Management Board Report on Performance of mBank in 2016

Table of contents

1. About mBank Group

1.1. History of mBank Group

1986	**Establishment of Bank Rozwoju Eksportu as a joint-stock company**
1989	**Receipt of credit line facilities from the World Bank and International Finance Corporation; BRE Bank becomes a member of the international settlement system SWIFT**
1991	**Start of BRE Bank Group: BRE Brokers, the Group's first subsidiary is established**
1992	**Listing of BRE Bank on the Warsaw Stock Exchange**
1994	**Signing of a strategic partnership agreement with Commerzbank AG**
1996	**Poland's first Private Banking offer is launched**
1998	**Merger with Polski Bank Rozwoju SA**
2000	**Establishment of mBank – the first Internet-only bank in Poland – completed in just one hundred days**
2001	**Launch of Multibank, the second retail arm of BRE Bank, targeting affluent customers**
2004	**Start of iBRE, a modern Internet banking system for companies**
2007	**Foreign expansion of retail operations, the first branches of mBank are set up in the Czech Republic and Slovakia**
2010	**Successful issue of new shares, in which the Bank raises nearly PLN 2 billion**
2011	**mBank's mobile transactional platform for iOS and Android is launched**
2012	**„One Bank" Strategy for 2012-2016 is announced**
2013	**Rebranding – Group brands are replaced with the strongest name: mBank** **New mBank transactional platform is launched**
2014	**Launch of cooperation with Orange** **Launch of New mBank platform for clients in Czech Republic and Slovakia**
2015	**Launch of the long-term cooperation with AXA Group** **Migration of former Multibank and Private Banking to mBank transactional platfrom**
2016	**„mobile Bank" Strategy for 2016-2020 is announced**

1.2. mBank Group's business model in a snapshot

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

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

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

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

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

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

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

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

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

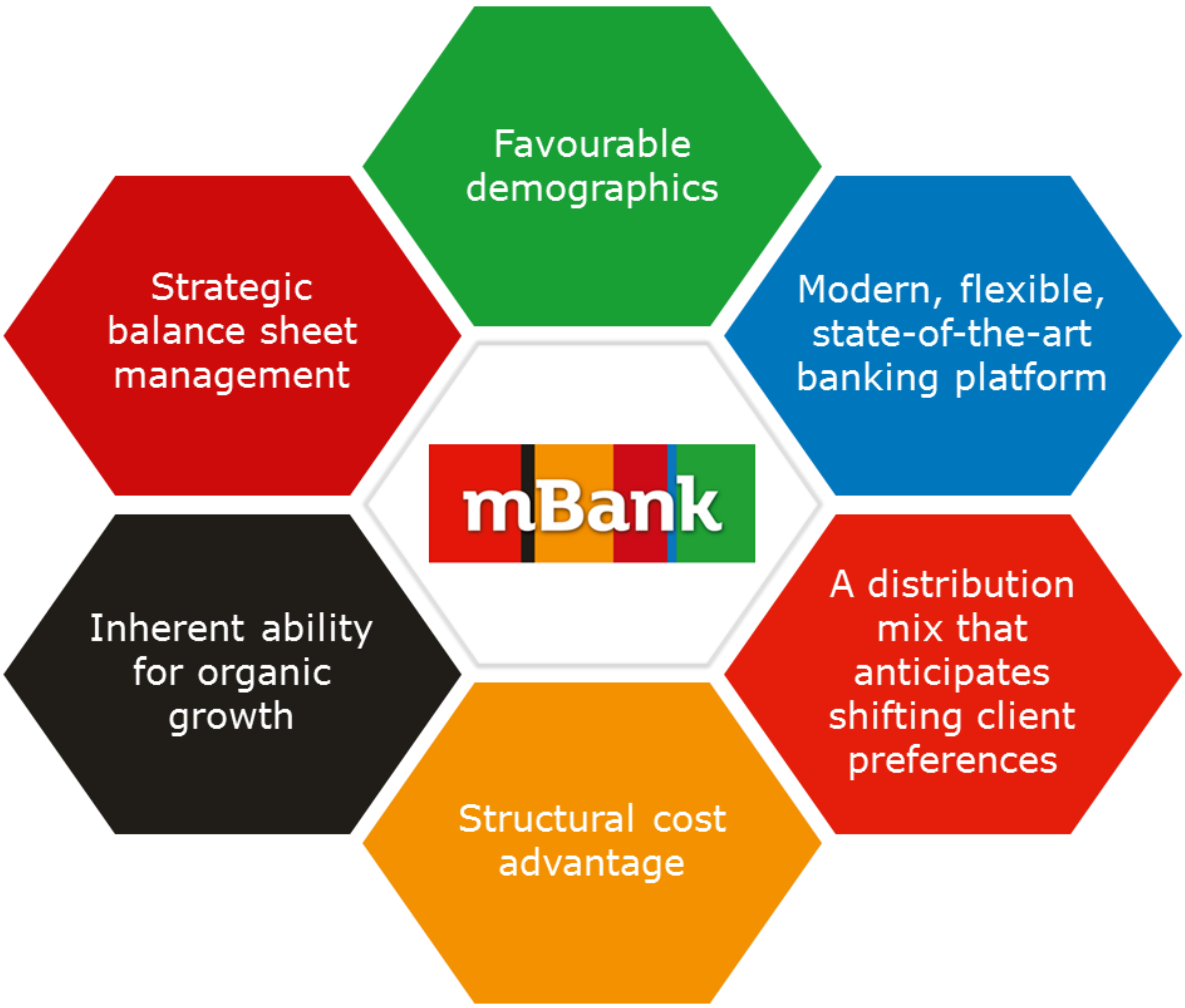
With its proven ability in achieving the communicated targets, mBank is well positioned to continue its successful business growth in selected client segments through exploiting attractive market opportunities. The IT platform architecture allows the Bank to develop and introduce new products, services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

1.3. mBank Group's strategic advantages

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

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

The key factors are illustrated and described below:



Favourable demographics

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

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

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

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

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

A distribution mix that anticipates shifting client preferences

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

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

Structural cost advantage

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

Inherent ability for organic growth

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

Strategic balance sheet management

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

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

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

1.4. Composition of mBank

Main activities areas of mBank

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

Composition of mBank

Segment	Retail Banking	Corporates and Financial Markets	
		Corporate and Investment Banking	Financial Markets
Bank	Retail customers and microenterprises Affluent retail customers Private Banking	Corporations and non-banking financial institutions (capital groups) (K1) Large Companies (K2) SME (K3)	Banks Corporate clients in scope of trading and sales Market and Liquidity Risk Management

mBank's Authorities

Supervisory Board of mBank

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

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

11. Wiesław Thor – Member of the Supervisory Board
12. Marek Wierzbowski – Member of the Supervisory Board

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

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

Management Board of mBank

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

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

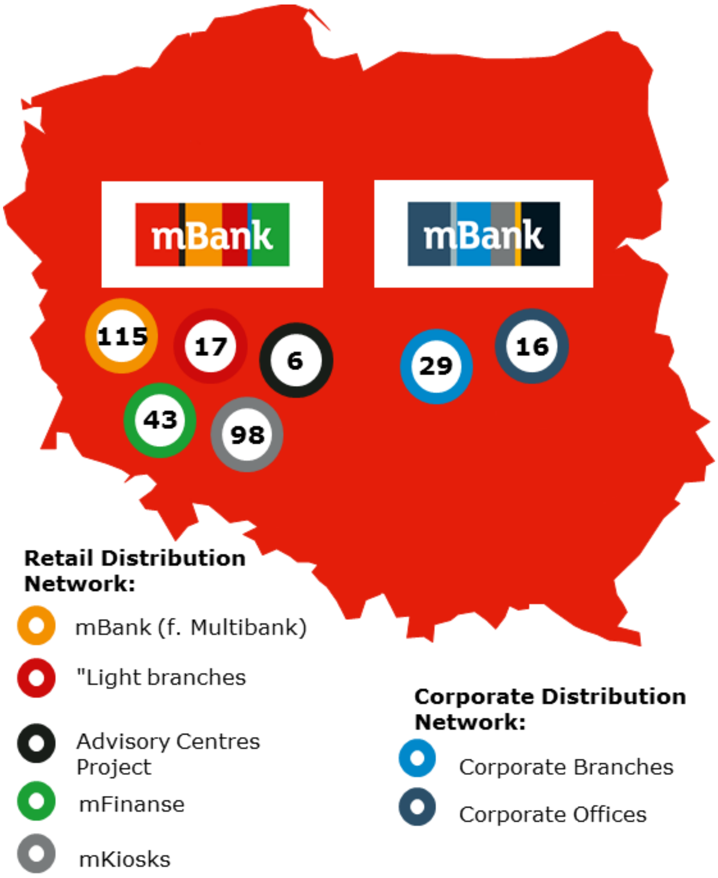
Detailed résumés of all members of mBank authorities are available on https://www.mbank.pl/en/about-us/bank-authorities/.

For more information on changes in the Management Board and Supervisory Board of mBank, see chapter 6. Statement of mBank S.A. on application of Corporate Governance principles in 2016.

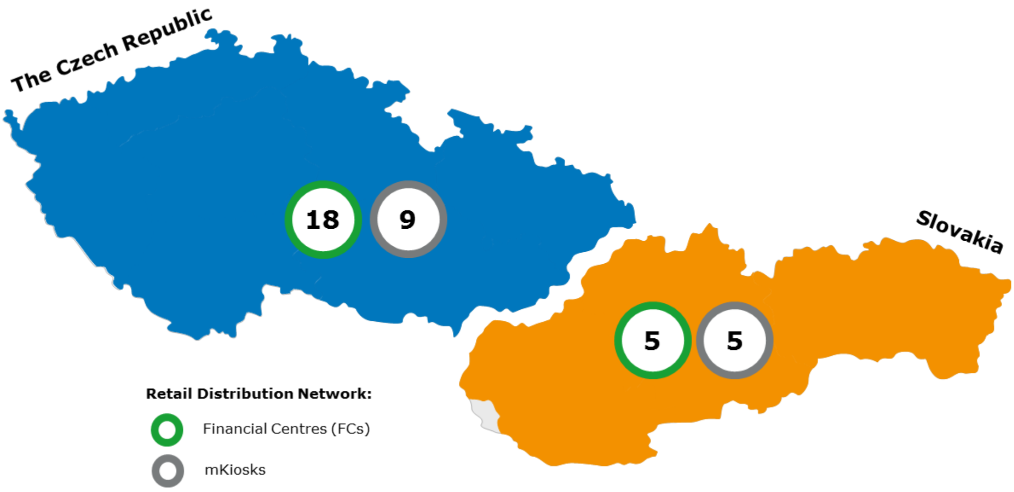
1.5. mBank Group geographical presence

mBank Group operates successfully not only in Poland, but also in the Czech Republic and Slovakia.

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



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

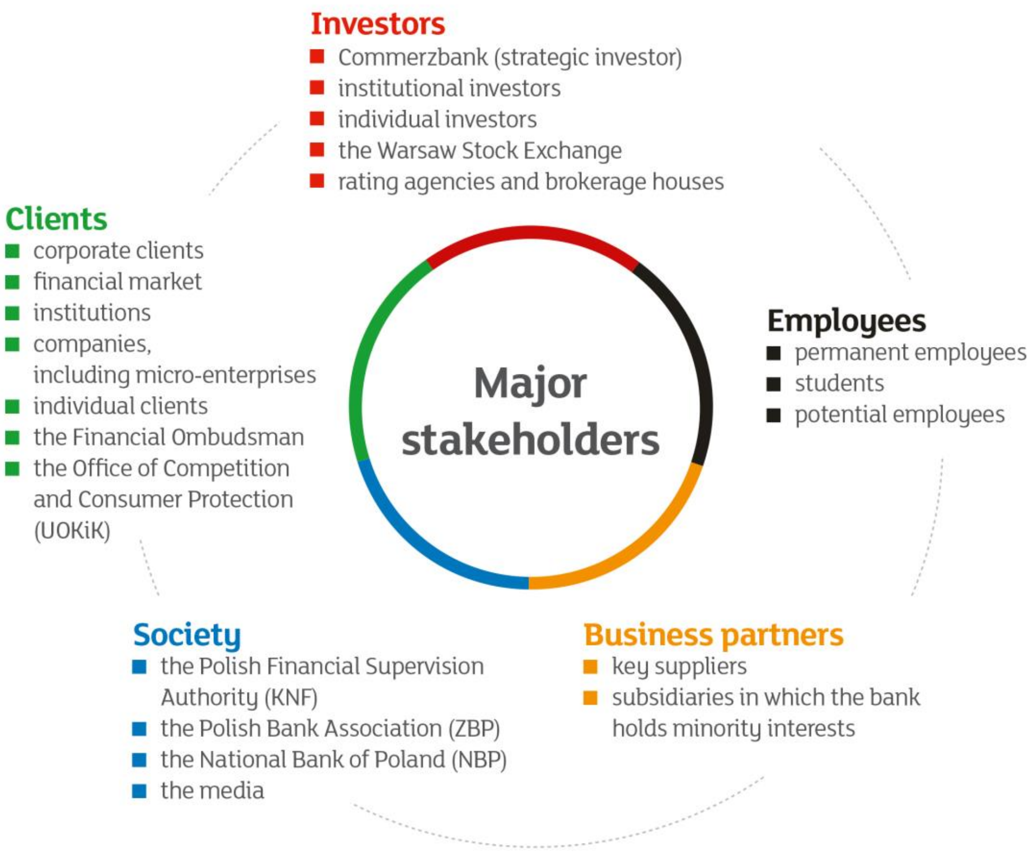


1.6. Model of values and behaviour

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

1.7. Stakeholders

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



1.8. Information for investors

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

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

mBank shareholders and share price on the WSE

mBank shareholders

Commerzbank AG has been the strategic shareholder of mBank since 1994. The stake of Commerzbank has been increasing gradually, from 21.0% in 1995 to 50.0% in 2000 and 72.2% in 2003. Starting from

2005, Commerzbank's stake has declined slightly due to the implementation of the managerial options programme at the Bank.

