.88	785 461	0.93	563 068	0.67
19.	Public administration	760 608	0.86	909 234	1.08	979 973	1.16
20.	Hotels and restaurants	678 032	0.77	728 771	0.86	709 655	0.84
21.	Services	575 190	0.65	471 301	0.56	416 698	0.49
22.	Textiles and wearing apparel	549 189	0.62	492 531	0.58	482 531	0.57
23.	Agriculture, forestry and fishing	531 364	0.60	391 489	0.46	430 037	0.51
24.	Other manufacturing activity	466 031	0.53	441 558	0.52	470 569	0.56
25.	IT	461 975	0.52	205 974	0.24	210 785	0.25
26.	Municipal services	452 009	0.51	412 509	0.49	411 659	0.49
27.	Other manufacturing activity	450 786	0.51	460 466	0.54	471 772	0.56
28.	Human health and social work activities	442 288	0.50	385 791	0.46	371 191	0.44
29.	Arts, entertainment and recreation	329 948	0.37	326 472	0.39	341 760	0.41
30.	Household equipment	297 782	0.34	183 302	0.22	225 155	0.27
31.	Pharmaceutical products	277 508	0.31	255 425	0.30	259 250	0.31
32.	Electronics	174 409	0.20	229 589	0.27	205 770	0.24
33.	Education and scientific research	114 240	0.13	136 654	0.16	126 934	0.15
34.	Mining	81 478	0.09	69 282	0.08	102 226	0.12

As at 30 September 2017, the total exposure of the Group in the above sectors (excluding household customers) amounted to 43.43% of the credit portfolio (31 December 2016 – 40.93%, 30 September 2016 –41.57%).

19. Investment securities

	30.09.2017			31.12.2016			30.09.2016		
	Investment securities without pledge	Pledged investment securities	Total investment securities	Investment securities without pledge	Pledged investment securities	Total investment securities	Investment securities without pledge	Pledged investment securities	Total investment securities
Debt securities	**25 896 355**	**6 478 441**	**32 374 796**	**24 652 766**	**6 674 486**	**31 327 252**	**24 758 788**	**6 433 590**	**31 192 378**
Issued by government	20 880 868	6 478 441	27 359 309	21 576 835	6 674 486	28 251 321	22 393 459	6 433 590	28 827 049
- government bonds	20 880 868	6 478 441	27 359 309	21 576 835	6 674 486	28 251 321	21 774 834	6 433 590	28 208 424
- treasury bills	-	-	-	-	-	-	618 625	-	618 625
Issued by central bank	3 192 630	-	3 192 630	1 816 077	-	1 816 077	1 169 779	-	1 169 779
Other debt securities	1 822 857	-	1 822 857	1 259 854	-	1 259 854	1 195 550	-	1 195 550
- bank's bonds	130 878	-	130 878	140 880	-	140 880	147 818	-	147 818
- deposit certificates	221 352	-	221 352	50 466	-	50 466	50 218	-	50 218
- corporate bonds	1 434 669	-	1 434 669	1 031 538	-	1 031 538	958 423	-	958 423
- communal bonds	35 958	-	35 958	36 970	-	36 970	39 091	-	39 091
Equity securities:	**73 910**	**-**	**73 910**	**66 100**	**-**	**66 100**	**65 472**	**-**	**65 472**
Listed	729	-	729	-	-	-	-	-	-
Unlisted	73 181	-	73 181	66 100	-	66 100	65 472	-	65 472
Total debt and equity securities:	**25 970 265**	**6 478 441**	**32 448 706**	**24 718 866**	**6 674 486**	**31 393 352**	**24 824 260**	**6 433 590**	**31 257 850**
Short-term (up to 1 year)	10 771 191	572 466	11 343 657	4 684 730	58 224	4 742 954	6 002 878	80 560	6 083 438
Long-term (over 1 year)	15 199 074	5 905 975	21 105 049	20 034 136	6 616 262	26 650 398	18 821 382	6 353 030	25 174 412

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The above note includes government bonds and treasury bonds pledged under the Bank Guarantee Fund (BFG), government bonds pledged as sell-buy-back transactions, government bonds pledged as collateral for the loans received from the European Investment Bank and government bonds pledged as collateral for deposit placed by the customer.

As at 30 September 2017, the fair value of corporate bonds include provision for impairment of the bond issued by the Sygnity S.A. in the amount of PLN 7 511 thousand. (Note 9).

Presented above equity securities valued at fair value include provisions for impairment of PLN 23 886 thousand (31 December 2016: PLN 19 135 thousand, 30 September 2016: PLN 19 135 thousand).

As at 30 September 2017, equity securities include fair value of preferred shares of Visa Inc. in the amount of PLN 45 238 thousand (as at 31 December 2016: PLN 38 392 thousand, 30 September 2016: PLN 37 545 thousand).

20. Intangible assets

	30.09.2017	31.12.2016	30.09.2016
Goodwill	3 532	3 532	3 532
Patents, licences and similar assets, including:	373 846	347 524	347 333
- computer software	265 733	268 308	267 081
Other intangible assets	3 414	4 082	4 347
Intangible assets under development	255 480	227 525	146 705
Total intangible assets	**636 272**	**582 663**	**501 917**

21. Tangible assets

	30.09.2017	31.12.2016	30.09.2016
Tangible assets, including:	661 295	682 812	668 893
- land	1 039	1 335	1 335
- buildings and structures	179 706	186 928	187 133
- equipment	176 845	174 152	163 876
- vehicles	229 384	239 399	237 483
- other fixed assets	74 321	80 998	79 066
Fixed assets under construction	40 550	74 559	41 375
Total tangible assets	**701 845**	**757 371**	**710 268**

22. Amounts due to customers

	30.09.2017	31.12.2016	30.09.2016
Individual customers:	**54 037 180**	**53 494 909**	**50 734 937**
Current accounts	41 878 277	38 051 354	35 432 973
Term deposits	12 076 967	15 380 844	15 237 274
Other liabilities:	81 936	62 711	64 690
- liabilities in respect of cash collaterals	37 683	31 098	34 588
- other	44 253	31 613	30 102
Corporate customers:	**34 725 104**	**37 383 484**	**33 828 952**
Current accounts	19 362 566	22 065 224	17 241 776
Term deposits	8 426 194	8 911 873	9 900 428
Loans and advances received	4 503 882	4 201 768	4 094 316
Repo transactions	1 788 504	1 600 487	2 011 418
Other liabilities:	643 958	604 132	581 014
- liabilities in respect of cash collaterals	453 212	392 425	429 259
- other	190 746	211 707	151 755
Public sector customers:	**1 915 218**	**539 569**	**624 336**
Current accounts	514 662	466 078	401 258
Term deposits	1 394 637	65 507	222 525
Other liabilities:	5 919	7 984	553
- liabilities in respect of cash collaterals	-	3	-
- other	5 919	7 981	553
Total amounts due to customers	**90 677 502**	**91 417 962**	**85 188 225**

Short-term (up to 1 year)	84 795 785	85 191 150	79 197 210
Long-term (over 1 year)	5 881 717	6 226 812	5 991 015

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

In the presented reporting periods the value of liabilities in respect of current accounts and term deposits accepted from micro enterprises amounted to respectively: 30 September 2017: PLN 5 219 962 thousand, 31 December 2016: PLN 4 920 454 thousand, 30 September 2016: PLN 4 298 289 thousand.