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

Performance of mBank shares in 2016

Key characteristics of mBank shares:

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

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

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

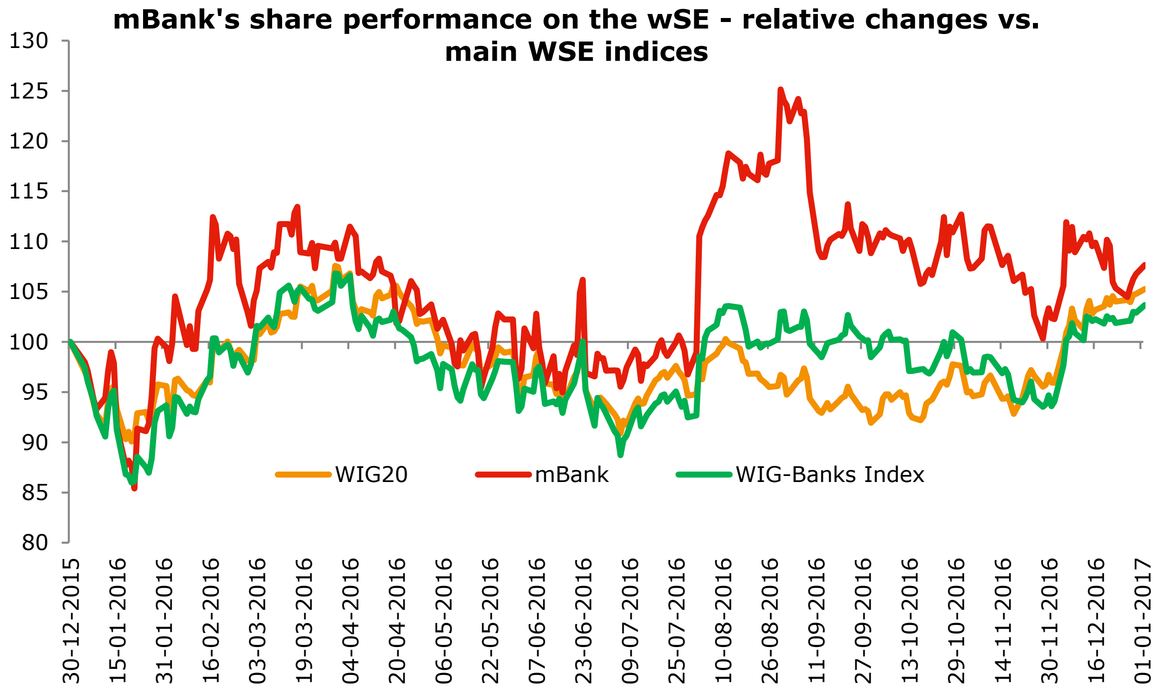
The year 2016 was a turbulent period for stock exchange investors. The developments in Poland and external factors affected the situation on the Warsaw Stock Exchange. As regards the former, investors focused on the discussions about the future of open-end pension funds, Standard & Poor's (S&P) downgrade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

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

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

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

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



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

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

Investor Relations at mBank

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

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

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

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

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

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

1.9. Ratings of mBank

Rating assigned by Fitch Ratings

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

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

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

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

Rating assigned by S&P Global Ratings

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

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

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

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

Rating assigned by Moody's based on publicly available information

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

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

** Rating based solely on publicly available information.*

Ratings of Poland, mBank and Commerzbank – comparison

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

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

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

2. mBank's environment

2.1. Macroeconomic environment

Economy and the banking sector in Poland

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

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

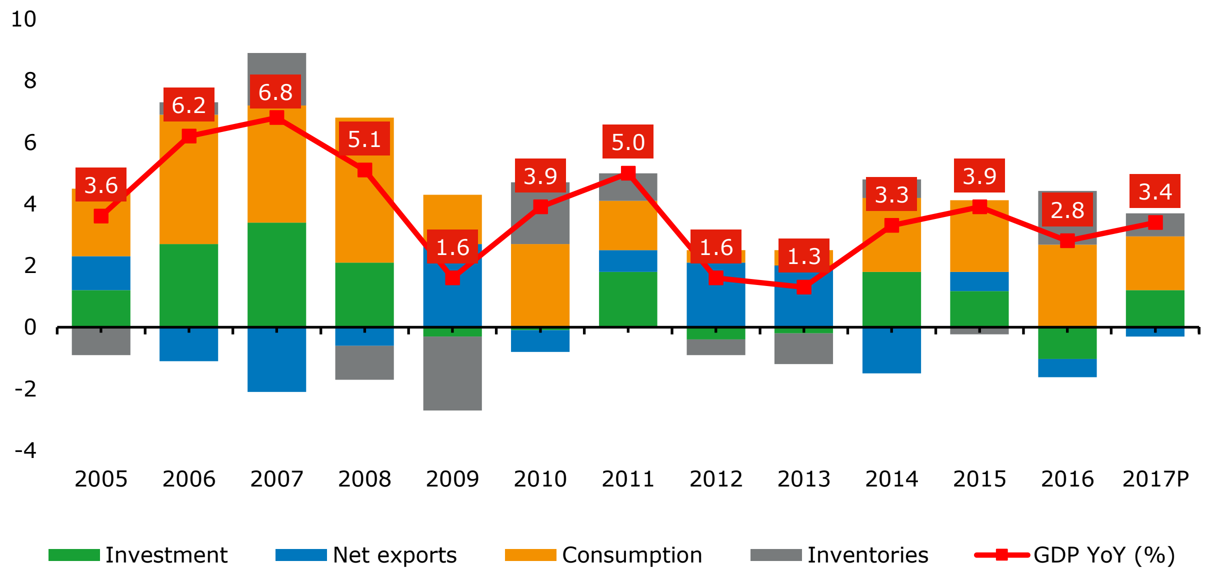
** Data as of September 30, 2016.*

Summary of changes

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

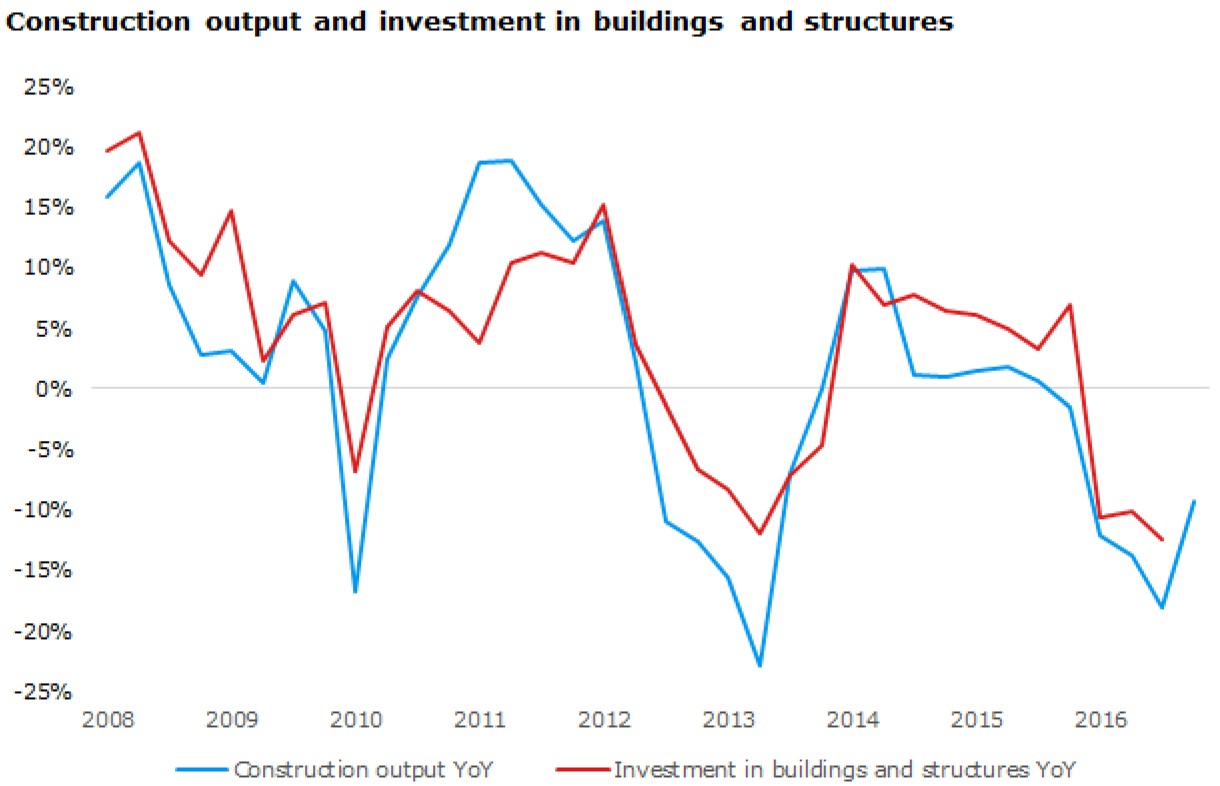
Poland's economy reported a slowdown. According to the initial data, GDP rose by 2.8% in 2016 (against 3.9% a year ago), which is well below expectations from the beginning of the year. In fact, 2016 saw numerous growth forecasts being revised down with every consecutive quarter turning out to be worse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

Contribution to GDP growth

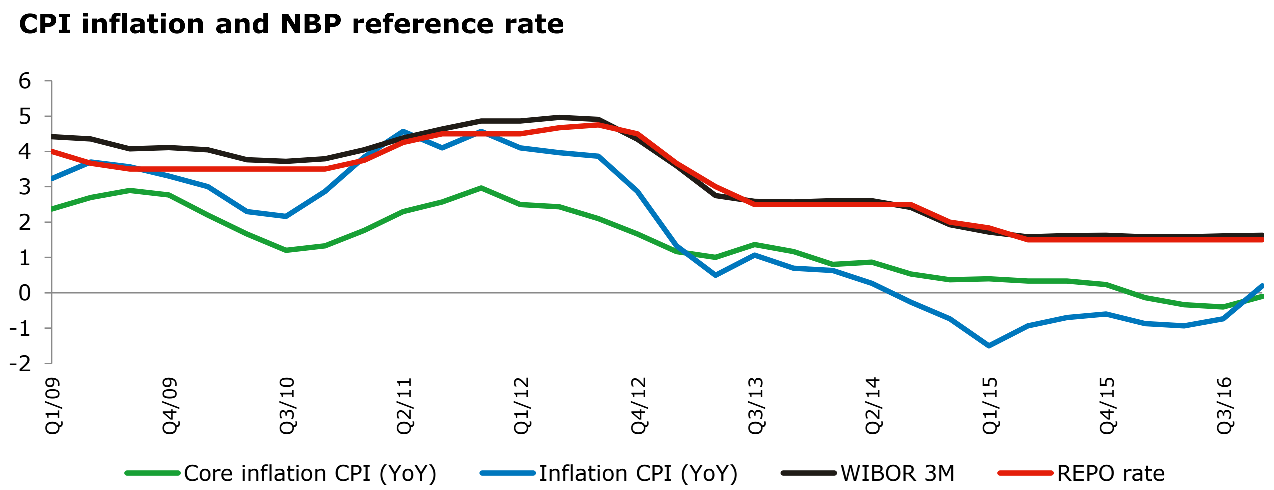


Accelerating private consumption came as no surprise - the growth rate increased from 3.2% in early 2016 to ca. 4.1% in Q4. Much has been said about the fundamental reasons behind the growth in consumption, but let us repeat the most important of them, i.e.: fast growth of real wages driven by low inflation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

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

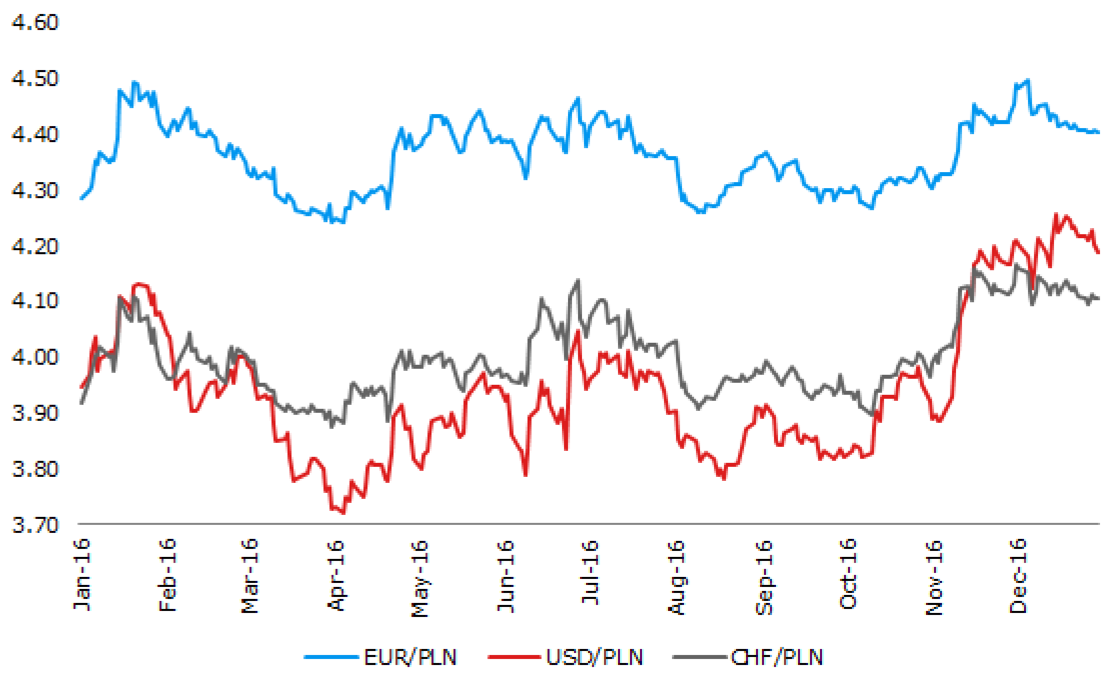


Inflation remained negative in 2016 with prices dropping by -0.6% against 2015. Thus, the figure was only slightly higher than a year ago. The first period of deflation in Poland's history lasted until Q4, when rising oil prices, the strengthening dollar and base effects (with an additional contribution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



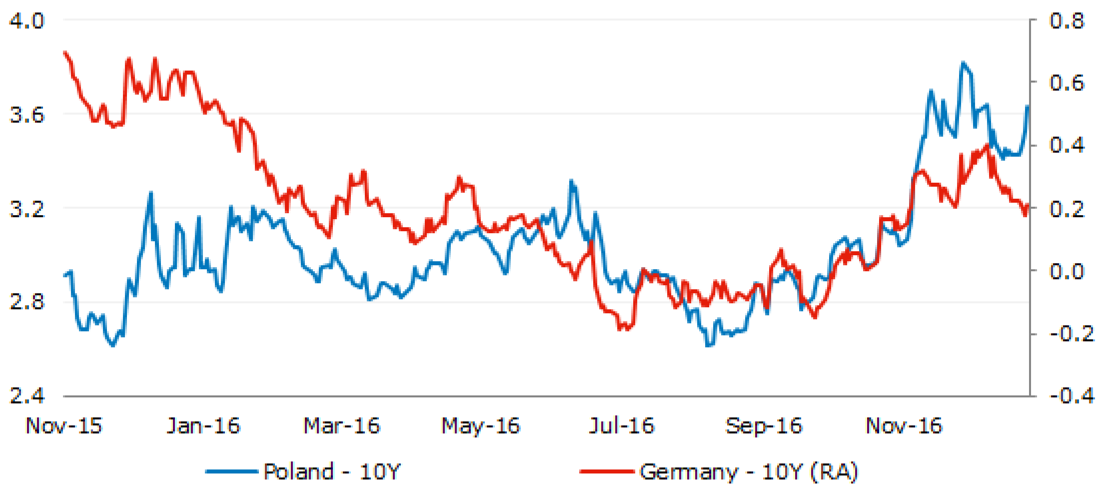
Throughout 2016 the zloty was weaker than in 2015. In fact, every day in 2016 (apart from the first week of the year) the EUR/PLN exchange rate was higher than on the same day a year before. The year started with a dramatic weakening of the zloty due to the downgrade of Poland's rating by S&P and growing political risk. In February and March, improved perception of Polish assets and very favourable conditions in the emerging markets (dovish rhetoric and actions of central banks) resulted in a major strengthening of the zloty. The perception of Polish assets deteriorated again in Q2 due to a negative combination of both domestic (speculation around possible statutory solutions to the CHF loans issue) and international factors (aversion to the emerging markets, the Brexit vote). The second half of the year was the time of US election. The zloty weakened against the euro (for the third time that year) with PLN traded at 4.50 to the euro following the outcome of the vote. The major strengthening of the dollar that took place immediately after the election pushed the USD/PLN pair up to 4.30. As a result, the zloty fell to a new multi-year low against the dollar.

Currency exchange rates in 2016



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

Bond yields in Poland and Germany



Development of economy and banking sector in the Czech Republic

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

Source: Eurostat, Česká národní banka (ČNB).

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

GDP, inflation, interest and FX rates

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

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

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

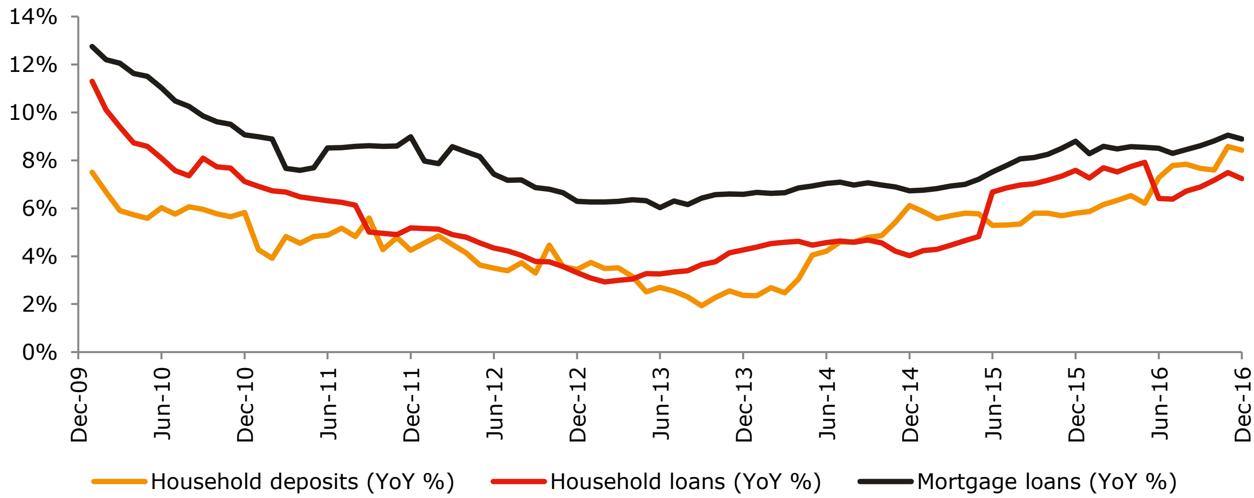
The year-on-year growth of consumer prices amounted to 2.1% in December 2016 and was significantly higher compared to -0.1% recorded at the end of 2015. The sharp rise in inflation at the close of last year was mainly due to a recovery in food price growth and an unwinding of the year-on-year fall in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

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

Banking sector

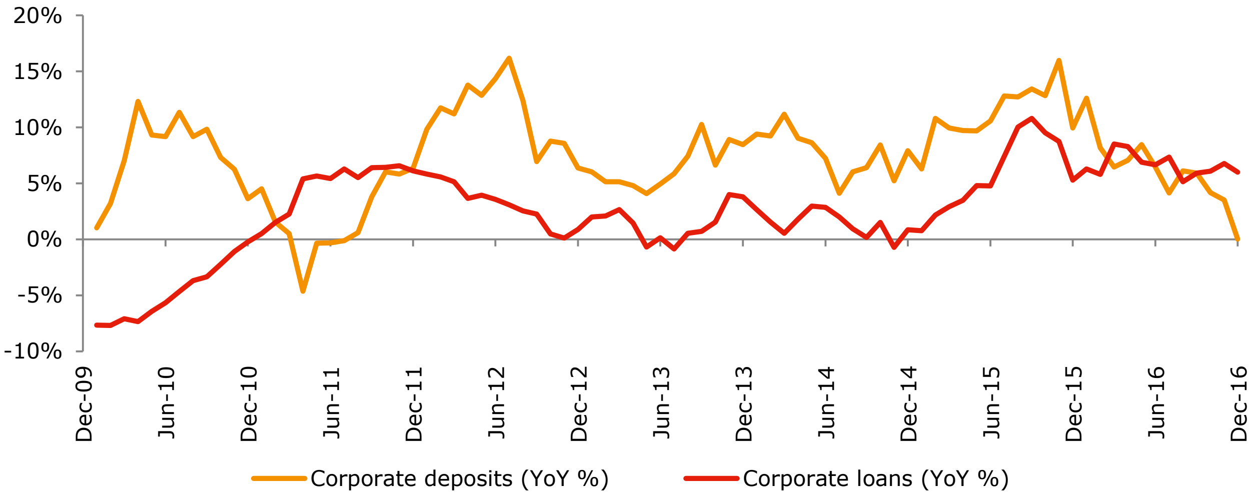
The favourable developments recorded in the Czech financial sector in past years continued into 2016. The good economic conditions were reflected in growth of the assets of banks, which managed to maintain high profitability and strengthen their capital adequacy. The main challenge for Czech banks is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

The Czech Republic: Household Loans and Deposits



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

The Czech Republic: Corporate Loans and Deposits



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

Development of economy and banking sector in Slovakia

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

Source: Eurostat, Národná banka Slovenska (NBS).

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

GDP, inflation and interest rates

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

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

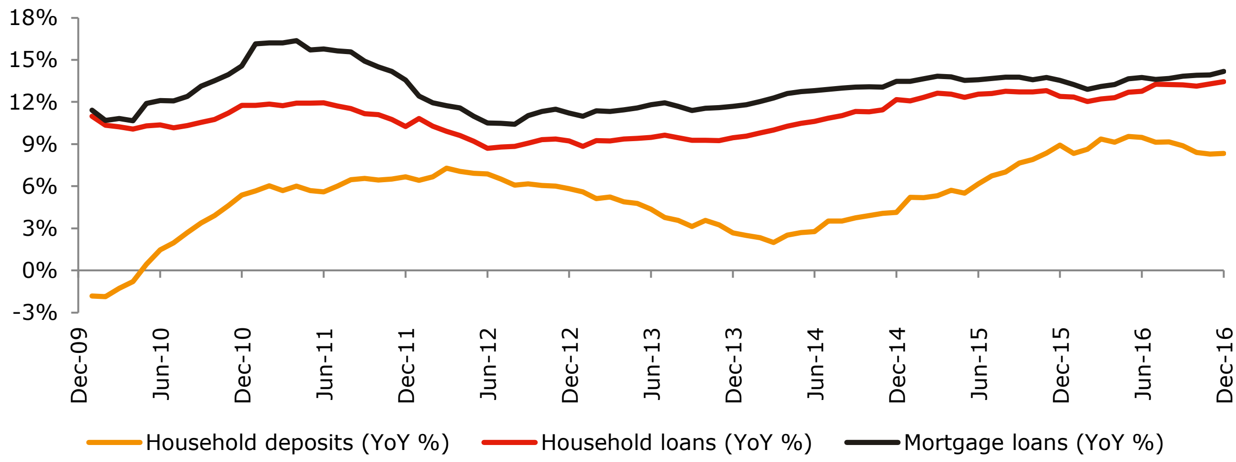
In December 2016, annual inflation stood at 0.2%, compared to a contraction of consumer prices at 0.5% recorded at the end of 2015. The main drags were falling energy and food prices, which were overshadowing rising service prices. The average annual inflation rate for 2016 reached -0.5%, dropping by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

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

Banking sector

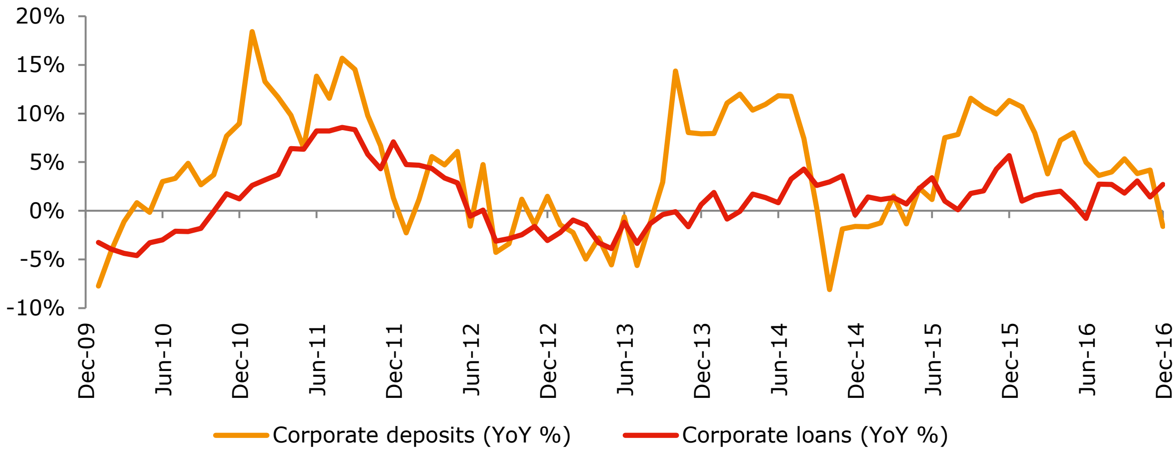
Slovak banks have operated in a relatively strong economic environment, but their profitability has been exposed to several headwinds. The ultra-low interest rate level has caused a continued compression of margins in the sector. In addition, following the introduction of a statutory cap on housing loan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

Slovakia: Household Loans and Deposits



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

Slovakia: Corporate Loans and Deposits



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

2.2. Regulatory environment

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

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

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

Act on Macroprudential Supervision over the Financial System and Crisis Management in the Financial System	**Q4 2015/January 1, 2016**	The Act partially introduces CRD IV and BRRD into Polish law, by, among others, appointing the BFG to be the authority responsible for resolution in Poland. As regards capital requirements, the capital buffers effective since 1 January 2016 are important. These include the conservation buffer (1.25% of the total risk exposure amount in 2017), the buffer on other systemically important institutions imposed individually on particular banks for the first time in October 2016, the systemic risk buffer (its value is unknown at the moment of report generation) and the counter-cyclical buffer, at present at 0%. The level of compliance with the combined buffer requirement affects banks' dividend policies. Additionally, the Act lays down corporate governance principles, framework provisions on disclosures and crisis management rules.	▪ **Capital base** ▪ **IT & HR** ▪ **Financial result (excluding IT/HR costs)** ▪ **Clients and offer**	YES NO NO YES	
	2016				
Act on Covered Bonds and Mortgage Banks	**January 1, 2016**	The amendments to the Act introduce solutions to foster the development of mortgage banking in Poland. The amendments aim at increasing the attractiveness of covered bonds as safe financial instruments, which should help to reduce the mismatch between maturity dates of long-term loans and short-term deposits used to finance them.	▪ **Capital base** ▪ **IT & HR** ▪ **Financial result (excluding IT/HR costs)** ▪ **Clients and offer**	NO YES NO YES	
Act on Capital Market Supervision	**January 1, 2016**	The provisions of the Act of 12 June 2015 on Amendments to the Act on Capital Market Supervision and certain other acts entered into force on 1 January 2016, introducing changes to the system of financing the supervision. All entities operating on the capital market have been obliged to pay annual fees for the supervision. This has changed the size of charges that were earlier incurred only by certain market participants.	▪ **Capital base** ▪ **IT & HR** ▪ **Financial result (excluding IT/HR costs)** ▪ **Clients and offer**	NO NO YES NO	
Act on Tax on Certain Financial Institutions	**February 1, 2016**	The Act levies a monthly tax of 0.0366% (0.44% p.a.) on selected financial institutions, including banks. The tax is calculated at the end of every month on the basis of the value of their total assets in excess of PLN 4 billion reduced by the value of own funds and Treasury securities.	▪ **Capital base** ▪ **IT & HR** ▪ **Financial result (excluding IT/HR costs)** ▪ **Clients and offer**	NO NO YES YES	

Act on Assistance to Borrowers in Difficult Financial Situation	**February 19, 2016**	The aim of the Act is to provide interest-free returnable financial support to natural persons who took out a mortgage loan and meet specific criteria. The funds necessary to provide such support come from the Borrowers Support Fund financed by banks (an initial amount of PLN 600 million) proportionally to the value of their portfolios of mortgage loans for households which are over 90 days past due.	▪ **Capital base** ▪ **IT & HR** ▪ **Financial result (excluding IT/HR costs)** ▪ **Clients and offer**	NO NO YES NO
Act on Financial Market Supervision	**March 2016**	The amendment aims at protecting consumers against unfair provisions in contracts concluded with lenders. It sets the maximum amount of non-interest costs, i.e. total costs a client must pay under a consumer credit agreement aside from interest. In addition, the Act caps the amounts of fees and interest on overdue debt.	▪ **Capital base** ▪ **IT & HR** ▪ **Financial result (excluding IT/HR costs)** ▪ **Clients and offer**	NO NO NO YES
Act on the Bank Guarantee Fund, Deposit Guarantee Scheme and Resolution	**October 9, 2016**	The Act implements the EU Bank Recovery and Resolution Directive (BRRD) and Directive on Deposit Guarantee Schemes (DGS) into Polish law. The Act and implementing regulations thereto amend the rules governing the way banks and cooperative savings and credit unions (SKOKs) make contributions to the (guarantee and resolution) funds maintained by the BFG, impose the obligation to prepare recovery plans on financial institutions, and oblige the BFG to draw up resolution plans in cooperation with the entities concerned. As part of the latter process, the BFG will set minimum requirements for own funds and eligible liabilities (MREL) for every bank. The regulation introduces a number of requirements concerning the provision of specific data and information to the BFG, significantly expanding the reporting requirements applicable hitherto.	▪ **Capital base** ▪ **IT & HR** ▪ **Financial result (excluding IT/HR costs)** ▪ **Clients and offer**	NO YES YES YES
Market Abuse Regulation (596/2014, MAR)	**July 3, 2016**	The Market Abuse Regulation changes the rules on market abuse prevention. The most important provisions include the modification of how confidential information should be prepared and disclosed in order to ensure proper communication with investors and prevent market manipulation.	▪ **Capital base** ▪ **IT & HR** ▪ **Financial result (excluding IT/HR costs)** ▪ **Clients and offer**	NO YES NO NO