23. Provisions

	30.09.2017	31.12.2016	30.09.2016
For off-balance sheet granted contingent liabilities *	74 660	43 435	50 827
For legal proceedings	87 066	113 192	107 393
Other	10 425	26 127	26 981
Total provisions	**172 151**	**182 754**	**185 201**

* includes valuation of financial guarantees

Movements in the provisions

	30.09.2017	31.12.2016	30.09.2016
As at the beginning of the period (by type)	**182 754**	**225 416**	**225 416**
For off-balance sheet granted contingent liabilities	43 435	45 606	45 606
For legal proceedings	113 192	99 582	99 582
Other	26 127	80 228	80 228
Change in the period (due to)	**(10 603)**	**(42 662)**	**(40 215)**
- increase of provisions	133 391	137 911	97 769
- release of provisions	(103 333)	(119 387)	(79 452)
- write-offs	(6 620)	(61 488)	(58 554)
- utilization	(31 047)	-	-
- reclassification	(2 587)	-	-
- foreign exchange differences	(407)	302	22
As at the end of the period (by type)	**172 151**	**182 754**	**185 201**
For off-balance sheet granted contingent liabilities	74 660	43 435	50 827
For legal proceedings	87 066	113 192	107 393
Other	10 425	26 127	26 981

24. Assets and provisions for deferred income tax

Deferred income tax assets	30.09.2017	31.12.2016	30.09.2016
As at the beginning of the period	**859 609**	**778 252**	**778 252**
Changes recognized in the income statement	81 791	65 208	111 873
Changes recognized in other comprehensive income	(16 386)	16 120	16
Other changes	1 110	29	-
As at the end of the period	**926 124**	**859 609**	**890 141**

Provisions for deferred income tax	30.09.2017	31.12.2016	30.09.2016
As at the beginning of the period	**(320 061)**	**(413 145)**	**(413 145)**
Changes recognized in the income statement	(23 742)	4 687	(46 380)
Changes recognized in other comprehensive income	(22 111)	88 393	55 150
Other changes	-	4	36
As at the end of the period	**(365 914)**	**(320 061)**	**(404 339)**

Income tax	30.09.2017	31.12.2016	30.09.2016
Current income tax	(390 580)	(485 408)	(353 524)
Deferred income tax recognised in the income statement	58 049	69 895	65 493
Income tax recognised in the income statement	**(332 531)**	**(415 513)**	**(288 031)**
Recognised in other comprehensive income	(49 454)	102 708	50 047
Total income tax	**(381 985)**	**(312 805)**	**(237 984)**

25. Fair value of financial assets and liabilities

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

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

The main and the most advantageous markets must be both available to the Group.

Following market practices the Group values open positions in financial instruments using either the mark-to-market approach or is applying pricing models well established in market practice (mark-to-model method) which use as inputs market prices or market parameters, and in few cases parameters estimated internally by the Group. All significant open positions in derivatives (currency or interest rates) are valued by marked-to-model using prices observable in the market. Domestic commercial papers are marked to model (by discounting cash flows), which in addition to market interest rate curve uses credit spreads estimated internally.

The Group assumed that the fair value of short-term financial liabilities (less than 1 year) is equal to the balance sheet values of such items.

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

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

	30.09.2017		31.12.2016		30.09.2016	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Financial assets						
Loans and advances to banks	**2 403 911**	**2 402 387**	**3 082 855**	**3 079 257**	**2 920 734**	**2 918 496**
Loans and advances to customers	**85 531 969**	**86 704 015**	**81 763 277**	**82 917 783**	**81 009 630**	**81 898 357**
Loans and advances to individuals	**47 350 146**	**48 451 442**	**47 434 490**	**48 649 710**	**46 449 291**	**47 554 826**
current accounts	6 612 323	6 661 470	5 843 990	5 885 276	5 788 602	5 818 953
term loans including:	40 737 823	41 789 972	41 590 500	42 764 434	40 660 689	41 735 873
- housing and mortgage loans	33 178 984	33 980 731	34 853 185	35 827 969	34 090 998	34 975 346
Loans and advances to corporate entities	**36 934 931**	**37 003 368**	**32 872 882**	**32 812 343**	**33 009 610**	**32 797 799**
current accounts	5 522 420	5 497 641	3 934 915	3 905 205	4 528 878	4 498 077
term loans	29 356 416	29 449 263	27 210 974	27 179 853	26 746 107	26 565 030
- corporate & institutional enterprises	5 313 628	5 309 881	5 008 394	4 975 669	5 000 104	4 945 353
- medium & small enterprises	24 042 788	24 139 382	22 202 580	22 204 184	21 746 003	21 619 677
reverse repo / buy sell back transactions	55 649	55 649	56 676	56 676	62 129	62 129
other	2 000 446	2 000 815	1 670 317	1 670 609	1 672 496	1 672 563
Loans and advances to public sector	**1 034 619**	**1 036 932**	**1 227 481**	**1 227 306**	**1 309 298**	**1 304 301**
Other receivables	**212 273**	**212 273**	**228 424**	**228 424**	**241 431**	**241 431**
Financial liabilities						
Amounts due to other banks	**8 451 807**	**8 496 919**	**8 486 753**	**8 509 677**	**11 562 896**	**11 575 737**
Amounts due to customers	**90 677 502**	**90 698 084**	**91 417 962**	**91 535 698**	**85 188 225**	**85 249 253**
Debt securities in issue	**13 685 190**	**14 100 173**	**12 660 389**	**12 909 157**	**12 192 188**	**12 431 738**
Subordinated liabilities	**2 204 523**	**2 146 434**	**3 943 349**	**3 853 900**	**3 851 380**	**3 750 029**

The following sections present the key assumptions and methods used by the Group for estimation of the fair values of financial instruments:

<u>Loans and advances to banks and loans and advances to customers.</u> The fair value for loans and advances to banks and loans and advances to customers is disclosed as the present value of future cash flows using current interest rates including appropriate credit spreads and is based on the expected maturity of the respective loan agreements. The level of credit spread was determined based on market quotation of median credit spreads for Moody's rating grade. Attribution of a credit spread to a given credit exposure is based on a mapping between Moody's rating grade and internal rating grades of the Group. To reflect the fact that the majority of the Group's exposures is collateralised whereas the median of market quotation is centred around unsecured issues, the Group applied appropriate adjustments. The valuation does not include the risk of potential regulatory solutions for the CHF mortgage loan portfolio.

<u>Available for sale financial assets</u>. Listed available for sale financial instruments held by the Group are valued at fair value. The fair value of debt securities not listed at an active market is calculated using current interest rates taking into account credit spreads for an appropriate issuer.

<u>Financial liabilities</u>. Financial instruments representing liabilities:

- Contracted borrowings;
- Deposits;
- Issues of debt securities;

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- Subordinated liabilities.

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

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

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

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

The following tables presents the hierarchy of fair values of financial assets and liabilities recognised in the condensed statement of financial position of the Group at their fair values.

30.09.2017	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS				
TRADING SECURITIES	**1 990 360**	**1 765 509**	**155**	**224 696**
Debt securities	**1 987 524**	**1 762 828**	**-**	**224 696**
- government bonds	1 759 745	1 759 745	-	-
- deposit certificates	15 120	-	-	15 120
- banks bonds	58 912	-	-	58 912
- corporate bonds	153 747	3 083	-	150 664
Equity securities	**2 836**	**2 681**	**155**	**-**
- listed	2 681	2 681	-	-
- unlisted	155	-	155	-
DERIVATIVE FINANCIAL INSTRUMENTS	**1 348 821**	**-**	**1 348 821**	**-**
Derivative financial instruments held for trading	**1 173 157**	**-**	**1 173 157**	**-**
- interest rate derivatives	698 817	-	698 817	-
- foreign exchange derivatives	431 758	-	431 758	-
- market risks derivatives	42 582	-	42 582	-
Derivative financial instruments held for hedging	**175 664**	**-**	**175 664**	**-**
- derivatives designated as fair value hedges	174 381	-	174 381	-
- derivatives designated as cash flow hedges	1 283	-	1 283	-
INVESTMENT SECURITIES	**32 448 706**	**28 100 873**	**3 192 630**	**1 155 203**
Debt securities	**32 374 796**	**28 099 207**	**3 192 630**	**1 082 959**
- government bonds	27 359 309	27 359 309	-	-
- money bills	3 192 630	-	3 192 630	-
- deposit certificates	221 352	-	-	221 352
- banks bonds	130 878	-	-	130 878
- corporate bonds	1 434 669	739 898	-	694 771
- communal bonds	35 958	-	-	35 958
Equity securities	**73 910**	**1 666**	**-**	**72 244**
- listed	729	729	-	-
- unlisted	73 181	937	-	72 244
TOTAL FINANCIAL ASSETS	**35 787 887**	**29 866 382**	**4 541 606**	**1 379 899**

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30.09.2017	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
FINANCIAL LIABILITIES				
Derivative financial instruments	**1 014 022**	**-**	**1 014 022**	**-**
Derivative financial instruments held for trading	**992 808**	**-**	**992 808**	**-**
- interest rate derivatives	686 738	-	686 738	-
- foreign exchange derivatives	275 111	-	275 111	-
- market risks derivatives	30 959	-	30 959	-
Derivative financial instruments held for hedging	**21 214**	**-**	**21 214**	**-**
- derivatives designated as fair value hedges	41 093	-	41 093	-
- derivatives designated as cash flow hedges	(19 879)	-	(19 879)	-
Total financial liabilities	**1 014 022**	**-**	**1 014 022**	**-**
TOTAL RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS	**35 787 887**	**29 866 382**	**4 541 606**	**1 379 899**
FINANCIAL LIABILITIES	**1 014 022**	**-**	**1 014 022**	**-**