European Market Infrastructure Regulation (EMIR)	**2016 / entry into force of certain provisions has been postponed**	The Regulation governs the functioning of financial markets including, in particular, risk mitigation. It requires transactions to be cleared centrally through a central counterparty and sets margining requirements.	▪ **Capital base** ▪ **IT & HR** ▪ **Financial result (excluding IT/HR costs)** ▪ **Clients and offer**	NO YES NO YES
Recommendation K	**March 1, 2016**	The Recommendation lays down qualitative guidelines for registers of collateral for covered bonds. It has been adjusted to the new legal framework created by the amended Act on Covered Bonds and Mortgage Banks which entered into force on 1 January 2016. The Act should make the purchase of and trading in covered bonds more secure and thus, indirectly, facilitate the development of the Polish mortgage lending sector.	▪ **Capital base** ▪ **IT & HR** ▪ **Financial result (excluding IT/HR costs)** ▪ **Clients and offer**	NO YES NO NO
Recommendation W	**June 30, 2016**	The Recommendation sets standards for model risk management and creates the framework for the development, approval and quality assessment of models with a view to mitigating risk arising from the application of models.	▪ **Capital base** ▪ **IT & HR** ▪ **Financial result (excluding IT/HR costs)** ▪ **Clients and offer**	NO YES NO NO
	2017			
Dividend Policy	**2017**	In accordance with the PFSA's stance of 6 December 2016 on dividend policy in 2017, the existing criteria governing the payment and maximum amount of dividend paid to banks' shareholders have been changed. The existing criteria, i.e. lack of recovery plan activation, a positive result of supervisory review and evaluation process (BION score), adequate level of financial leverage, and fulfilment of relevant capital requirements, have been expanded by the criterion of being other systemically important financial institution and the criterion of significant exposure to FX housing loans for households.	▪ **Capital base** ▪ **IT & HR** ▪ **Financial result (excluding IT/HR costs)** ▪ **Clients and offer**	YES NO NO NO

Recommendation C	**January 2017**	The Recommendation sets out the rules for identification, measurement, monitoring and mitigation of concentration risk. All these processes should be covered by the internal control system, including interdependencies between exposures to particular risks.	▪ **Capital base** ▪ **IT & HR** ▪ **Financial result (excluding IT/HR costs)** ▪ **Clients and offer**	NO YES NO NO
Recommendation Z	**2017**	Draft Recommendation Z on corporate governance in banks has been subject to consultation since December 2015. The Recommendation covers the corporate governance principles provided for in other regulations, e.g. the Banking Law. The date of entry into force of the Recommendation depends on the approval time of the Regulation of the Minister of Finance on Risk Management System, Internal Control System, Remuneration Policy and Detailed Method for Internal Capital Estimation.	▪ **Capital base** ▪ **IT & HR** ▪ **Financial result (excluding IT/HR costs)** ▪ **Clients and offer**	NO YES NO NO
Amendments to the Payment Services Act	**February 2017**	The amendments to the Payment Services Act include, among other things, the introduction of payment accounts with basic features defined in EU regulations. Banks will be obliged to provide every consumer free of charge with a payment account with basic features, provided that they have no other bank account in the Polish zloty offering identical features. Holders of such accounts will be able to make free wire transfers and withdraw cash at ATMs and in bank branches free of charge under the conditions stipulated in the Act, however, without the option to link the account with any credit products.	▪ **Capital base** ▪ **IT & HR** ▪ **Financial result (excluding IT/HR costs)** ▪ **Clients and offer**	NO YES NO YES
	2018			
MIFID II & MIFIR	**2018**	The set of ESMA technical standards on transparency requirements for trading venues and investment firms and on the obligation for investment firms to execute transactions in certain shares on a trading venue or a systematic internaliser was published in 2015. The standards will be implemented on January 1, 2018.	▪ **Capital base** ▪ **IT & HR** ▪ **Financial result (excluding IT/HR costs)** ▪ **Clients and offer**	NO YES NO NO

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

Proposal of the Polish Banks Association

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

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

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

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

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

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

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

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

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

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

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

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

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

Recommendations of the Financial Stability Committee of January 13, 2017

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

Recommendations for the Minister of Finance:

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

Recommendations for PFSA:

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

Recommendations for BFG:

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

<u>mBank Group's portfolio of FX mortgage loans</u>

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

2.3. Market environment

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

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

mBank in the financial services market

At the end of 2016, mBank was among the largest Polish banks across all relevant market segments. The table below presents the market share and the position of mBank at the end of 2016 compared to 2015 and 2014:

Business category	Market position in 2016*	Market share		
		2014	2015	2016
Corporate Banking				
Corporate loans	3	6.3%	6.3%	**6.1%**
Corporate deposits	8	8.8%	9.8%	**10.1%**
Retail Banking in Poland				
Total loans		6.3%	6.5%	**6.5%**
of which mortgage loans		7.4%	7.7%	**7.5%**
non-mortgage loans		4.6%	4.7%	**5.0%**
Deposits		5.3%	5.7%	**6.1%**
Retail Banking in the Czech Republic				
Total loans		1.2%	1.4%	**1.4%**
Of which mortgage loans		1.6%	1.8%	**1.8%**
non-mortgage loans		0.5%	0.6%	**0.7%**
Deposits		1.3%	1.4%	**1.6%**
Retail Banking in Slovakia				
Total loans		0,7%	0.8%	**0.7%**
Of which mortgage loans		0,8%	1.0%	**0.8%**
non-mortgage loans		0,3%	0.4%	**0.4%**
Deposits		1,5%	1.4%	**1.6%**
Investment Banking				
Financial markets				
Treasury bills and bonds		14.8%	12.8%	**16.2%**

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

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

** Where determinable.*

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

2.4. Outlook for the banking sector and mBank for 2017

What will 2017 bring for the Polish economy?

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

Source: mBank's estimates as of 02.02.2017.

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

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

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

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

Zloty and Polish bonds

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

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

Banking sector and monetary aggregates

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

Source: mBank's estimates as of 02.02.2017.

As a result of increasing interest (increase in credit margins in 2016), stricter requirements concerning the LtV ratio and relatively low attractiveness of mortgage loans caused by additional burdens imposed on banks, the growth in mortgage loans will remain low. This will be offset by faster growth in consumer loans (driven, among others, by the positive impact of the government's 500+ programme on creditworthiness) as well as solid growth in corporate loans (in particular, in investment loans), where the bank tax should trigger certain restructuring and consolidation.

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

Outlook for mBank

Net interest income & NIM **(slightly positive)**

- Continued gradual increase of margin driven by changing structure of loan portfolio.
- More limited room for reduction of funding costs.

Net Fee & Commission income **(slightly positive)**

- Constantly rising client transactionality and strong acquisition in both retail and corporate segment.

Total costs **(slightly negative)**

- Business-driven costs to remain well-contained.
- Higher contribution to the BFG under new deposit guarantee scheme.
- Rising amortisation due to ongoing investments in IT.

Loan Loss Provisions **(neutral)**

- Resilient asset quality supported by good macroeconomic situation and low unemployment.
- Small downside risk due to changing loan book mix.

3. mBank Group Strategy

3.1. Implementation of mBank Group Strategy for 2012-2016

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

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

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

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

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

*** Data for mBank Group.*

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

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

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

Client era

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

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

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

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

Mobility era

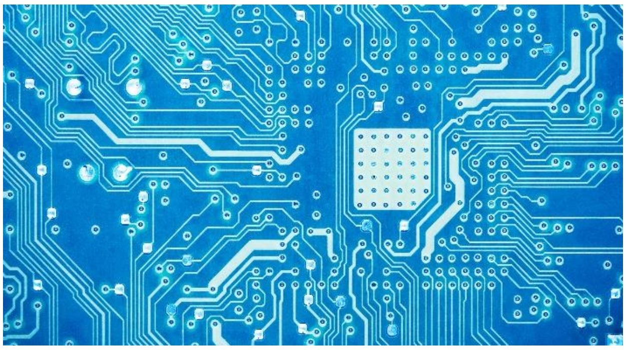
Smartphone, currently perceived as a first truly personal computer, will become a management centre of client's lives. The average user spends almost 3 hours a day with a smartphone and "Millennials" do not part with their device for the entire day. The majority admit that the first thing they do after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

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

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

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

Efficiency era



Polish banks have until recently been functioning in a market reality allowing significant advantage over the western counterparts in terms of return on equity (ROE) and efficiency (C/I). Since the beginning of 2015 that advantage has diminished significantly due to the growing regulatory requirements, new banking tax, other additional levies (including BFG contribution for covering the loses of cooperative bank and SKOK earlier). Less favourable market environment exerts pressure on net interest income (interest rates on historically lowest level) and fees and commissions income (interchange fees on one of the lowest levels in Europe). The capital requirements are growing and the banking operations are limited by new liquidity indicators. The banking paradigms are changing, nevertheless return on investors' capital remains the most basic measure for efficiency of an organisation, key from shareholders' perspective.

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

3.3. Mobile Bank – strategy for 2016 – 2020

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

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

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

„mobile Bank" Strategy pillars:

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

Strategy enablers

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

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

mBank Group financial targets

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

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

The table below presents mBank Group's financial aspirations:

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

4. Risk management

4.1. Risk management foundations

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

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

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

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

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

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

Structure and tasks of the risk management area

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

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

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

Vice-President of the Management Board, Chief Risk Officer	
Corporate Risk Processes Departament	■ Developing and implementation of corporate credit process and supervision over its effectiveness. ■ Preparing corporate credit risk management strategy of mBank Group as well as credit policies including policies regarding industrial risk appetite. ■ Preparing portfolio analysis and reports for the purpose of management of corporate credit risk. ■ Developing and monitoring the quality of rating models for retail and corporate clients and financial institutions (credit risk modelling). ■ Settlement and accounting of structured finance and mezzanine transactions and collection operations. ■ Verification of value, liquidity and attractiveness of real estate and movables provided for collateral of loans, and analysis of investments financed by the Bank.
Corporate Risk Assessment Department	■ Implementation of the Bank's credit policy regarding corporate customers, countries and financial institutions. ■ Credit risk management in the Bank and the Group subsidiaries in the abovementioned areas.
Credit Processes and Retail Risk Assessment Department	■ Making credit decisions concerning retail banking products. ■ Monitoring credit agreements and performing administrative activities. ■ Developing and effectively using anti-fraud systems and tools. ■ Preventing credit fraud and exercising control over operational risk in the credit process for retail and corporate banking products, as well as developing the methodology of these processes. ■ Identifying gaps in processes, products and systems that impact an increase in fraud exposure and applying measures to eliminate such gaps.
Retail Risk Management Department	■ Development of risk management principles and processes. ■ Acceptance of retail banking products, including the impact on the different types of risk and capital requirements. ■ Development of reports for monitoring of risk management policies. ■ Development and management of systems supporting the risk assessment and decision-making process.
Retail Debt Restructuring and Collection Department	■ Handling the processes of debt restructuring and collection of receivables arising from retail loans granted on the Polish market. ■ Debt sale transaction of NPL for receivables arising from retail loans granted on the Polish market.

Financial Markets Risk Department	■ Identifying, measuring controlling and monitoring of market risk, interest rate risk of the banking book, liquidity risk and counterparty risk. ■ Developing methods for measuring market risk, interest rate risk of the banking book, liquidity risk and counterparty risk. ■ Developing methods for valuations of financial instruments. ■ Valuation and control of transactions and analysis of P&L of front-office units. ■ Content management of front-office systems and risk measure system. ■ Controlling of Bank's contributions to WIBID/WIBOR fixing.
Integrated Risk and Capital Management Department	■ Integration of risk and capital management within the ICAAP. ■ Control of capital adequacy and risk bearing capacity as well as planning and limiting risk capital. ■ Formulation of risk appetite and coordination of the process of determining strategic risk limits. ■ Integration of risk valuation (economic capital, reserves, stress tests). ■ Integration of control of non-financial risks (including operational risk) and Internal Control System Self-assessment (ICS). ■ Integration of model management and validation of quantitative models.
Projects and Risk Architecture Management Department	■ Risk Projects Portfolio Management. ■ Performing the function of competence centre in the area of process management. ■ Development and optimization of the architecture of IT processes and applications of Risk. ■ Management of the IT applications of Risk (maintenance and development). ■ Risk data management and cooperation with the Finance Division within the scope of centralized management information system.
Foreign Branches Risk Department	■ Supporting the credit risk assessment process and taking part in the decision making process regarding credits in the Bank's foreign branches. ■ Credits managing/settling in the Bank's foreign branches. ■ Handling the vindication process in the Bank's foreign branches.

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

Vision of the Risk Management Area

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

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

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

4.2. Key changes in the risk management area in 2016

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

Selected projects realized in 2016 are described below:

- **Adaptation works to the requirements of Recommendation W** concerning model risk management in banks (published in July 2015 by the Polish Financial Supervision Authority) were completed. The abovementioned works resulted, among others, in the update of Model Management Policy, which was supplemented with provisions addressing requirements of the Recommendation W. The model risk tolerance level was also defined. In addition, Model Risk Committee responsible for supervising model risk management process was appointed. The Committee performs information, discussion, decision and legislative functions. In particular, the Committee:
  - approves the new and redesigned models, as well as amendments thereto, deciding also about the resignation from the application of the model;
  - takes decisions on the scope of application of the group and external models, including central models, in banking processes;
  - recommends the tolerance level for model risk and submits its findings to the decision of the Management Board and the Supervisory Board;
  - takes the final decision regarding approval of the significance assigned to a given model;
  - approves preventive and remedial measures indicated within the results of monitoring;
  - accepts the schedule for validation of models and the results of each model validation.
- **Implementation of the Internal Control System Self-assessment was completed** in mBank Group subsidiaries. In the Bank, the Self-assessment was implemented in 2015. Thus, the process covers the whole activity of the Group. Self-assessment process is carried out on an annual basis and it aims at a comprehensive assessment of operational risk.
- **"Credit policy of financing residential developers projects by mBank Group" was adopted**. A framework for the risk appetite and development of acquisition in this market was determined, the definition of residential developer's project was developed, risks were identified and their mitigants were introduced, and the limit for the portfolio of residential developers' projects was implemented.
- Continuation of the program – launched in 2015 - of continuous increase of effectiveness of work in the risk management area based on the principles of **Lean Management** with an emphasis on implementing a culture of responsibility and mechanisms for continuous improvement of processes.

The aim of the program is to enable the absorption of the increasing number of tasks resulting from the business development and increasing regulatory requirements, without necessity to enlarge significantly the available resources.

- The Bank carried out **IFRS 9 implementation project**, including, among others, analytical work in assessing the impact of IFRS 9 on the methodology for calculation of provisions in the Group; implementation of the necessary changes was also started. IFRS 9 changes the requirements for classification and evaluation of financial assets and implements the impairment model based on the expected losses calculated for certain instruments over the lifetime of the asset. IFRS 9 will take effect starting from January 2018.