Assets Measured at Fair Value Based on Level 3 - changes in the period from 1 January to 30 September of 2017	Debt trading securities	Debt investment securities	Equity investment securities
As at the beginning of the period	**290 544**	**901 885**	**65 261**
Gains and losses for the period:	**1 755**	**4 660**	**2 070**
Recognised in profit or loss:	1 755	(7 511)	(4 751)
Net trading income	*1 755*	-	-
Gains less losses from investment securities, investments in subsidiaries and associates	-	*(7 511)*	*(4 751)*
Recognised in other comprehensive income:	-	*12 171*	*6 821*
Available for sale financial assets	-	*12 171*	*6 821*
Purchases	599 458	637 409	9 510
Redemptions	(47 709)	(30 342)	-
Sales	(2 766 142)	(936 166)	(4 500)
Issues	2 146 790	505 513	-
Transfers out of Level 3	-	-	(97)
As at the end of the period	**224 696**	**1 082 959**	**72 244**

Transfers between levels in in the period from 1 January to 30 September of 2017	Transfers into Level 1	Transfers out of Level 1	Transfers into Level 2	Transfers out of Level 2
INVESTMENT SECURITIES	**97**	**-**	**-**	**-**
Equity securities	*97*	-	-	-

During the three quarters of 2017 has been observed one transfer from level 3 to level 1 of the fair value hierarchy and concerned a company whose shares were admitted to public trading.

With regard to financial instruments valuated in repetitive way to the fair value classified as level 1 and 2 in hierarchy of fair value, any cases in which transfer between these levels may occur, are monitored by Financial Market Risk Department on the basis of internal rules. In case if there is no market price used to a direct valuation for more than 5 working days, the method of valuation is changed, i.e. change from marked-to-market valuation to marked-to-model valuation under the assumption that the valuation model for the respective type of this instrument has been already approved. The return to marked-to-market valuation method takes place after a period of at least 10 working days in which the market price was available on a continuous basis. If there is no market price for a debt treasury bonds the above terms are respectively 2 and 5 working days.

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31.12.2016	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS				
TRADING SECURITIES	**3 800 634**	**3 509 935**	**155**	**290 544**
Debt securities	**3 796 457**	**3 505 913**	**-**	**290 544**
- government bonds	3 503 029	3 503 029	-	-
- deposit certificates	16 146	-	-	16 146
- banks bonds	109 904	-	-	109 904
- corporate bonds	167 378	2 884	-	164 494
Equity securities	**4 177**	**4 022**	**155**	**-**
- listed	4 022	4 022	-	-
- unlisted	155	-	155	-
DERIVATIVE FINANCIAL INSTRUMENTS	**1 808 847**	**-**	**1 808 847**	**-**
Derivative financial instruments held for trading	**1 584 027**	**-**	**1 584 027**	**-**
- interest rate derivatives	1 173 304	-	1 173 304	-
- foreign exchange derivatives	369 381	-	369 381	-
- market risks derivatives	41 342	-	41 342	-
Derivative financial instruments held for hedging	**224 820**	**-**	**224 820**	**-**
- derivatives designated as fair value hedges	196 634	-	196 634	-
- derivatives designated as cash flow hedges	28 186	-	28 186	-
INVESTMENT SECURITIES	**31 393 352**	**28 610 129**	**1 816 077**	**967 146**
Debt securities	**31 327 252**	**28 609 290**	**1 816 077**	**901 885**
- government bonds	28 251 321	28 251 321	-	-
- money bills	1 816 077	-	1 816 077	-
- deposit certificates	50 466	-	-	50 466
- banks bonds	140 880	-	-	140 880
- corporate bonds	1 031 538	357 969	-	673 569
- communal bonds	36 970	-	-	36 970
Equity securities	**66 100**	**839**	**-**	**65 261**
- unlisted	66 100	839	-	65 261
TOTAL FINANCIAL ASSETS	**37 002 833**	**32 120 064**	**3 625 079**	**1 257 690**

31.12.2016	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
FINANCIAL LIABILITIES				
Derivative financial instruments	**1 599 266**	**-**	**1 599 266**	**-**
Derivative financial instruments held for trading	**1 580 737**	**-**	**1 580 737**	**-**
- interest rate derivatives	1 195 992	-	1 195 992	-
- foreign exchange derivatives	353 784	-	353 784	-
- market risks derivatives	30 961	-	30 961	-
Derivative financial instruments held for hedging	**18 529**	**-**	**18 529**	**-**
- derivatives designated as fair value hedges	19 485	-	19 485	-
- derivatives designated as cash flow hedges	(956)	-	(956)	-
Total financial liabilities	**1 599 266**	**-**	**1 599 266**	**-**
TOTAL RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS	**37 002 833**	**32 120 064**	**3 625 079**	**1 257 690**
FINANCIAL LIABILITIES	**1 599 266**	**-**	**1 599 266**	**-**

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Assets Measured at Fair Value Based on Level 3 - changes in period from 1 January to 31 December of 2016	Debt trading securities	Derivative financial instruments	Debt investment securities	Equity investment securities
As at the beginning of the period	**371 229**	**420**	**816 614**	**198 624**
Gains and losses for the period:	**556**	**(420)**	**(12 531)**	**83 301**
Recognised in profit or loss:	556	(420)	-	250 147
Net trading income	*556*	*(420)*	-	*7 959*
Gains less losses from investment securities, investments in subsidiaries and associates	-	-	-	*242 188*
Recognised in other comprehensive income:	-	-	*(12 531)*	*(166 846)*
Available for sale financial assets	-	-	*(12 531)*	*(166 846)*
Purchases	1 719 767	-	616 264	5 238
Redemptions	(365 693)	-	-	-
Sales	(4 567 069)	-	(1 110 093)	(221 902)
Issues	3 130 780	-	552 540	-
Transfers into Level 3	974	-	39 091	-
As at the end of the period	**290 544**	**-**	**901 885**	**65 261**

Transfers between levels in 2016	Transfers into Level 1	Transfers out of Level 1	Transfers into Level 2	Transfers out of Level 2
TRADING SECURITIES	**-**	**(974)**	**-**	**-**
Debt securities	-	*(974)*	-	-
INVESTMENT SECURITIES	**-**	**(39 091)**	-	-
Debt securities	-	*(39 091)*	-	-

In 2016 there were two transfers from level 1 to level 3 of fair value hierarchy. One transfer resulted from unavailability of market price for communal bonds, and the other from low liquidity of bank bonds.

30.09.2016	Including:	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS				
TRADING SECURITIES	**4 177 242**	**3 868 881**	**2 537**	**305 824**
Debt securities	**4 165 348**	**3 859 524**	**-**	**305 824**
- government bonds	3 855 468	3 855 468	-	-
- deposit certificates	20 607	-	-	20 607
- banks bonds	167 976	1 093	-	166 883
- corporate bonds	121 297	2 963	-	118 334
Equity securities	**11 894**	**9 357**	**2 537**	**-**
- listed	9 357	9 357	-	-
- unlisted	2 537	-	2 537	-
DERIVATIVE FINANCIAL INSTRUMENTS	**2 087 395**	**-**	**2 087 395**	**-**
Derivative financial instruments held for trading	**1 782 920**	**-**	**1 782 920**	**-**
- interest rate derivatives	1 437 153	-	1 437 153	-
- foreign exchange derivatives	320 849	-	320 849	-
- market risks derivatives	24 918	-	24 918	-
Derivative financial instruments held for hedging	**304 475**	**-**	**304 475**	**-**
- derivatives designated as fair value hedges	282 525	-	282 525	-
- derivatives designated as cash flow hedges	21 950	-	21 950	-
INVESTMENT SECURITIES	**31 257 850**	**29 191 760**	**1 170 089**	**896 001**
Debt securities	**31 192 378**	**29 190 976**	**1 169 779**	**831 623**
- government bonds	28 208 424	28 208 424	-	-
- treasury bills	618 625	618 625	-	-
- money bills	1 169 779	-	1 169 779	-
- deposit certificates	50 218	-	-	50 218
- banks bonds	147 818	-	-	147 818
- corporate bonds	958 423	363 927	-	594 496
- communal bonds	39 091	-	-	39 091
Equity securities	**65 472**	**784**	**310**	**64 378**
- unlisted	65 472	784	310	64 378
TOTAL FINANCIAL ASSETS	**37 522 487**	**33 060 641**	**3 260 021**	**1 201 825**

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30.09.2016	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
FINANCIAL LIABILITIES				
Derivative financial instruments	**1 766 557**	**-**	**1 763 902**	**2 655**
Derivative financial instruments held for trading	**1 763 680**	**-**	**1 761 025**	**2 655**
- interest rate derivatives	1 430 619	-	1 430 619	-
- foreign exchange derivatives	316 975	-	316 975	-
- market risks derivatives	16 086	-	13 431	2 655
Derivative financial instruments held for hedging	**2 877**	**-**	**2 877**	**-**
- derivatives designated as fair value hedges	2 499	-	2 499	-
Total financial liabilities	**1 766 557**	**-**	**1 763 902**	**2 655**
TOTAL RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS	**37 522 487**	**33 060 641**	**3 260 021**	**1 201 825**
FINANCIAL LIABILITIES	**1 766 557**	**-**	**1 763 902**	**2 655**

Assets Measured at Fair Value Based on Level 3 - changes in the period from 1 January to 30 September of 2016	Debt trading securities	Derivative financial instruments	Debt investment securities	Equity investment securities
As at the beginning of the period	**371 229**	**420**	**816 614**	**198 624**
Gains and losses for the period:	**(477)**	**(420)**	**(12 293)**	**82 378**
Recognised in profit or loss:	(477)	(420)	-	251 091
Net trading income	*(477)*	*(420)*	-	*8 906*
Gains less losses from investment securities, investments in subsidiaries and associates	-	-	-	*242 185*
Recognised in other comprehensive income:	-	-	*(12 293)*	*(168 713)*
Available for sale financial assets	-	-	*(12 293)*	*(168 713)*
Purchases	1 128 414	-	376 216	5 278
Redemptions	(74 534)	-	-	-
Sales	(3 017 714)	-	(687 145)	(221 902)
Issues	1 898 906	-	299 140	-
Transfers into Level 3	-	-	39 091	-
As at the end of the period	**305 824**	**-**	**831 623**	**64 378**

Transfers between levels in in the period from 1 January to 30 September of 2016	Transfers into Level 1	Transfers out of Level 1	Transfers into Level 2	Transfers out of Level 2
INVESTMENT SECURITIES	**-**	**(39 091)**	**-**	**-**
Debt securities	-	(39 091)	-	-

In the three quarters of 2016 has been observed one transfer from level 1 to level 3 of the fair value hierarchy which resulted from unavailability of market price for communal bonds (low liquidity).

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

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

Level 1

As at 30 September 2017, at level 1 of the fair value hierarchy, the Group has presented the fair value of held for trading government bonds in the amount of PLN 1 759 745 thousand (see Note 15) and the fair value of investment government bonds and treasury bills in the amount of PLN 27 359 309 thousand (see Note 19) (31 December 2016 respectively: PLN 3 503 029 thousand and 28 251 321 thousand, 30 September 2016 respectively: PLN 3 855 468 thousand and PLN 28 827 049 thousand). Level 1 includes the fair value of corporate bonds in the amount of PLN 742 981 thousand (31 December 2016: PLN 360 853 thousand, 30 September 2016: PLN 366 890 thousand). As at 30 September 2016, the level 1 also included bonds issued by banks in the amount of PLN 1 093 thousand.

In addition, as at 30 September 2017 level 1 includes the value of the registered privileged shares of Giełda Papierów Wartościowych in the amount of PLN 937 thousand (31 December 2016: PLN 839 thousand, 30 September 2016: PLN 784 thousand) and the value of the shares of listed companies in the amount of PLN 3 410 thousand (31 December 2016: PLN 4 022 thousand, 30 September 2016: PLN 9 357 thousand).

These instruments are classified as level 1 because their valuation is directly derived by applying current market prices quoted on active and liquid financial markets.

Level 2

Level 2 of the fair value hierarchy mainly includes the fair values of bills issued by NBP in the amount of PLN 3 192 630 thousand (31 December 2016: PLN 1 816 077 thousand, 30 September 2016: PLN 1 169 779 thousand;), whose valuation is based on a NPV model (discounted future cash flows) fed with interest rate curves generated by transformation of quotations taken directly from active and liquid financial markets.

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

As at 30 September 2017, 31 December 2016, and 30 September 2016, level 2 also includes the value of options referencing on the WIG20 index, listed on the Stock Exchange. For the valuation of index options on WIG20 the Bank applied an internal model (based on a model for implied volatility) for which market data have been used as input parameters.

Level 3

Level 3 of the hierarchy presents the fair values of commercial debt securities issued by local banks and companies (bonds and deposit certificates) in the amount of PLN 1 271 697 thousand (31 December 2016: PLN 1 155 459 thousand, 30 September 2016: PLN 1 098 356 thousand).

Level 3 includes also the fair value of local government bonds in the amount of PLN 35 958 thousand (31 December 2016: PLN 36 970 thousand, 30 September 2016: PLN 39 091 thousand).

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

Moreover, level 3 also includes the fair value of equity securities amounting to PLN 72 244 thousand (31 December 2016: PLN 65 261 thousand, 30 September 2016: PLN 64 378 thousand). As at 30 September 2017, these amount includes the value of preferred stock in Visa Inc. in the amount of PLN 45 238 thousand (31 December 2016: PLN 38 392 thousand, 30 September 2016: PLN 37 545 thousand). The other equity securities presented at level 3 have been valuated using the market multiples method. The market multiples method, consists of valuating the equity capital of a company by using a relation between the market values of the own equity capital or market values of the total capital invested in comparable companies (goodwill) and selected economic and financial figures.

Selected explanatory information

1. Compliance with international financial reporting standards

The presented condensed consolidated report for the third quarter of 2017 fulfils the requirements of the International Accounting Standard (IAS) 34 "Interim Financial Reporting" relating to interim financial reports.

In addition, selected explanatory information provide additional information in accordance with Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equal information required by the law of other state, which is not a member state (Journal of Laws 2009 No. 33, item 259 with further amendments).

2. Consistency of accounting principles and calculation methods applied to the drafting of the quarterly report and the last annual financial statements

A detailed description of the accounting policy principles of the Group is presented under Note 2 and 3 of these condensed consolidated financial statements. The accounting policies were applied by the Group consistently over all periods presented in financial statements.

3. Seasonal or cyclical nature of the business

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

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

- Costs of the contribution to the Resolution Fund for the year 2017

In accordance with the Act of 10 June 2016 on the Bank Guarantee Fund (BFG), Deposit Guarantee Scheme and Resolution, and in connection with the letter from the BGF dated on 19 January 2017 addressed to the Polish Banks Association, in the first quarter of 2017 the Group recognised in the consolidated income statement the amount of PLN 116 823 thousand, representing the full-year costs of the contribution to the resolution fund for the year 2017 while the Bank presented in its stand-alone income statement the similar costs in the amount of PLN 113 223 thousand.

- Act on tax on certain financial institutions

On 15 January 2016 the Sejm of the Republic of Poland adopted the "Act on tax on certain financial institutions". The Act came into force on 1 February 2016.

The Act regulates the taxation of the assets of certain financial institutions. In the case of the banks, the tax base is the excess of the total value of assets, resulting from the trial balance determined on the basis of the general ledger records as of the last day of the month in accordance with the accounting standards applied by the banks, above the amount of PLN 4 billion, reduced by the value of own funds and treasury securities. The tax rate introduced by the Act is 0.0366% of the tax base per month. The cost of tax on certain financial institutions included in the results and equity of the Bank and of the Group for the nine months of 2017 amounted to PLN 258 661 thousand and PLN 276 360 thousand recpectively.

5. Nature and amounts of changes in estimate values of items, which were presented in previous interim periods of the current reporting year, or changes of accounting estimates indicated in prior reporting years, if they bear a substantial impact upon the current interim period

In the third quarter of 2017, events as indicated above did not occur in the Group.

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

In the third quarter of 2017, mBank Hipoteczny S.A. issued mortgage bonds in the amount PLN 900 000 thousand and bonds in the amount PLN 690 500 thousand. In the same time the company redeemed mortgage bonds in the amount of PLN 400 000 thousand.

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

On 30 March 2017, the 30th Ordinary General Meeting of mBank S.A., adopted the resolution on division of the 2016 net profit which does not provide for the payment of dividend for the year 2016.

8. Significant events after the end of the first half of 2017, which are not reflected in the financial statements

Events as indicated above did not occur in the Group.