4.3. Main risks in the mBank Group's business

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

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

Credit risk	• Counterparty/default risk: risk of losses resulting from counterparty's failure to perform their obligations and the risk of reduction in the economic value of the credit exposure as a result of deterioration in the counterparty's ability to serve the liability. • Concentration risk: risk of a high concentration of credit losses resulting from high exposures. • Residual risk: risk resulting from the defective nature of collateral accepted and, hence, ineffectiveness of applied techniques of credit risk mitigation. • Reserve risk: risk of an underestimation of loan loss provisions for exposures in default status. • Participation investment risk: risk of decrease in economic value of participation exposure not traded on a regulated capital market as a result of worsening economic and financial situation of the issuer.
Market risk	Risk resulting from unfavourable change of the current valuation of financial instruments in the Bank's portfolios due to changes of the market risk factors, in particular interest rates, foreign exchange rates, stock share prices and indices, implied volatilities of relevant options and credit spreads.
Operational risk	Risk of loss resulting from a mismatch or unreliability of internal processes, people or systems or external events. Operational risk includes, in particular, the following sub-categories: legal risk, IT systems risk, personnel and organizational risk, security risk, compliance risk.
Business risk	Risk of losses resulting from deviations between actual net operating result of the mBank Group and the planned level.
Liquidity risk	Risk of failure to fund assets and meet payment obligations arising from balance sheet and off-balance sheet items owed by the Bank in a timely manner and at a market price.
Reputational risk	Risk resulting from a negative perception of the image of the bank or other member of the group among their stakeholders.
Model risk	Risk of negative consequences connected with the decisions made on the basis of the output data of models which have been improperly constructed or are improperly administered.
Capital risk	Risk resulting from the lack of sufficient capital to absorb unexpected losses.

mBank monitors all the aforementioned risks. The following section presents the rules of monitoring credit, market, liquidity and operational risk using risk measures applied by mBank.

The detailed information on managing the abovementioned risks as well as information concerning the management of other types of risk, that is business risk, reputational risk, model risk and capital risk are included in the Financial Statement of mBank in the chapter 4. Risk Management.

Credit risk

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

Tools and measures

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

To minimise credit risk, the Group uses a broad range of collateral for credit products, also necessary to actively manage the capital requirement. In their assessment of the quality of risk products, mBank and mLeasing use the MRV ratio (Most Realistic Value), which reflects the worst-case scenario of debt enforcement through forced sale of collateral.

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

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

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

<u>Strategy</u>

Corporate and Investment Banking

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

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

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

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

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

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

The restructuring of the process also includes phased implementation of anti-fraud mechanism. The new strategy has enabled not only the development of a new workflow platform but also in accordance with the spirit of 'Client centric' simplified documentation, required and delivered to client, and its digitisation in credit process. The Group actively manages credit risk aiming to optimise profitability taking into account return on risk. Analyses of the Group's risks are performed on an on-going basis. Risk management is supported by analyses of the Group's credit portfolio structure and the resulting formal limits, guidelines and recommendations on the Group's exposure to selected companies, sectors and geographic markets. In its current credit risk management and determination of concentration risk, the Bank performs quarterly portfolio analyses using a Steering Matrix which incorporates PD rating and LAD.

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

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

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

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

Retail Banking

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

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

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

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

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

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

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

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

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

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

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

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

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

Quality of the mBank's loan portfolio

As of December 31, 2016, the share of impaired exposures in the total (gross) amount of loans and advances granted to clients decreased by 0.4 pp. to 5.2%.

Provision for loans and advances to customers decreased from PLN 2,647.7 million at the end of 2015 to PLN 2,465.5 million at the end of 2016. The IBNI (Incurred But Not Identified) loss provision increased from PLN 202.8 million to PLN 188.6 million in that period.

The ratio of provisions to non-performing loans remained unchanged (58%).

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

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

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

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

At the end of 2016, the loans and advances (net) to customers rose by almost 1.5%, where the increase was driven by the rising loans in current accounts and term loans and decreasing mortgage and housing exposure and reverse repo/buy sell back transactions. In the corporate portfolio, term loans granted to SME grew, while the exposure to large enterprises remained nearly unchanged. The decrease in housing and mortgage loans results in 75% from the transfer of part of the portfolio to the mBank Hipoteczny.

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

Quality of mBank's loan portfolio	31.12.2016 (in thousand PLN)	31.12.2015 (in thousand PLN)
Loans and advances to individuals:	**44,707,271**	**43,796,808**
- current accounts	6,458,369	5,897,129
- term loans, including:	38,248,902	37,899,679
- housing and mortgage loans	30,958,397	31,557,258
- other	-	-
Loans and advances to corporate entities:	**28,746,183**	**28,577,197**
- current accounts	4,185,972	4,088,604
- term loans:	**24,337,263**	**23,425,256**
- large enterprises	12,733,757	12,665,060
- medium & small enterprises	11,603,506	10,760,196
- reverse repo/buy sell back	56,676	1,031,029
- other	166,272	32,308
Loans & advances to public sector	1,087,740	1,374,411
Other receivables	228,424	183,355
Total (gross) loans and advances to customers	**74,769,618**	**73,931,771**
Provision for loans and advances to customers (negative amount)	-2,465,487	-2,647,669
Total (net) loans and advances to customers	**72,304,131**	**71,284,102**
Short-term (up to 1 year)	26,716,486	20,324,785
Long-term (over 1 year)	45,587,645	50,959,317
Incurred but not identified (IBNI) losses		
Gross balance sheet exposure	**70,864,716**	**69,755,424**
IBNI loss provision for portfolio exposures	-188,644	-202,772
Net balance sheet exposure	**70,676,072**	**69,552,652**
Impaired exposures		
Gross balance sheet exposure	3,904,902	4,176,347
Provisions for impaired exposures	-2,276,843	-2,444,897
Net balance sheet exposure	**1,628,059**	**1,731,450**

Market risk

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

Tools and measures

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

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

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

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

<u>Strategy</u>

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

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

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

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

<u>Measuring mBank's risk</u>

Value at Risk

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

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

PLN thou.	2016				2015			
	31.12.16	average	max	min	31.12.2015	average	max	min
VaR IR	12,903	13,721	18,454	11,042	13,688	16,085	23,329	12,739
VaR FX	772	547	816	351	496	685	1,096	453
VaR EQ	199	214	791	62	79	5,170	6,588	67
VaR CS	21,249	27,172	30,150	19,856	26,320	23,916	26,345	20,426
VaR	**28,037**	**35,306**	**40,726**	**27,124**	**29,943**	**27,877**	**34,881**	**21,266**

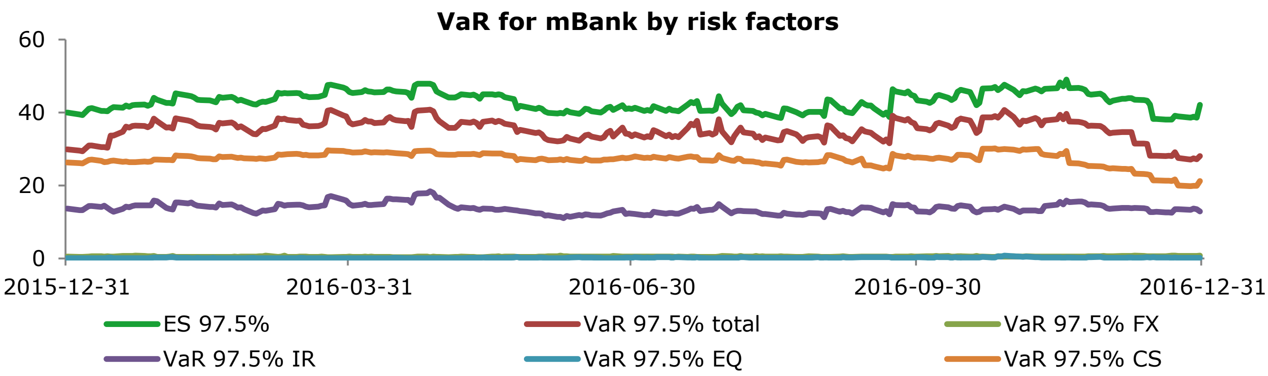
VaR IR – interest rate risk

VaR FX - FX risk

VaR EQ – stock price risk

VaR CS – credit spread risk

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



VaR statistics in stress conditions

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

PLN tho.u	2016				Q4 2015			
	31.12.2016	average	max	min	31.12.2015	average	max	min
Stressed VaR IR	45,288	43,671	50,339	36,293	37,742	35,742	39,293	31,053
Stressed VaR FX	2,339	1,363	2,655	576	1,338	1,376	2,933	516
Stressed VaR EQ	422	342	1,495	2	4	8,721	13,074	4
Stressed VaR CS	87,930	87,516	96,278	74,731	73,992	75,255	77,899	73,530
Stressed VaR	**124,833**	**119,771**	**130,662**	**105,462**	**103,060**	**111,038**	**116,945**	**102,035**

Stress testing

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

PLN M	2016				2015			
	31.12.2016	average	max	min	31.12.2015	average	max	min
Base stress test	97	82	120	20	74	107	134	68
CS stress test	752	695	782	623	640	689	770	611
Total stress test	**849**	**777**	**892**	**656**	**714**	**796**	**900**	**699**

Base stress test – standard stress test.

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

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

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

Interest rate risk of the banking book

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

PLN M	2016				2015			
	31.12.2016	average	max.	min.	31.12.2015	average	max.	min.
PLN	171.8	78.3	180.0	34.7	99.4	55.4	122.2	8.4
USD	9.3	7.5	13.8	1.2	3.7	2.4	7.5	0.7
EUR	64.9	70.6	142.3	50.2	52.5	37.3	63.1	0.0
CHF	0.0	4.1	21.6	0.0	2.4	8.1	38.8	0.0
CZK	3.1	4.1	7.5	2.4	2.7	2.3	4.8	1.3

Liquidity risk

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

<u>Tools and measures</u>

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

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

For this purpose, the Bank has defined a set of liquidity risk measures and a system of limits and warning thresholds which protect the Bank's liquidity in the event of unfavourable internal or external conditions. Independent measurement, monitoring and controlling of liquidity risk is performed daily by the Financial Markets Risk Department. The main measures used in liquidity risk management of the Bank include ANL

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

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

Since September 2016 the Bank reports LCR measure according to the standard compliant with Commission Delegated Regulation (EU) No. 2015/61 of 10.10.2014.

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

Strategy

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

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

Liquidity risk limiting covers supervisory and internal measures.

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

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

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

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

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

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

Measuring mBank's liquidity risk

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

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

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

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

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

Operational risk

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

Tools and measures

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

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

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

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

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

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

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

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

Strategy

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

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

4.4. Capital adequacy

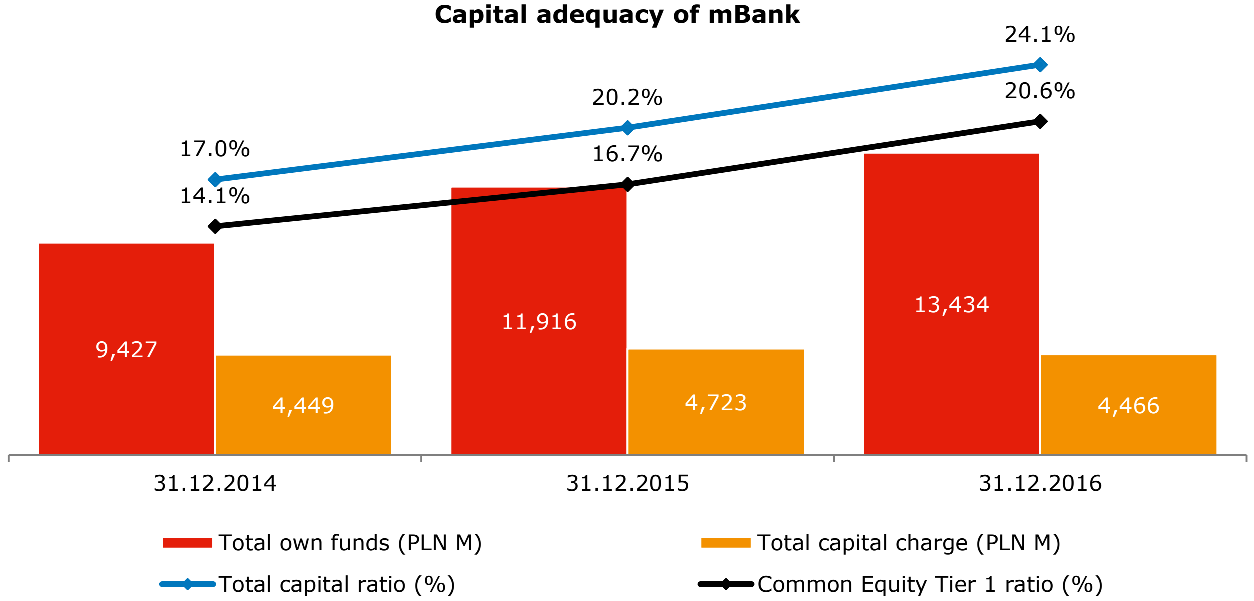
Maintaining an adequate level of capital is one of the main tasks of the Bank. The Management Board of mBank ensures consistency of the capital and risk management process by means of a system of strategies, policies, procedures and limits for the management of particular risks which constitute the ICAAP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

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

- maintenance of an optimal level and structure of own funds, with the use of available methods and means (retained net profit, issue of shares, subordinated bonds, etc.);

- effective use of the existing capital, among others by applying a system of capital utilisation measures resulting in reduction of the activity that is not generating the expected return and development of products with lower capital absorption.