9. Effect of changes in the structure of the entity in the third quarter of 2017, including business combinations, acquisitions or disposal of subsidiaries, long-term investments, restructuring, and discontinuation of business activities

On 2 June 2017, mBank S.A. signed a preliminary conditional agreement on the sale of mLocum S.A. shares to Archicom S.A. On 31 July 2017, according the agreement, mBank S.A. sold 14 120 880 shares, representing 51% of the share capital of mLocum S.A. Sale of the remaining 8 026 120 shares representing 28.99% of the share capital of mLocum S.A. will take place no later than June 30, 2020. Detailed information about this transaction is provided under Note 1 of these condensed consolidated financial statements.

10. Changes in contingent liabilities and commitments

In the third quarter of 2017, there were no changes in contingent liabilities and commitments of credit nature, i.e., guarantees, letters of credit or unutilised loan amounts, other than resulting from current operating activities of the Group. There was no single case of granting of guarantees or any other contingent liability of any material value for the Group.

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

In the third quarter of 2017, events as indicated above did not occur in the Group.

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

In the third quarter of 2017, events as indicated above did not occur in the Group.

13. Revaluation write-offs on account of impairment of financial assets

Data regarding write-offs on account of impairment of financial assets are presented under Note 9 and Note 11 of these condensed consolidated financial statements.

14. Reversals of provisions against restructuring costs

In the third quarter of 2017, events as indicated above did not occur in the Group.

15. Acquisitions and disposals of tangible fixed asset items

In the third quarter of 2017, there were no material transactions of acquisition or disposal of any tangible fixed assets, with the exception of typical lease and property development operations that are performed by the companies of the Group.

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

In the third quarter of 2017, events as indicated above did not occur in the Group.

17. Information about changing the process (method) of measurement the fair value of financial instruments

In the third quarter of 2017, events as indicated above did not occur in the Group.

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

In the third quarter of 2017, events as indicated above did not occur in the Group.

19. Corrections of errors from previous reporting periods

In the third quarter of 2017 the Group corrected the data as of 30 June 2017 concerning the split of loans and advances to customers into not impaired receivables and impaired receivables due to the identified mathematical mistake. When compared to the data published in the consolidated financial statements of mBank Group as of 30 June 2017, the amount of not impaired receivables was increased by PLN 226,9 million and the amount of impaired receivables was decreased by PLN 226,9 million. Information concerning this subject was presented in the Introduction to these consolidated financial statements, in the part describing the quality of the loan portfolio of mBank Group. The correction did not have impact on the financial results and net assets of the Bank and mBank Group presented in the current reporting period and previous reporting periods.

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20. Default or infringement of a loan agreement or failure to initiate composition proceedings

In the third quarter of 2017, events as indicated above did not occur in the Group.

21. Position of the management on the probability of performance of previously published profit/loss forecasts for the year in light of the results presented in the quarterly report compared to the forecast

mBank S.A. did not publish a performance forecast for the year 2017.

22. Registered share capital

The total number of ordinary shares as at 30 September 2017 was 42 311 255 shares (31 December 2016: 42 280 127 shares, 30 September 2016 - 42 279 255 shares) at PLN 4 nominal value each. All issued shares were fully paid up.

REGISTERED SHARE CAPITAL (THE STRUCTURE) AS AT 30 SEPTEMBER 2017						
Share type	**Type of privilege**	**Type of limitation**	**Number of shares**	**Series / face value of issue in PLN**	**Paid up**	**Registered on**
ordinary bearer*	-	-	9 988 000	39 952 000	fully paid in cash	1986
ordinary registered*	-	-	12 000	48 000	fully paid in cash	1986
ordinary bearer	-	-	2 500 000	10 000 000	fully paid in cash	1994
ordinary bearer	-	-	2 000 000	8 000 000	fully paid in cash	1995
ordinary bearer	-	-	4 500 000	18 000 000	fully paid in cash	1997
ordinary bearer	-	-	3 800 000	15 200 000	fully paid in cash	1998
ordinary bearer	-	-	170 500	682 000	fully paid in cash	2000
ordinary bearer	-	-	5 742 625	22 970 500	fully paid in cash	2004
ordinary bearer	-	-	270 847	1 083 388	fully paid in cash	2005
ordinary bearer	-	-	532 063	2 128 252	fully paid in cash	2006
ordinary bearer	-	-	144 633	578 532	fully paid in cash	2007
ordinary bearer	-	-	30 214	120 856	fully paid in cash	2008
ordinary bearer	-	-	12 395 792	49 583 168	fully paid in cash	2010
ordinary bearer	-	-	16 072	64 288	fully paid in cash	2011
ordinary bearer	-	-	36 230	144 920	fully paid in cash	2012
ordinary bearer	-	-	35 037	140 148	fully paid in cash	2013
ordinary bearer	-	-	36 044	144 176	fully paid in cash	2014
ordinary bearer	-	-	28 867	115 468	fully paid in cash	2015
ordinary bearer	-	-	41 203	164 812	fully paid in cash	2016
ordinary bearer	-	-	31 128	124 512	fully paid in cash	2017
Total number of shares			**42 311 255**			
Total registered share capital				**169 245 020**		
Nominal value per share (PLN)		**4**				

* As at the end of the reporting period

In connection with registration on 22 June 2017 by the National Depository of Securities (KDPW) of 5 549 shares of mBank S.A., the share capital of mBank S.A. increased by PLN 22 196 with the effect from 22 June 2017. The shares were issued as part of the conditional increase in the share capital of the Bank by issuance of shares with no subscription rights for the existing shareholders in order to enable beneficiaries of the incentive programmes to take up shares in mBank S.A.

In connection with registration on 22 September 2017 by the National Depository of Securities (KDPW) of 25 579 shares of mBank S.A., the share capital of mBank S.A. increased by PLN 102 316 with the effect from 22 September 2017. The shares were issued as part of the conditional increase in the share capital of the Bank by issuance of shares with no subscription rights for the existing shareholders in order to enable beneficiaries of the incentive programmes to take up shares in mBank S.A.

Moreover, in connection with registration on 20 October 2017 by the National Depository of Securities (KDPW) of 867 shares of mBank S.A., the share capital of mBank S.A. increased by PLN 3 468 with the effect from 20 October 2017. The shares were issued as part of the conditional increase in the share capital of the Bank by issuance of shares with no subscription rights for the existing shareholders in order to enable beneficiaries of the incentive programmes to take up shares in mBank S.A. As at the date of publication of these condensed financial statements the share capital of mBank S.A. amounted to PLN 169 248 488 and was divided into 42 312 122 shares.

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On 30 March 2017, the 30th Ordinary General Meeting of mBank S.A., adopted the resolution on amending the By-laws of mBank S.A. and authorization of the Management Board of mBank S.A. upon the consent of the Supervisory Board of mBank S.A. to increase the share capital of mBank S.A. by an amount not higher than PLN 60 000 000 through the issue of bearer shares with the option to exclude pre-emptive rights of existing shareholders of mBank S.A. in whole or in part.

23. Material share packages

In the third quarter of 2017, there were no changes in the holding of material share packages of the Bank.

Commerzbank AG is a shareholder holding over 5% of the share capital and votes at the General Meeting and as at 30 September 2017 it held 69.37% of the share capital and votes at the General Meeting of mBank S.A.

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

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

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

	Number of rights to shares held as at the date of publishing the report for H1 2017	Number of rights to shares acquired from the date of publishing the report for H1 2017 to the date of publishing the report for Q3 2017	Number of rights to shares realised from the date of publishing the report for H1 2017 to the date of publishing the report for Q3 2017	Number of rights to shares held as at the date of publishing the report for Q3 2017
Management Board				
1. Cezary Stypułkowski	-	2 677	2 677	-
2. Lidia Jabłonowska-Luba	-	1 475	1 475	-
3. Frank Bock	-	-	-	-
4. Andreas Böger	-	-	-	-
5. Krzysztof Dąbrowski	-	447	447	-
6. Cezary Kocik	-	1 551	1 551	-
7. Adam Pers	-	527	527	-

	Number of shares held as at the date of publishing the report for H1 2017	Number of shares acquired from the date of publishing the report for H1 2017 to the date of publishing the report for Q3 2017	Number of shares sold from the date of publishing the report for H1 2017 to the date of publishing the report for Q3 2017	Number of shares held as at the date of publishing the report for Q3 2017
Management Board				
1. Cezary Stypułkowski	13 598	2 677	-	16 275
2. Lidia Jabłonowska-Luba	-	1 475	-	1 475
3. Frank Bock	-	-	-	-
4. Andreas Böger	-	-	-	-
5. Krzysztof Dąbrowski	670	447	-	1 117
6. Cezary Kocik	727	1 551	-	2 278
7. Adam Pers	-	527	527	-

As at the date of publishing the report for the first half of 2017, the Members of the Management Board of mBank S.A. Mr Przemysław Gdański, who ceased his duties as of 25 October 2017 (see item 29 of Selected explanatory information), held 2 000 Bank's shares.