Capital adequacy of mBank



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

- inclusion in Common Equity Tier 1 capital the remaining part of the net profit of mBank for the year 2015, not included in Common Equity Tier 1 capital on the basis of the PFSA decision obtained in 2015;
- inclusion in Common Equity Tier 1 capital the verified net profit of the mBank for the first, second and third quarters of the year 2016, net of expected charges and dividends, on the basis of the PFSA decisions from June 21, 2016, September 7, 2016 and December 14, 2016 respectively;
- inclusion in an individual Common Equity Tier 1 capital the verified retained earnings of mBank resulting from the change of valuation method of investments in subsidiaries, associates and joint ventures from the cost method to the equity method in connection with change of accounting policy, on the basis of the PFSA decisions from December 29, 2016;
- classification of capital instruments issued within incentive programs in the period from 1 January 2016 till July 31, 2016 as instruments in Common Equity Tier 1 capital;
- change of calculation methodology for the additional value adjustments deducted from Common Equity Tier 1 capital;
- change of the limit for unrealized gains measured at the fair value included in the own funds calculation from 40% in 2015 to 60% in 2016;
- the change of the limit for grandfathered subordinated instruments included in the own funds;
- adjustment of the application of the regulatory floor to the requirements of article 500 of the CRR Regulation, also complying with the provisions of the ITS Regulation. The adjustment was implemented to ensure a full comparability, transparency and compliance of the Bank's capital position presented in the financial statement and regulatory reporting with the approach used by the EU parent institution (Commerzbank AG) and observed in other EU member states. The method used by the Bank in the past followed the local authorities' approach to the issue at hand. The PFSA within correspondence conducted by the Bank on the subject of the abovementioned adjustment, stated that it is not coherent with the local regulatory approach to own funds assessment which has been used so far and is still expected to be used;
- extensions of the AIRB approach and the changes of the AIRB models: the implementation of the material change to the internal corporate LGD model (having satisfied the suspensive conditions) for

which the Bank obtained the joint consent of the European Central Bank and of the PFSA on September 15, 2016;

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

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

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

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

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

Additionally, as a result of risk assessment carried out by the PFSA within the supervisory review and evaluation process (BION), in particular with regard to the evaluation of the risk related to the portfolio of foreign exchange retail mortgage loans, the mBank received on the consolidated level an individual recommendation to maintain own funds to cover additional capital requirement of 3.25 % for total capital ratio and 2.44 % for Tier 1 capital ratio. (On individual basis: 3.81% and 2.86% respectively).

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

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

The level of the required capital ratios encompasses:

- the basis requirement of the PFSA addressed to banks in Poland to maintain the total capital ratio of 12% and the Tier 1 ratio of 9%;
- the combined buffer requirement of additional 1.75%;

- the additional capital charge in Pillar II – 3.81% (individual level). mBank's capital ratios on individual basis were above the required values as of the end of2016. With a considerable surplus of own funds mBank Group comfortably meets the additional own funds requirement related to Pillar II and the combined buffer requirement.

During whole 2016 capital ratios of mBank stayed above values required in this period.

Capital ratio	mBank	
	Required level	31.12.2016
Total capital ratio (TCR)	17.56%	24.07%
Tier 1 ratio	13.61%	20.59%
Common Equity Tier 1 ratio	12.88%	20.59%

Without adjustment of the approach to the application of the regulatory floor to the requirements of article 500 of the CRR Regulation, mBank capital ratios as of December 31, 2016 would amount to as follows: total capital ratio - 21,93%, Common Equity Tier 1 ratio - 18,76%. Additionally, had the Bank adjusted the approach to the application of the regulatory floor as of December 31, 2015 the mBank capital ratios would increase respectively: by 0,33% in case of total capital ratio and by 0,27% in case of Tier 1 ratio and Common Equity Tier 1 ratio.

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

The stand-alone leverage ratio calculated in accordance with the provisions of CRR Regulation and Commission Delegated Regulation (EU) 2015/62 of October 10, 2014 amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the leverage ratio, including provisions regarding transitional period, amounted to 8.25%.

<u>Stress tests</u>

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

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

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

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

5. Business activity in 2016

5.1. Key projects and innovations of mBank

Cooperation with Orange

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

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

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

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

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

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

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

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

Program ALM (Asset and Liability Management)

At the beginning of February 2015, the Bank launched the ALM Project. Its aim is to consolidate the systems of interest rate risk, market risk and liquidity risk, the funds transfer pricing system and the Bank's Treasury system into an integrated ALM System. As a result, the Bank will improve the quality and effectiveness of balance sheet and net interest income management processes. Through working on the implementation of the ALM System, the Bank strives to eliminate redundant systems and processes for collecting and processing data, reporting processes and analytical tools, which will translate into the improvement of the Bank's cost-efficiency. In addition to the above objectives, the system is meant to automate the processes of management of Treasury and Risk areas, assets and liabilities, controlling and finance by collecting and storing complete input data processed by a complex calculation engine. It will make it possible to create consistent simulations, analyses and reports to be distributed to various stakeholders.

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

Changes in mBank's funding structure

Bonds issued under the EMTN Programme

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

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

The following table presents a summary of outstanding tranches.

Currency	Amount	Date of issue	Maturity date	Tenor (years)	Coupon
CHF	200,000,000	08.10.2013	08.10.2018	5.0	2.500%
CZK	500,000,000*	06.12.2013	06.12.2018	5.0	2.320%
EUR	500,000,000	01.04.2014	01.04.2019	5.0	2.375%
EUR	500,000,000	26.11.2014	26.11.2021	7.0	2.000%
EUR	500,000,000	26.09.2016	26.09.2020	4.0	1.398%

** Private placement.*

Funding from European Investment Bank (EIB)

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

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

Bilateral agreement with Industrial and Commercial Bank of China

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

Innovations at mBank and plans for 2017

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

Corporate Banking:

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

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

Retail Banking:

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

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

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

Other areas:

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

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

2017 Plan

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

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

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

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

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

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

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

Awards and distinctions

Product offer and customer service quality

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

Mobile banking

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

Private banking

- For the eight time, Private Banking of mBank was hailed as the best in Poland by Euromoney Magazine, a British financial magazine. mBank was also appreciated in six competition sub-categories, among others, for the best specialist services for the most affluent clients, asset management and intergenerational wealth transfer.
- For the fifth time in a row, Private Banking of mBank received the highest, Five-Star distinction awarded every year by Forbes magazine. The authors of the ranking appreciated the bank for setting the standards of private banking in Poland, as well as for its broad, customized offer and development of mobile banking.
- mBank's private banking has yet again been recognised as the best in Poland by the prestigious magazines *PWM* and *The Banker*.

Brokerage activity

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

Other awards

- mBank was named the Best Trade Finance Bank in Poland by Global Finance. The following areas were assessed: trade finance volumes, comprehensiveness and innovativeness of the product offer, transaction competence and experience, as well as the scale of pursued business activity.
- Trade & Forfaiting Review (TFR), the leading industry information service uniting world's biggest banks which offer Trade Finance products, hailed mBank as the best bank in Poland operating in this area.
- mBank also won the "Diamonds of Private Equity" prize in the Bank of the Year category (Diamonds were awarded by Executive Club).
- mBank triumphed in the innovation category in the Banking Stars competition organised by *Dziennik Gazeta Prawna* daily and partnered by PwC. Furthermore, mBank also took the second place for overall performance in the same competition.
- mBank was named the Best Digital Bank in Poland by Global Finance and distinguished in the Best Online Treasury Services category in this year's edition of the annual contest.
- In the seventh edition of the Employer Branding Stars contest organised by HRstandard, which aims at determining leading companies as regards creating the employer image in Poland, mBank ranked first for its image and recruitment campaign "Get a Taste for Career at mBank" ("Zasmakuj kariery w mBanku") and for the best recruitment materials in the "Banking Talents" ("Bankowe Talenty") campaign.

5.2. Financial position of mBank in 2016

Profit and loss account of mBank

mBank reported a profit before income tax of PLN 1,570.2 million in 2016, compared with PLN 1.553.0 million in 2015 (+PLN 17.1 million, i.e., 1.1%). The net profit was PLN 1,219.3 million, compared with PLN 1,301.2 million in 2015 (-PLN 81.9 million, i.e. -6.3%). Income tax expense amounted to PLN 350.8 million compared to PLN 251.8 million in the previous year (+39.3%).

Summary of financial results of mBank.

PLN M	2015	2016	Change in PLN M	Change in %
Total income	3,608.0	3,792.8	184.8	5.1%
Net impairment losses on loans and advances	-325.3	-312.2	13.1	-4.0%
Overhead costs and amortization	-1,743.9	-1,691.4	52.5	-3.0%
Tax on the Bank's balance sheet items	-3.7	-312.3	-308.6	x84.4
Profit before income tax	**1,553.0**	**1,570.2**	**17.1**	**1.1%**
Net profit	**1,301.2**	**1,219.3**	**-81.9**	**-6.3%**
ROA net	1.1%	1.0%		
ROE gross	14.7%	13.0%		
ROE net	12.2%	10.1%		
Cost / Income ratio	48.5%	44.6%		
Net interest margin	2.0%	2.1%		
Common Equity Tier 1 ratio	16.7%	20.6%		
Total capital ratio	20.2%	24.1%		

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

- **Total income increased** by PLN 184.8 million. The increase was recorded in the core income, i.e. net interest income and net fee and commission income. The result from investment securities, investments in subsidiaries and associates was driven by the posting of the proceeds from the takeover of Visa Europe by Visa Inc. in the amount of PLN 251.7 million, whereas in 2015, mBank realised gains on the sale of BRE Ubezpieczania TUiR amounting to PLN 168.3 million and gains on the sale of PZU S.A. shares totalling PLN 125.0 million.
- **Decrease in operating expenses** (including amortisation) by PLN 52.5 million compared with 2015. In 2015 mBank reported one-off costs related to payments of guaranteed funds to the deposit holders of Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin (PLN 141.3 million) and a PLN 51.7 million contribution to the Borrowers Support Fund.
- **Increase in efficiency** measured by the cost / income ratio which stood at 44.6% at the end of 2016, compared with 48.5% at the end of 2015.
- **Stable cost of risk** at 44 bps, compared with 45 bps in 2015.
- **Tax on the Bank's balance sheet items** amounted to PLN 312.3 million, compared with PLN 3.7 million in 2015.
- **Continued organic growth and business expansion**, as demonstrated by:

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

Net loans and advances increased by 1.4% year on year, while the level of amounts due to clients grew by 15.2%. Consequently, the loan-to-deposit ratio decreased from 83.0% at the end of 2015 to 73.1%.

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

- Gross ROE of 13.0% (14.7% in 2015).
- Net ROE of 10.1% (12.2% in 2015).

mBank's capital ratios remained high. Total capital ratio stood at 24.1% at the end of December 2016, compared with 20.2% in the previous year. Common Equity Tier 1 capital ratio reached 20.6%, compared with 16.7% at the end of 2015.

Income of mBank

Total income generated by mBank amounted to PLN 3,792.8 million in 2016, compared with PLN 3,608.0 million in 2015, representing an increase by PLN 184.8 million, i.e. 5.1%. The increase was mainly driven by improved net interest income and net fee and commission income.

PLN M	2015	2016	Change in PLN M	Change in %
Interest income	3,274.5	3,394.1	119.6	3.7%
Interest expense	-1,066.1	-927.9	138.2	-13.0%
Net interest income	**2,208.4**	**2,466.2**	**257.8**	**11.7%**
Fee and commission income	1,091.5	1,259.3	167.8	15.4%
Fee and commission expense	-468.7	-576.0	-107.4	22.9%
Net fee and commission income	**622.8**	**683.2**	**60.4**	**9.7%**
Dividend income	197.9	166.8	-31.0	-15.7%
Net trading income	294.0	249.5	-44.5	-15.1%
Gains less losses from investment securities, investments in subsidiaries and associates	289.2	261.2	-16.1	-5.8%
Other operating income	56.4	68.8	12.4	21.9%
Other operating expenses	-60.7	-102.9	-42.2	69.6%
Total income	**3,608.0**	**3,792.8**	**184.8**	**5.1%**

Similar to 2015, net interest income remained mBank's largest revenue source in 2016. It stood at PLN 2,466.2 million, compared with PLN 2,208.4 million in 2015 (+11.7%) and was driven by the decrease in interest expense and increase in net interest income.

Interest margin, calculated as net interest income to average interest-earning assets, stood at 2.1%, compared with 2.0% in 2015.

The average interest rate of mBank's deposits and loans is presented in the table below.

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

As in 2015, loans and advances to customers remained the main source of the Bank's interest income (68.2%). Interest income from loans and advances increased by PLN 94.7 million, i.e. 4.3%, and was driven by a change in the loan portfolio structure, including the increasing share of products with higher margin. In 2016, interest income from investment securities decreased by PLN 48.5 million, i.e. 6.5%, due to lower average Treasury bond yields in 2016. Interest income from debt securities held for trading increased by PLN 27.1 million, i.e. 51.7%, driven by the increase in the volume of these securities in 2016. Interest income on derivatives classified into the banking book increased by PLN 35.3 million, i.e., 23.7%.

PLN M	2015	2016	Change in PLN M	Change in %
Loans and advances including the unwind of the impairment provision discount	2,219.0	2,313.7	94.7	4.3%
Investment securities	743.9	695.4	-48.5	-6.5%
Cash and short-term placements	50.4	56.4	6.0	11.8%
Trading debt securities	52.6	79.7	27.1	51.7%
Interest income on derivatives classified into banking book	148.5	183.8	35.3	23.7%
Interest income on derivatives concluded under the fair value hedge	35.2	45.1	9.9	27.9%
Interest income on derivatives concluded under the cash flow hedge	14.1	15.9	1.8	12.3%
Other	10.8	4.1	-6.7	-61.7%
Total interest income	**3,274.5**	**3,394.1**	**119.6**	**3.7%**

The decrease in interest expenses in 2016 was mainly driven by lower interest expense arising from amounts due to customers (a decrease by PLN 97.1 million, i.e. 11.2%) due to lower interest rates on deposits. Interest expense arising from amounts due to banks decreased by PLN 17.4 million, i.e. 18.9%, mainly due to the repayment of loans granted by Commerzbank Group for the total amount of CHF 800 million in 2016. 2016 brought no interest expense arising from issue of debt securities. At the same time, interest expenses on subordinated debt decreased by PLN 10.3 million, i.e. 13.0%.

Net fee and commission income, accounting for 18.0% of mBank's total income, increased year on year. It reached PLN 683.2 million in the analyzed period, representing an increase of PLN 60.4 million, i.e. 9.7% compared to the previous year.

PLN M	2015	2016	Change in PLN M	Change in %
Payment cards-related fees	342.3	361.9	19.6	5.7%
Credit-related fees and commissions	214.9	244.5	29.6	13.8%
Commissions for agency service regarding sale of insurance products of external financial entities	46.7	17.9	-28.8	-61.7%
Fees from brokerage activity and debt securities issue	24.8	109.3	84.5	341.4%
Commissions from bank accounts	162.6	168.9	6.3	3.9%
Commissions from money transfers	102.6	110.3	7.7	7.5%
Commissions due to guarantees granted and trade finance commissions	44.4	54.5	10.1	22.9%
Commissions for agency service regarding sale of products of external financial entities	70.6	81.1	10.5	14.9%
Commissions on trust and fiduciary activities	22.3	25.0	2.7	12.0%
Fees from portfolio management services and other management-related fees	0.0	9.0	9.0	-
Fees from cash services	39.7	51.1	11.4	28.7%
Other	20.7	25.8	5.1	24.8%
Total fee and commission income	**1,091.5**	**1,259.3**	**167.8**	**15.4%**

Commission income increased by PLN 167.8 million, i.e. 15.4% year on year. Payment cards-related fees rose by PLN 19.6 million, i.e. 5.7% compared to 2015 (value of non-cash transactions grew in 2016 by 21.2% year on year and the number of transactions rose by 27.8%). Credit-related fees and commissions increased by PLN 29.6 million, i.e. 13.8% due to the higher sales of non-mortgage loans. Commissions for agency service regarding sale of insurance products of external financial entities decreased by 61.7% in 2016 year on year (by PLN 28.8 million) due to a change in the settlement method within mBank Group. Driven by a growing client base, commissions from bank accounts rose by PLN 6.3 million, i.e. 3.9%. The growth in transactional banking and a higher number of transactions translated into an increase in commissions from money transfers (+7.5%).

Dividend income amounted to PLN 166.8 million in 2016, compared with PLN 197.9 million in 2015. It was driven by dividends paid to the Bank by mBank Group subsidiaries, including in particular PLN 108.8 million from mFinanse, PLN 32.6 million from mLocum and PLN 22.1 million from mWealth Management.

Net trading income stood at PLN 249.5 million in 2016 and was lower by PLN 44.5 million, i.e. 15.1% compared with 2015. The decrease was driven by lower Foreign exchange result as well as Other net trading income and result on hedge accounting (PLN 20.1 million and PLN 24.4 million, respectively). It was mainly driven by the valuation of currency interest rate swaps (CIRS) and interest rate derivatives (IRS).

Gains less losses on investment securities in 2016 stood at PLN 261.2 million in 2016, compared with PLN 289.2 million in 2015. The settlement of Visa Europe Limited takeover by Visa Inc. amounting to PLN 251.7 million was posted in 2016. In 2015, mBank realised gains on the sale of BRE Ubezpieczania TUiR and signing of agreements accompanying the sale with AXA Group companies amounting to PLN 168.3 million and on the sale of PZU S.A. shares totalling PLN 125.0 million.

Net other operating income (other operating income net of other operating expenses) was negative at -PLN 34.2 million, compared with a loss of PLN 4.3 million in 2015.

Costs of mBank

Total overhead costs of mBank (including amortisation) stood at PLN 1,691.4 million, representing a decrease by 3.0% compared with 2015.

PLN M	2015	2016	Change in PLN M	Change in %
Staff-related expenses	670.6	719.8	49.2	7.3%
Material costs	548.0	589.6	41.6	7.6%
Taxes and fees	21.6	18.4	-3.2	-14.9%
Contributions and transfers to the Bank Guarantee Fund	274.2	158.2	-116.0	0.0%
Contributions to the Borrowers Support Fund	51.7	0.0	-51.7	-
Contributions to the Social Benefits Fund	5.9	5.6	-0.3	-5.1%
Amortization	171.9	199.8	27.9	16.3%
Total overhead costs and amortization	**1,743.9**	**1,691.4**	**-52.5**	**-3.0%**
Cost / Income ratio	48.5%	44.6%	-	-
Employment (FTE)	5 151	5 364	213	4.1%

In 2016, staff-related expenses increased by PLN 49.2 million, i.e. 7.3%. The change was driven by higher remuneration costs as a consequence of an increased headcount of mBank. The number of FTEs increased from 5,151 at the end of 2015 to 5,364 FTEs at the end of 2016.

Material costs increased in the reported period by PLN 41.6 million, i.e. by 7.6%. In 2016, mBank reported higher material costs in the IT area, among others due to the implementation of innovative mobile banking solutions.

The contribution to the Bank Guarantee Fund (BFG) paid by mBank decreased by PLN 116.0 million, compared with 2015. Increased contributions to the BFG in 2015 resulted from a one-off obligatory payment to deposit holders of bankrupt Cooperative Bank in Wołomin.

In 2015, mBank recorded a contribution to the Borrowers Support Fund of PLN 51.7 million. There was no such contribution in 2016.

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

Changes to the income and costs of mBank contributed to a decrease in the cost / income ratio, which stood at 44.6% at the end of 2016, compared with 48.5% the year before.

Net impairment losses on loans and advances

Net impairment losses on loans and advances in mBank amounted to PLN 312.2 million in 2016, compared with PLN 325.3 million in 2015, representing a decrease by PLN 13.1 million, i.e. 4.0%.

PLN M	2015	2016	Change in PLN M	Change in %
Retail Banking	221.6	268.7	47.1	21.3%
Corporates and Financial Markets	85.2	41.2	-44.1	-51.7%
Other	18.5	2.3	-16.1	-87.5%
Total net impairment losses on loans and dvances	**325.3**	**312.2**	**13.1**	**-4.0%**

Net impairment losses on loans and advances in the Retail Banking area amounted to PLN 268.7 million in 2016, compared with PLN 221.6 million in 2015. Provisions increased due to a change in the structure of the retail loans portfolio with the rising share of non-mortgage loans (unsecured loans) and weaker zloty against the Swiss franc and the euro.

Net impairment losses on loans and advances in Corporates and Financial Markets stood at PLN 41.2 million in 2016, compared with PLN 85.2 million in 2015. The drop in provisions reported in 2016 was mainly caused by a release of provisions related to the sale of non-performing receivables portfolio.

5.3. Changes in the stand-alone statement of financial position

Changes in assets of mBank

The assets of mBank increased by PLN 9,099.9 million, i.e. 7.6% in 2016. Total assets stood at PLN 128,215.3 million as of December 31, 2016.

The table below presents the year-on-year change in the asset lines of mBank.

PLN M	2015	2016	Change in PLN M	Change in %
Cash and balances with Central Bank	5,930.6	9,158.8	3,228.1	54.4%
Loans and advances to banks	4,981.3	7,308.8	2,327.4	46.7%
Trading securities	558.6	3,837.6	3,279.0	587.0%
Derivative financial instruments	3,350.7	1,818.3	-1,532.4	-45.7%
Net loans and advances to customers	71,284.1	72,304.1	1,020.0	1.4%
Investment securities	29,982.6	30,467.8	485.1	1.6%
Intangible assets	473.8	540.5	66.6	14.1%
Tangible fixed assets	484.9	481.7	-3.2	-0.7%
Other assets	2,068.8	2,297.7	229.1	11.1%
Total assets	**119,115.4**	**128,215.3**	**9,099.9**	**7.6%**

Loans and advances to customers retained the largest share in the balance sheet of the Bank at the end of 2016. They represented 56.4% of total assets as of December 31, 2016, compared with 59.8% at the end of 2015.

The net volume of loans and advances to customers increased by PLN 1,020.0 million, i.e. 1.4% year on year.

Loans and advances to customers

PLN M	2015	2016	Change in PLN M	Change in %
Loans and advances to individuals	43,796.8	44,707.3	910.5	2.1%
Loans and advances to corporate entities	28,577.2	28,746.2	169.0	0.6%
Loans and advances to public sector	1,374.4	1,087.7	-286.7	-20.9%
Other receivables	183.4	228.4	45.1	24.6%
Total (gross) loans and advances to customers	**73,931.8**	**74,769.6**	**837.8**	**1.1%**
Provisions for loans and advances to customers (negative amount)	-2,647.7	-2,465.5	182.2	-6.9%
Total (net) loans and advances to customers	**71,284.1**	**72,304.1**	**1,020.0**	**1.4%**

Gross loans and advances to individuals increased by PLN 910.5 million, i.e. 2.1%. The volume of mortgage and housing loans decreased by PLN 598.9 million, i.e. 1.9% year on year. In 2016, mBank sold PLN 1,289.6 million of mortgage loans, which implies a decrease in the volume of sales by 57.7% compared with 2015. The decrease was driven by taking over from mBank the responsibility for granting housing loans to individuals in Poland by mBank Hipoteczny at the beginning of September 2016. In addition, the Bank granted PLN 6,128.9 million of non-mortgage loans, representing an 25.9% increase in sales. At the end of 2016, the value of non-mortgage loans increased by PLN 1,751.5 million, i.e. 18.7% year on year to PLN 11,126.9.

At the same time, gross loans and advances to corporate customers increased by PLN 169.0 million, i.e. 0.6%. The volume of gross loans and advances to the public sector decreased by PLN 286.7 million, i.e. 20.9%.

Investment securities constituted mBank's second largest asset category (23.8%). In 2016, their value increased by PLN 485.1 million, i.e. 1.6%. The government bond portfolio increased by 24.5% year on year while the portfolio of debt instruments issued by the central bank decreased by 77.3%.

The other asset lines on mBank's balance sheet represented 19.8% of total assets in aggregate.

Changes in liabilities and equity of mBank

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

Liabilities and equity of mBank

PLN M	2015	2016	Change in PLN M	Change in %
Amounts due to other banks	12,183.2	8,503.0	-3,680.2	-30.2%
Derivative financial instruments and other trading liabilities	3,203.9	1,644.2	-1,559.7	-48.7%
Amounts due to customers	85,924.2	98,960.3	13,036.2	15.2%
Subordinated liabilities	3,827.3	3,943.3	116.0	3.0%
Other liabilities	1,734.4	2,140.5	406.1	23.4%
Total Liabilities	**106,873.0**	**115,191.5**	**8,318.4**	**7.8%**
Total Equity	**12,242.3**	**13,023.8**	**781.5**	**6.4%**
Total Liabilities and Equity	**119,115.3**	**128,215.3**	**9,099.9**	**7.6%**

Amounts due to customers remained the main funding source of mBank. They accounted for 77.2% of equity and liabilities at the end of 2016, compared with 72.1% at the end of 2015.

Amounts due to customers rose by PLN 13,036.2 million, i.e. 15.2% to PLN 98,960.3 million in 2016. The change was driven by an increase of amounts due to both retail and corporate customers, which rose by 17.1% and 13.3%, respectively.

Amounts due to other banks decreased by PLN 3,680.2 million, i.e. 30.2% year on year to PLN 8,503.0 million. A decrease was observed in loans and advances received. In 2016, mBank took out loans totalling EUR 230 million and repaid a loan of CHF 800 million. The value of deposits placed by other banks with mBank, repo / sell buy back transactions and term deposits declined significantly.

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

In 2016, total equity grew by PLN 781.5 million, i.e. 6.4% as a result of an increase in retained profits, while its share in total liabilities and equity of mBank Group accounted for 10.2% at the end of 2016 (10.3% as at December 31, 2015).

5.4. Retail Banking

mBank's Retail Banking segment serves 5,348 thousand individual clients and microenterprises in Poland, the Czech Republic and Slovakia online, directly through the call centre, via mobile banking and other state-of-the-art technological solutions, as well as in a network of 154 branches. The Bank offers a broad range of products and services including current and savings accounts, accounts for microenterprises, credit products, deposit products, payment cards, investment products, insurance products, brokerage services, and leasing for microenterprises. In 2013, the Bank launched a modern, user-friendly online platform (New mBank) designed from scratch, which provides more than 200 new functionalities, solutions and improvements.

Activity of the Retail Banking area (Bank)

thousand	31.12.2014	31.12.2015	31.12.2016	YoY change
Number of retail clients, including:	**4,551.5**	**4,947.3**	**5,347.9**	**8.1%**
Poland	3,789.4	4,127.7	4,455.3	107.9%
Foreign branches	762.1	819.7	892.6	108.9%
The Czech Republic	534.2	573.1	628.9	109.7%
Slovakia	227.9	246.5	263.7	107.0%
PLN M				
Loans to retail clients, including:	**41,444.0**	**46,168.7**	**48,926.1**	**6.0%**
Poland	38,526.0	42,344.7	44,646.4	5.4%
mortgage loans	30,540.1	33,473.4	34,112.7	1.9%
non-mortgage loans	7,985.9	8,871.3	10,533.7	18.7%
Foreign branches	2,917.9	3,824.0	4,279.7	11.9%
The Czech Republic	2,250.5	2,899.6	3,310.9	14.2%
Slovakia	667.5	924.4	968.8	4.8%
Deposits of retail clients, including:	**38,999.4**	**45,645.4**	**53,662.8**	**17.6%**
Poland	33,381.0	39,273.6	45,727.6	16.4%
Foreign branches	5,618.5	6,371.8	7,935.2	24.5%
The Czech Republic	3,788.6	4,488.0	5,630.5	25.5%
Slovakia	1,829.8	1,883.7	2,304.7	22.3%
Investment funds (Poland)	**5,252.1**	**5,736.2**	**5,972.3**	**1.0%**
thousand				
Credit cards, including	**327.5**	**332.4**	**340.3**	**2.4%**
Poland	296.9	303.6	309.4	1.9%
Foreign branches	30.6	28.8	30.9	7.0%
Debit cards, including:	**3,032.1**	**3,242.8**	**3,438.4**	**6.0%**
Poland	2,445.3	2,701.0	2,876.0	6.5%
Foreign branches	586.8	541.8	562.4	3.8%
Distribution network				
Advisory Centres within "One Network" Project	1	4	6	
Light branches within "One Network" Project	2	9	17	
mBank (former Multibank)	130	123	115	
mKiosks (incl. Partner Kiosks)	67	83	98	
mFinanse Financial Centres	46	47	43	
Czech Republic & Slovakia	35	36	37	

Product mix, acquisition and marketing

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

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

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

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

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

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

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

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

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

Offer for small and medium-sized enterprises

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

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

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

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

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

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

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

Mobile application

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

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

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

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

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

Banking" category. For more information about awards for mBank in 2016, see section 5.1. Key projects and innovations of mBank.

Cooperation with AXA Group

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

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

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

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

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

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

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

Cooperation with Orange

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

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

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

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

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

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

For more information about the strategic cooperation with Orange, see chapter 5.1.Key projects and innovations of mBank.

Development of the Retail Banking offer in Poland

Loans

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

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

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

Deposits and investment funds

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

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

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

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

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

Cards

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

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

Brokerage operations and asset management

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

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

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

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

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

Retail Banking in the Czech Republic and Slovakia

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

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

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

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

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

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

Loans and deposits

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

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

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

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

5.5. Corporates and Financial Markets

The Corporates and Financial Markets segment serves 20,940 corporate clients including large enterprises (K1 - annual sales exceeding PLN 500 million), mid-sized enterprises (K2 - annual sales of PLN 30 – 500 million) and small enterprises (K3 - annual sales below PLN 30 million) through a network of dedicated 45 branches. mBank Group's offer of products and services for corporate clients focuses on traditional banking products and services (including corporate accounts, domestic and international money transfers, payment cards, cash services, and liquidity management products), corporate finance products, hedging instruments, equity capital market (ECM) services, debt capital market (DCM) instruments, mergers and acquisitions (M&A), leasing and factoring. The segment comprises two areas: Corporate and Investment Banking, and Financial Markets.