As at the date of publishing the report for the first half of 2017 and as at the date of publishing the report for the third quarter of 2017, the Members of the Management Board had no and they have no rights to Bank's shares.

As at the date of publishing the report for the first half of 2017 and as at the date of publishing the report for the third quarter of 2017, the Member of the Supervisory Board of mBank S.A. Mr Jörg Hessenmüller had 4 903 and 6 118 Bank's shares respectively.

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

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

As at 30 September 2017, the Bank was not involved in any proceedings before a court, arbitration body, or public administration authority concerning liabilities of the Bank or its subsidiaries, which represent at least 10% of the Bank's equity. Moreover, the total value of claims concerning liabilities of the Bank or its subsidiary in all proceedings before a court, an arbitration body or a public administration authority as at 30 September 2017 was also not higher than 10% of the Bank's equity.

The Bank monitors the status of all legal proceedings brought against the Bank and the level of required provisions.

Report on major proceedings brought against the Bank

1. Lawsuit brought by Bank Pekao SA (previously BPH SA) against Garbary Sp. z o.o. ("Garbary")

   BPH brought the case to court on 17 February 2005. The value of the dispute was estimated at PLN 42 854 thousand. The purpose was to cancel actions related to the creation of Garbary and the contribution in kind. The dispute focuses on determination of the value of the right to perpetual usufruct of land and related buildings that ZM Pozmeat SA contributed in kind to Garbary as payment for a stake in ZM Pozmeat SA share capital worth PLN 100 000 thousand. On 6 June 2006, the District Court in Poznań 9th Economic Division issued a verdict according to which the claims were dismissed in their entirety. The claimant filed an appeal against that verdict. On 6 February 2007, the Court of Appeal dismissed the claimant's appeal. The claimant filed the last resort appeal against the ruling of the Court of Appeal. On 2 October 2007, the Supreme Court revoked the ruling of the Court of Appeal and referred the case back. After re-examining the case, the Court of Appeal dismissed the ruling of the District Court in Poznań on 4 March 2008 and referred the case back. On 16 September 2010, the District Court in Poznań dismissed the claim in whole. On 19 October 2010, BPH filed an appeal against the ruling in question. On 24 February 2011, the Court of Appeal made a decision on revoking the ruling and discontinuance of proceedings involving Bank Pekao S.A. (the Bank entered in the proceedings as successor of BPH) justified by lack of title to bring the action before the court on the side of the Bank. The case was returned to the court of the first instance where it was continued with the participation of Pekao SA (previously BPH SA) as the claimant. Bank Pekao SA (previously BPH SA) filed the last resort appeal against the aforesaid decision with the Supreme Court. On 25 April 2012, the Supreme Court revoked the aforesaid decision of the Court of Appeal and referred the case back. On 9 April 2014 the Court of Appeal changed the ruling of the District Court and considered the activities connected with setting up the company Garbary and contribution in kind as ineffective in relation to Bank Pekao SA (previously BPH SA). The Bank filed an annulment appeal to the Supreme Court from above mentioned judgment. On 5 August 2015 the Supreme Court issued a decision in which it has declined acceptance of the complaint for consideration.

   Regarding the said case, mBank, Garbary, Tele-Tech Investment Sp. z o.o. ("TTI") and Bank Pekao SA reached a settlement in August 2017, as a result of which, in return for the payment of the amount agreed by the settlement parties, Bank Pekao SA waived claims against mBank, Garbary and TTI arising from the aforesaid case. The settlement included also the case brought by Bank Pekao SA against mBank and TTI, described below in point 25.2.

2. Lawsuit brought by Bank Pekao SA (previously BPH SA) against the Bank and Tele-Tech Investment Sp. z o.o. ("TTI")

   On 17 November 2007, BPH brought to court a case for damages in the amount of PLN 34 880 thousand plus statutory interest from 20 November 2004 to the date of payment, due to alleged illegal actions such as the sale by ZM Pozmeat SA to TTI of all shares in the equity of Garbary Sp. z o.o. (previously Milenium Center Sp. z o.o.), an important part of its assets, while ZM Pozmeat SA was at risk of insolvency.

   In its reply to the claim, the Bank petitioned the Court for dismissing the claim on the grounds of there being no legal basis for allowing the claim. On 1 December 2009, the Court decided to suspend the case until the completion of Pozmeat's bankruptcy proceedings. On 26 January 2011, the court has decided to reinstate suspended proceedings due to the closing of the insolvency procedure. On 5 June 2012, the court once again decided to suspend the proceedings until the case filed by Bank Pekao SA (previously BPH SA) against Garbary Sp. z o.o. is finally settled. In November 2015, a decision to resume the suspended proceedings was made.

Regarding the said case, mBank, Garbary, TTI and Bank Pekao SA reached a settlement in August 2017, as a result of which, in return for the payment of the amount agreed by the settlement parties, Bank Pekao SA waived claims against mBank, Garbary and TTI arising from the aforesaid case and withdrew the lawsuit (the proceedings were discontinued under a final and legally binding decision). The settlement included also the case brought by Bank Pekao SA against Garbary, described above in point 25.1.

3. Claims of clients of Interbrok

From 14 August 2008 170 entities who were clients of Interbrok Investment E. Dróżdż i Spółka Spółka jawna (hereinafter referred to as Interbrok) called the Bank for amicable settlement in the total amount of PLN 385 520 thousand and via the District Court in Warsaw. In addition, 9 legal compensation suits have been delivered to the Bank. Eight of the nine suits where placed by former clients of Interbrok for the total amount of PLN 800 thousand with the reservation that the claims may be extended up to the total amount of PLN 5 950 thousand. The Plaintiffs alleged that the Bank aided and abetted Interbrok's illegal activities, which caused damage to the Plaintiffs. Seven of the suits against mBank were dismissed on substantive grounds and thus ended with a valid court order. As regards the 8th case, the Plaintiff withdrew the action and the waiver of claims and the Regional Court discontinued the proceedings. In the 9th case the value of the subject of litigation amounts to PLN 275 423 thousand together with statutory interest and legal costs. The amount set forth in the petition is to cover the receivables, acquired by the Plaintiff by way of assignment, due to parties aggrieved by Interbrok on account of the reduction (as a result of Interbrok's bankruptcy) of the receivables by a return of the deposits paid by the aggrieved for making investments on the forex market. The Plaintiff claims the Bank's liability on the grounds of the Bank's aiding to commit the illicit act of Interbrok involving the pursuit of brokerage activity without a permit. At present, the case is being heard by the court of first instance.

The Bank moves for dismissal of the claims in entirety and objects to charges raised in the legal suits. The legal analysis of the abovementioned claims indicates that there are no significant grounds to state that the Bank bears liability in the said case.

4. Class action against mBank S.A. concerning changes in interest rate clause

On 4 February 2011, the Bank received a class action brought to the District Court in Łódź on 20 December 2010 by the Municipal Consumer Ombudsman who represents a group of 835 persons – retail clients of the Bank. The petitioners demand that a responsibility of the Bank is determined for improper performance of mortgage credit agreements. In particular, it was indicated that the Bank improperly applied provisions of the agreements concerning interest rates adjustment, namely that the Bank did not reduce interest rates on loans, although, according to the petitioners, it should have. The Bank rejects the above reasoning. On 18 February 2011, the Bank submitted a formal answer to the court, in which it applied for a dismissal of the claim as a whole.

On 6 May 2011, the District Court in Łódź decided to reject the application of mBank S.A. for dismissing the claim and decided that the case will proceed as a class action. On 13 June 2011, mBank S.A. lodged a complaint against this decision with the Court of Appeal in Łódź. On 28 September 2011, the Court of Appeal dismissed the complaint of mBank S.A. Currently, the case proceeds as a class action. The time for joining the class ended in March 2012. As at 17 October 2012, the approved class consisted of 1 247 members. Moreover, the District Court in Łódź ruled against setting up a cash deposit for mBank S.A. requested by the Bank. The Bank lodged a complaint against this ruling. On 29 November 2012, the Court of Appeal in Łódź dismissed the Bank's complaint about setting up the cash deposit. The ruling is valid and the Plaintiff is not obliged to pay the cash deposit. The final response to the petition was sent in January 2013, while the Plaintiff replied to it in a pleading filed on 15 February 2013. By a decision dated 18 February 2013, the District Court in Łódź decided to refer the case to mediation. In a letter dated 26 February 2013, the Municipal Consumer Ombudsman raised an objection to the mediation. On 22 June 2013, a trial was conducted, and on 3 July 2013, the Court announced its judgment in which it took into account the action in its entirety acknowledging that the Bank improperly performed the agreement whereby the consumers sustained a loss. On 9 September 2013, the Bank filed an appeal against the aforementioned verdict. Under the sentence of 30 April 2014, the Court of Appeal in Łódź dismissed the appeal of mBank, upholding the decision of the District Court expressed in the appealed verdict. The aforementioned verdict is legally valid, however, after having received its written justification, mBank lodged an annulment appeal to the Supreme Court. The annulment appeal was brought by mBank on 3 October 2014. On 7 October 2014 the Court of Appeal in Łódź ceased the enforceability of the judgement of District Court in Łódź until consideration of Bank's annulment appeal. On 18 February 2015, the Supreme Court received the annulment appeal filed by mBank. On 14 May 2015, the Supreme Court revoked the judgments of the Court of Appeal in Łódź and remanded the case to the Court of Appeal in Łódź for re-examination. On 24 September 2015 the Court of Appeal in Łódź admitted evidence from an opinion of an expert in order to verify the correctness of adjustments made by mBank in mortgage loan interest rates subject to class action in the period of 1 January 2009 to 28 February 2010.

mBank received the expert's opinion in April 2016. Both parties filed pleadings, in which they commented on the opinion. On 22 June 2016, the Court of Appeal in Łódź obliged the expert to submit a supplementary opinion with respect to the comments made by the parties. The supplementary opinion was issued in September 2016. The expert sustained all the arguments and the standpoint presented in the initial opinion.

During the trial on 24 February 2017, the Court admitted an oral supplementary opinion of the expert as evidence. As the opinion did not allay the Court's doubts, by the resolution of 6 April 2017, the Court of Appeal admitted a written supplementary opinion of the expert as evidence.

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

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

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

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

   By its decision of 9 May 2017, the Regional Court in Łódź ordered the announcement of the initiation of group proceedings and set a deadline of 3 months from the date of publication of the announcement to join the group of persons whose claims can be covered by the claim. On designated term 352 people joined the group. Currently there are 1 717 people in the group.

As at 30 September 2017, the Bank was not involved in any proceedings before a court, arbitration body, or public administration authority concerning receivables of the Bank or its subsidiaries, which represent at least 10% of the Bank's equity. The total value of claims concerning receivables of the Bank or its subsidiaries in all proceedings before a court, an arbitration body or a public administration authority underway at 30 September 2017 was also not higher than 10% of the Bank's equity.

Information regarding tax audits

From 13 June 2016 to 13 September 2016, the French tax authority conducted tax audit in the company mFinance France in terms of the regularity of tax settlements (including CIT and VAT) for the period from 1 January 2013 to 31 December 2015. The audit did not identify any irregularities.

From 29 January 2016 to 30 May 2017, officers of the Treasury Control Office in Warsaw (Urząd Kontroli Skarbowej) carried out an inspection in mLeasing relating to the reliability of the declared tax bases and the correctness of the calculation and payment of tax on goods and services for Q2 2014. Additionally, the inspection aimed at determining whether mLeasing is a relevant person within the meaning of the Act of 16 November 2000 on Counteracting Money Laundering and Terrorism Financing and, in the case of confirming the status, at verifying its compliance with the obligations arising from the aforesaid act. The inspection revealed no major irregularities.

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

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26. Off-balance sheet liabilities

Off-balance sheet liabilities as at 30 September 2017, 31 December 2016 and 30 September 2016 were as follows:

mBank Group consolidated data

	30.09.2017	31.12.2016	30.09.2016
1. Contingent liabilities granted and received	**34 520 904**	**31 292 889**	**28 772 967**
Commitments granted	**31 605 087**	**28 681 726**	**26 849 458**
- financing	24 542 463	22 799 950	21 557 354
- guarantees and other financial facilities	6 849 624	5 881 446	5 279 274
- other commitments	213 000	330	12 830
Commitments received	**2 915 817**	**2 611 163**	**1 923 509**
- financial commitments	224 637	24 579	59 200
- guarantees	2 691 180	2 586 584	1 864 309
2. Derivative financial instruments (nominal value of contracts)	**426 738 647**	**429 230 340**	**453 083 535**
Interest rate derivatives	332 467 909	334 491 101	341 168 916
Currency derivatives	86 212 302	88 280 960	100 889 884
Market risk derivatives	8 058 436	6 458 279	11 024 735
Total off-balance sheet items	**461 259 551**	**460 523 229**	**481 856 502**

mBank stand - alone data

	30.09.2017	31.12.2016	30.09.2016
1. Contingent liabilities granted and received	**41 394 752**	**37 656 294**	**34 697 953**
Commitments granted	**38 478 935**	**35 069 332**	**32 835 215**
- financing	23 414 034	21 695 678	20 203 006
- guarantees and other financial facilities	14 851 901	13 373 654	12 619 709
- other commitments	213 000	-	12 500
Commitments received	**2 915 817**	**2 586 962**	**1 862 738**
- financial commitments received	224 637	779	-
- guarantees received	2 691 180	2 586 183	1 862 738
2. Derivative financial instruments (nominal value of contracts)	**428 054 170**	**431 926 772**	**455 879 733**
Interest rate derivatives	332 629 413	335 475 955	342 452 204
Currency derivatives	87 366 321	89 992 538	102 402 794
Market risk derivatives	8 058 436	6 458 279	11 024 735
Total off-balance sheet items	**469 448 922**	**469 583 066**	**490 577 686**

27. Transactions with related entities

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

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

The amounts of transactions with related entities, i.e., balances of receivables and liabilities and related costs and income as at 30 September 2017, 31 December 2016 and 30 September 2016 were as follows.

PLN (000's)	Commerzbank AG			Other companies of the Commerzbank AG Group including mBank S.A. subsidiaries not consolidated by the acquisition method		
As at the end of the period	**30.09.2017**	**31.12.2016**	**30.09.2016**	**30.09.2017**	**31.12.2016**	**30.09.2016**
Statement of Financial Position						
Assets	572 699	701 675	968 623	25 709	1 783	9 436
Liabilities	7 968 508	10 282 116	12 801 253	924 360	919 574	897 368
Income Statement						
Interest income	85 054	125 233	96 284	1 126	789	659
Interest expense	(97 599)	(145 705)	(109 511)	(4 170)	(5 797)	(4 379)
Fee and commission income	849	-	-	145	27	15
Fee and commission expense	(5)	-	-	-	-	-
Other operating income	13	18	16	2 577	67	50
Overhead costs, amortisation and other operating expenses	(9 095)	(9 503)	(7 928)	(7)	(28)	(1)
Contingent liabilities granted and received						
Contingent liabilities granted	1 636 442	1 295 444	1 286 980	384 052	14 448	11 113
Contingent liabilities received	1 607 714	1 442 052	843 600	9 157	12 422	12 154

The total costs of remuneration of Members of the Supervisory Board, the Management Board and other key management personnel of the Bank that perform their duties from 1 January to 30 September 2017 recognised in the Group's income statement for that period amounted to PLN 24 594 997 (in the period from 1 January to 30 September 2016: PLN 23 411 084).

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

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

As at 30 September 2017, the Bank's exposure under guarantees granted in excess of 10% of own funds related to the guarantee payment of all amounts to be paid in respect of debt securities issued by mFinance France S.A. (mFF), a subsidiary of the mBank S.A.

On 25 September 2013, mFF issued tranche of Eurobonds with nominal value of CHF 200 000 thousand maturing on 8 October 2018. In this case, the guarantee was granted on 25 September 2013 for the duration of the Programme, i.e. to 8 October 2018.

On 22 November 2013, mFF issued next tranche of Eurobonds with nominal value of CZK 500 000 thousand maturing on 6 December 2018. In this case, the guarantee was granted on 22 November 2013 for the duration of the Programme, i.e. to 6 December 2018.

On 24 March 2014, mFF issued next tranche of Eurobonds with nominal value of EUR 500 000 thousand maturing on 1 April 2019. In this case, the guarantee was granted on 24 March 2014 for the duration of the Programme, i.e. to 1 April 2019.

On 20 November 2014, mFF issued next tranche of Eurobonds with nominal value of EUR 500 000 thousand maturing on 26 November 2021. In this case, the guarantee was granted on 20 November 2014 for the duration of the Programme, i.e. to 26 November 2021.

On 21 September 2016, mFF issued next tranche of Eurobonds with nominal value of EUR 500 000 thousand maturing on 26 September 2020. In this case, the guarantee was granted on 21 September 2016 for the duration of the Programme, i.e. to 26 September 2020.

On 14 March 2017, mFF issued next tranche of Eurobonds with nominal value of CHF 200 000 thousand maturing on 28 March 2023. In this case, the guarantee was granted on 14 March 2017 for the duration of the Programme, i.e. to 28 March 2023.

29. Other information which the issuer deems necessary to assess its human resources, assets, financial position, financial performance and their changes as well as information relevant to an assessment of the issuer's capacity to meet its liabilities

- Changes in the Management Board of mBanku S.A.

On 12 September 2017, Vice-President of the Management Board - Head of Corporate and Investment Banking, Mr. Przemysław Gdański, resigned from his function at the Bank. The resignation took place on October 25, 2017. On 25 October 2017 the Supervisory Board of mBank S.A. appointed Mr. Adam Pers, as the Bank's Vice-President of the Management Board Head of Corporate and Investment Banking the effect as of 26 October 2017. Until that date Mr. Adam Pers was the Managing Director for the Financial Markets.

30. Factors affecting the results in the coming quarter

Apart from operating activity of the Bank and mBank Group entities, there are no other events expected in the fourth quarter of 2017 that would have a significant impact on the profit of this period.

31. Other information

- Proposals concerning foreign currency mortgage loans restructuring

Some proposals of restructuring of foreign currency mortgage loans for individuals have been discussed recently, including the solutions presented by the Chancellery of the President of the Republic of Poland. At its meeting starting on October 19, 2016, the Parliament of the Republic of Poland has begun work on three draft laws governing in different ways the above issue: presented by the President of the Republic of Poland draft *law on the principles of reimbursement of certain claims arising from credit and loan agreements* and parliamentary drafts of *law on restructuring loans denominated in or indexed to a currency other than the Polish currency and to prohibiting granting of such loans and of law on special rules for the restructuring of foreign currency mortgage loans due to changes in foreign currency exchange rates in relation to the Polish currency*. In addition, on October 13, 2017, the Parliament of the Republic of Poland has begun work on the draft *of the amendment of the act on support of borrowers in financial difficulties, who had taken out a housing loan as well as a law on corporate income tax*, proposed by the President of the Republic of Poland. At the moment of these financial statements publication the final form of the proposed solutions is not known yet. Therefore, at the moment, the Bank is not able to estimate reliably either the implementation probability of the discussed solutions or the potential impact of the final solutions on the financial statements of the Bank and the mBank Group.

- Requirements on mBank Group capital ratios

On 4 October 2016, Polish Financial Supervision Authority identified mBank S.A. as other systemically important institution and imposed on the Bank - on an individual and consolidated basis - the other systemically important institution buffer equivalent to 0.5% of the total risk exposure, calculated in accordance with Article 92 (3) of CRR Regulation. As of the date of publication of these financial statements, the Bank has not received any update of the administrative decision on the other systemically important institution buffer.

On 20 October 2016, the Bank received the KNF decision concerning the maintenance of mBank S.A. own funds, on the individual basis, to cover the additional capital requirement securing the risk related to the foreign currency mortgage loans for households at the level of 3.81 p.p. above the total capital ratio level defined in article 92 item 1 letter c of the CRR Regulation, which should be covered at least in 75% by Tier 1 capital (equivalent to capital requirement of 2.86 p.p. above the level of Tier 1 capital ratio defined in article 92 item 1 letter b of the CRR Regulation) and at least in 56% by Common Equity Tier 1 capital (equivalent to capital requirement of 2.13 p.p. above the level of Common Equity Tier 1 capital ratio defined in article 92 item 1 letter a of the CRR Regulation).

On 15 December 2016, the Bank received the KNF decision concerning the maintenance of mBank S.A. own funds, on the consolidated basis, to cover the additional capital requirement securing the risk related to the foreign currency mortgage loans for households at the level of 3.25 p.p. above the total capital ratio. Simultaneously, for the Tier 1 capital ratio and Common Equity Tier 1 capital ratio additional capital requirement amounts to 2.44 p.p. and 1.82 p.p. respectively. The KNF also informed that the recommended by the KNF required capital ratios for mBank S.A., on the individual basis, amounted to 13.61% for the Tier 1 capital ratio and 17.56% for the total capital ratio, while on the consolidated basis, the required capital ratios amounted to 13.19% for the Tier 1 capital ratio and 17.00% for the total capital ratio. As of the date of publication of these financial statements, the Bank has not received any update of the administrative decision on the additional capital requirement securing the risk related to the foreign currency mortgage loans for households.

Taking into account the above recommended capital buffers, including established by the Bank and the Group at the end of 2016 countercyclical buffer, calculated as a weighted average of countercyclical buffer ratios applicable in the jurisdictions in which the relevant Group exposures are located, the required level of capital ratios as of September 30, 2017 is following:

- Individual total capital ratio – 17,58%
- Individual Tier 1 capital ratio – 13,63%
- Consolidated total capital ratio – 17,02%
- Consolidated Tier 1 capital ratio – 13,21%.

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

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

On 13 January 2017, FSC endorsed the resolution on the recommendation on the restructuring of the FX housing loans portfolio. The resolution includes a list of recommendations, the most important of which are:

- to increase the minimum LGD for exposures secured by mortgages on residential property, the purchase of which was financed by an FX loan by means of a dedicated resolution of the Ministry of Finance (this regulatory measure is addressed to banks that apply internal ratings based approach to the calculation of the capital charge for credit risk, among others to mBank S.A.);

- to increase by the KNF the additional capital requirements related to FX housing loans by taking into account additional risk types: operational risk, market risk and collective risk of default;

- to impose a systemic risk buffer of 3% by the Ministry of Finance that would apply to all exposures on the territory of the Republic of Poland;

- to increase the risk weight used by the banks to calculate capital requirements to the level of 150% for FX exposures secured by mortgages on immovable property by means of a dedicated resolution of the Ministry of Finance;

- introduction of changes in the rules of operation of the Borrower Support Fund, which would lead to a greater use of the funds to support borrowers in difficult financial situation.

As at the date of publication of these financial statements, some of the KSF recommendations were implemented:

- KNF within the BION Methodology for 2017 extended the additional capital requirements of the second pillar to address the foreign currency risk of housing loans, with additional components related to operational risk, market risk and collective default risk,

- The Minister of Finance signed on 1 September 2017 the Regulation on a systemic risk buffer, which will enter into force on 1 January 2018,

- The Minister of Finance signed on 25 May 2017 the Regulation on higher risk weighs for exposures secured by mortgages on real estate, which will enter into force 6 months after the publication of the Regulation, i.e. December 2017.

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

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

- The individual recommendation of the KNF concerning dividend for the year 2016

On 13 March 2017, the Bank received a letter from the Polish Financial Supervision Authority with individual recommendation to increase own funds by retaining total net profit generated by the Bank between 1 January 2016 and 31 December 2016. On 30 March 2017, the 30th Ordinary General Meeting of mBank S.A. adopted a resolution, according to which the net profit generated by the Bank in 2016 in the amount of PLN 1 219 339 249.57 will be allocated as follows: PLN 20 000 000.00 for the general banking risk reserve of mBank S.A., and the remaining part of profit in the amount of PLN 1 199 339 249.57 will be left undivided.

Signature of the Management Board of mBank S.A.

Date	First and last name	Position	Signature
26.10.2017	Cezary Stypułkowski	President of the Management Board	
26.10.2017	Lidia Jabłonowska-Luba	Vice-President of the Management Board, Chief Risk Officer	
26.10.2017	Frank Bock	Vice-President of the Management Board, Head of Financial Markets	
26.10.2017	Andreas Böger	Vice-President of the Management Board, Chief Financial Officer	
26.10.2017	Krzysztof Dąbrowski	Vice-President of the Management Board, Head of Operations and IT	
26.10.2017	Cezary Kocik	Vice-President of the Management Board, Head of Retail Banking	
26.10.2017	Adam Pers	Vice President of the Management Board, Head of Corporate & Investment Banking	