Activity of Corporate and Investment Banking segment in 2016

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

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

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

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

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

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

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

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

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

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

Products and services offered

Corporate loans

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

** Excluding reverse repo transactions.*
*** NBP category which ensures comparability of results of the banking sector.*

Corporate deposits

PLN M	2014	2015	2016	Change in %
Corporate deposits*	25,807	30,203	31,703	5.0%
Current corporate deposits	6,709	8,467	11,948	41.1%
Deposits of enterprises**	20,709	25,629	28,446.3	11.0%
Deposits of local governments	213	193	236.4	22.3%
Market of deposits of enterprises	9.1%	10.5%	8.2%	,
mBank's share in the total deposits of enterprises	8.8%	9.8%	10.1%	

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

Structured finance, project finance, syndicated loans

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

De minimis guarantee

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

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

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

European Union financing

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

Corporate debt origination

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

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

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

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

Transactional banking

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

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

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

Development of the Corporate Banking offer

Service of POS terminals

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

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

Silesian City Card (ŚKUP)

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

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

Fixed-rate loan

In response to the volatile macroeconomic conditions, the environment of low interest rates and the need for maximum safety guarantee for the client, mBank introduced investment loans and mortgage products based on the fixed interest rate in its standard offer for SMEs in December 2016. The fixed rate will be applicable throughout the entire lending period and will be included directly in the agreement. The fixed rate is available for all loans in PLN, EUR and USD.

Financial Markets

Financial Markets segment activity in 2016

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

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

- activities aimed at using market volatility to increase the number of transactions per client. The main emphasis was put on active telephone contact with existing and new clients. Thanks to these measures, both the number of clients active on average per month and transactions concluded by dealers by phone grew respectively by 6.2% and 8.6% year on year;
- micro-enterprises served by the retail part of mBank saw intensive on-boarding activities addressed to new clients and mobilisation campaigns aimed at existing clients who make transactions on Internet currency exchange platforms. Thanks to these measures, the value of trade increased by 212.1% year on year, and over 252.5 thousand transactions were concluded;
- the Derivative Instruments Division which sells transactions in commodity derivatives adjusted the scopes of responsibilities of sellers to reach a greater group of clients in an effective way and maximise the margins, which in 2016 increased by 43.2%;
- intensive selling activities also took place in the area of project-related transactions. Conducted in collaboration with mLeasing and mBH, they produced a number of new, smaller transactions;
- measures designed to increase the sales of and margins on Treasury transactions with K0 (global companies) and K1 clients were continued resulting in a substantial increase in both margins and sales, especially on the market of FX derivatives.

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

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

Financial Institutions

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

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

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

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

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

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

Custody Services

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

2016 was a record-breaking year in terms of growth in the number of offered investment funds and in the value of registered assets. The number of investment funds for which mBank acts as depositary rose by 21.5% compared with the end of 2015, while the total value of assets of investment and pension funds increased by 19.4%.

6. Statement of mBank on application of corporate governance principles in 2016

6.1. Application of corporate governance principles

In 2016 mBank was subject to corporate governance principles contained in the following documents:

1. "Code of Best Practice for WSE Listed Companies 2016";

2. "Principles of Corporate Governance for Supervised Institutions".

The text of the "Best Practice of WSE Listed Companies" is available on the website of the Warsaw Stock Exchange (http://www.corp-gov.gpw.pl/), and the "Principles of Corporate Governance for Supervised Institutions" are available on the website of the Polish Financial Supervision Authority (http://www.knf.gov.pl/regulacje/praktyka/index.html).

Code of Best Practice for WSE Listed Companies 2016

The "Code of Best Practice for WSE Listed Companies 2016" was adopted in a resolution of the Stock Exchange Board on October 13, 2015 and entered into force on January 1, 2016. The "comply or explain" rule applies to the detailed rules of Best Practice. Constant non-application of a given principle or its incidental non-application are subject to obligatory reporting by the company in a manner specified in Article 29 (3) of the Stock Exchange Rules.

From among the detailed rules of the "Code of Best Practice for WSE Listed Companies 2016", mBank does not apply two rules:

- The rule II.Z.8. which reads "The chairman of the audit committee meets the independence criteria specified in Rule II.Z.4." Stephan Engels, Member of the Board of Commerzbank AG (CFO) is the Chairman of the Audit Committee of the Supervisory Board of mBank S.A. Therefore, Stephan Engels does not meet the criterion of independence referred to in rule II.Z.4.; however, this does not have an impact on the manner and credibility of tasks performed by the Committee.
- The rule VI.Z.2. which reads "In order to link the remuneration of Members of the Management Board and key managers with the company's long-term business and financial objectives, the period between granting options or other instruments connected with company shares as part of the incentive programme and the possibility of executing them should be at least 2 years." The principles for granting variable components of remuneration at mBank S.A. are compliant with Resolution No. 258/2011 of the Polish Financial Supervision Authority (PFSA) of October 4, 2011 drafted in response to EU Directive CRDIII and CEBS guidelines (Committee of European Banking Supervisors; at present, EBA – European Banking Authority) and consistent with EU Directive CRD IV, the provisions of which do not provide for the indication specified in item VI.Z.2. of the Code of Best Practice for WSE Listed Companies 2016 as a condition for awarding the bonus.

Moreover, from among all recommendations specified in the "Code of Best Practice for WSE Listed Companies 2016", mBank does not apply the following recommendations:

- items 2 and 3 of recommendation IV.R.2, which refer to conducting a General Meeting with the use of means of electronic communication. Item 2 concerns ensuring two-way communication in real time during the General Meeting, which allows shareholders to speak from a different location, whereas item 3 is related to exercising the voting right in person or by proxy during the General Meeting. For many years, mBank has broadcast General Meetings in real time, however, without the possibility to engage in two-way online communication by allowing shareholders to speak during the General Meeting from a different location. The Bank's By-laws and the Standing Rules of the General Meeting do not provide for the possibility to actively participate in General Meetings with the use of means of electronic communication. Moreover, in the opinion of the Management Board of the Bank, the organisation of General Meetings with the use of means of electronic communication involves additional legal, organisational and technical risks. It should be noted that mBank has a stable majority shareholder, while a large part of minority shareholders are represented at each General Meeting even if participation in General Meetings with the use of means of electronic communication is not available.
- recommendation VI.R.3. concerning the remuneration committee. The recommendation stipulates, among others, that it is required that at least the majority of the committee members be independent.

At mBank, the Remuneration Committee of the Supervisory Board is composed of four members, including two independent members. Two members do not meet the criterion of independence, as they are linked to the strategic shareholder of mBank – Commerzbank.

"Principles of Corporate Governance for Supervised Institutions"

The "Principles of Corporate Governance for Supervised Institutions" approved by the PFSA on July 22, 2014 have been in effect since January 1, 2015. They cover relations with shareholders and clients, issues relating to the organisational structure, an effective and efficient internal control system, as well as the risks of business activities.

mBank has adopted the "Principles of Corporate Governance for Supervised Institutions" excluding the rules defined in Article 8 (4) and Article 16 (1).

The rule in Article 8 (4), which provides as follows: "A supervised institution, when justified by the number of shareholders, should strive for facilitating the participation of all shareholders in the meeting of the General Meeting of the supervised institution, among others, through ensuring the possibility of electronic active participation in the meetings of the General Meeting", is similar to recommendation IV.R.2 of the "Code of Best Practice for WSE Listed Companies 2016". As a large part of mBank's shareholders are represented at General Meetings and with a view to mitigating the risk inherent in active participation in General Meetings with the use of means of electronic communication, mBank has decided that non-compliance with the rule defined in Article 8 (4) was justified.

Likewise, mBank does not comply with the rule defined in Article 16 (1), which provides as follows: "It is proper that meetings of a management body shall be held in Polish. In case of need, necessary assistance of an interpreter should be ensured."

The non-compliance derives from the fact that all Members of mBank's Management Board speak fluent English. Communication without an interpreter is more effective as discussions and decisions can be made without the participation of a third party (interpreter). In some circumstances, the participation of an interpreter could make discussions at Management Board meetings more difficult or prolonged due to the complex nature of issues under discussion as well as the specialised language. Furthermore, given that Management Board meetings review information that constitutes the company's secret, it is legitimate to limit to the bare minimum the participation of non-members of the Management Board in its meetings. At the same time, most of mBank's Management Board Members speak Polish, which implies that the Bank can be represented whenever participation of Management Board Members is required including communication in Polish without an interpreter. Furthermore, minutes of Management Board meetings as well as resolutions of mBank's Management Board are prepared in two language versions, ensuring compliance with the provisions of Article 16 (2) of the "Principles of Corporate Governance for Supervised Institutions".

The stand of shareholders as regards the "Principles of Corporate Governance for Supervised Institutions" was presented in resolution no. 31 of the 28th Annual General Meeting of mBank S.A. of March 30, 2015.

In the above resolution, the shareholders undertook:

- to participate in the performance of the statutory objectives of mBank, ensuring security of its operations and following its interest,
- not to violate the competence of other statutory bodies of mBank,
- to immediately solve any potential conflicts between shareholders to prevent infringing the interest of mBank and its clients,
- not to make decisions resulting in transferring assets from mBank to other entities, and in acquisition or alienation of or in conclusion of other transactions leading to mBank disposing of its assets under conditions other than market conditions or posing a threat to the security or interest of mBank; the individual rights will be granted to the given shareholder or shareholders when justified on the grounds of achieving significant objectives of mBank and not causing hindrance to proper functioning of the bodies of mBank or discrimination against other shareholders and reflected in the By-Laws of mBank,

- to provide, if needed, additional capital or grant financial support to the Bank to the extent to which it is possible and compliant with authorisations, whereas it will only take place after the analysis of the entirety of reasons which led to such a necessity; the shareholders will take into consideration the possibility of providing support from the point of view of their financial situation, provisions of law and supervisory regulations the shareholders are bound to respect and considering the best interest of mBank and its clients,
- to make decisions with regard to dividend payment depending on the need for maintaining an appropriate level of equity and on the achievement of strategic objectives of mBank and to take into consideration general and individual recommendations issued by the supervisory authorities,
- to implement the recommendations of the PFSA regarding the election of Members of the Supervisory Board of the Bank.

Code of Banking Ethics

Irrespective of the corporate governance principles, mBank has for many years complied with best banking industry practices developed by the Polish Bank Association (ZBP). The currently applicable version of the Code of Banking Ethics was approved at the 25th General Meeting of the Polish Bank Association held on April 18, 2013. The Code of Banking Ethics is a set of principles referring to banks, their employees and persons acting as intermediaries in banking activities. The Code of Banking Ethics includes two parts: Code of Best Banking Practice and Code of Employee Ethics. The Code of Banking Ethics is available on the website of the Polish Bank Association (http://zbp.pl/dla-bankow/zespoly-rady-i-komitety/dzialania-w-obszarze-legislacyjno-prawnym/komisja-etyki-bankowej).

The model of values and behaviours of mBank employees and the Rules on conduct towards business partners

It is also worth mentioning that mBank has defined behaviours which are most important from the perspective of the organisation and which facilitate achieving individual and team results as well as contributing to customer satisfaction. The model of values and behaviours applicable at the Bank, which sets mBank's work standard, is based on the following organisational values: "client-centricity", "looking ahead", "simplifying", "commitment" and "professionalism". The model specifies ways of acting and attitudes underlying the above slogans and stipulates how employees of mBank Group should behave when interacting with each other and with clients.

Moreover, the Bank's employees apply the "Code of Conduct", which establishes the standards applicable in interactions between the Bank's employees and the Bank's business partners. This is meant to contribute to mutual trust. The guidelines related to behaviour include, among others, being guided by mBank's values, creating a sustainable corporate culture, corporate social responsibility, pursuing a responsible credit policy, treating relationships with clients in a responsible way, honesty in business relationships, applying established standards in relationships with clients and in internal relationships, avoiding conflicts of interest, responsible use of social media and simplifying communication.

Information policy of mBank

mBank pursues an open, transparent, and effective information policy. As regards its information policy, mBank complies with requirements arising from provisions related to information confidentiality and security, which the Bank must abide by as a public company and a supervised institution.

The main means applied by the Bank in its information policy include:

- current and periodic reports;
- meetings, tele- and video-conferences of representatives of the Management Board and the Investor Relations and Group Strategy Department with investors and analysts, both in Poland and abroad;
- quarterly presentations of financial results for investors and analysts provided directly and through interactive webcasts and teleconferences;
- ongoing contact by phone or e-mail with analysts and investors, including sending Newsletters on a monthly basis and, if necessary, other informational materials;

- participation of the representatives of the Bank in domestic and foreign investor conferences and road-shows in the selected European countries and in the United States of America;
- website of the company with a comprehensive investor relations section where information is published on, among others, the shareholders of mBank, the composition of the Management Board and Supervisory Board, General Meetings (including video recordings of the course of the General Meetings), ratings, the Euro Medium Term Note Programme, quotations of mBank's shares on the WSE, analysts' recommendations, the consensus on mBank Group's expected performance, the target share price, annual, periodical and current reports and presentations, including presentations with the results of the Group for analysts and equity investors as well as presentations for the investors in the Bank's debt securities, online version of the annual report allowing for interactive access to the audited financial data, investor's calendar, mBank Analyzer which is a convenient tool to make financial and business analyses of mBank Group in different dimensions. In the section dedicated to corporate governance and best practice, the following is included: by-laws and rules of the Bank's bodies, statements on the application of corporate governance principles, principles of remunerating the Management Board and the Supervisory Board, information on incentive programmes, rules for changing the entity entitled to audit financial statements, and information on the participation of men and women in statutory bodies of mBank.

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

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

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

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

The internal control system includes the following:

- functional control covering all organisational units and all processes;
- risk monitoring and risk control mechanisms;
- monitoring compliance of the Bank's operation with the provisions of law and internal regulations;
- internal audit.

The adequacy and effectiveness of the internal control system is subject to independent assessment of the Internal Audit Department (DAW). The audit results are reported, among others, to the President of the Management Board, the Chief Risk Officer, and the Chairman of the Supervisory Board of the Bank. Moreover, the Integrated Risk and Capital Management Department (DKR) manages the process of integrated reporting on risk and capital of the Bank and mBank Group to the Bank's statutory bodies, the supervisors and financial market participants and for the purpose of consolidated supervision.

The process of preparing financial data for reporting is automated and based on the accounting data of the Bank. Preparation of data in source systems is subject to formalised operational and acceptance procedures. Creating a collection of accounting balances on the basis of the system of general ledgers of the Bank takes place within a process covering respective internal controls. Manual adjustments are subject to special controls.

The Bank continuously monitors changes in provisions and external regulations related to the preparation of financial statements and updates internal regulations on an ongoing basis as well as adjusts IT systems where necessary.

The process of monitoring the operational risk which occurs in the preparation of financial statements in the Bank includes mechanisms which effectively ensure the security of IT systems. mBank has in place a business continuity plan which covers also the IT systems used in the process of preparing financial statements.

Financial statements of mBank and the Group are prepared by the Financial Reporting Department. Consolidated financial statements are based on data submitted by Group subsidiaries. The Financial Reporting Department monitors the reporting packages prepared by the subsidiaries in terms of their correctness, completeness and coherence of data.

The responsibility for controlling the coherence and completeness of the Bank's accounting books and administering the model chart of accounts lies within the Accounting Department. Both Departments report to the Vice-President of the Management Board, Chief Financial Officer.

Financial statements are submitted to the Management Board of the Bank for verification. The Audit Committee of the Supervisory Board receives quarterly financial statements before they are published. After consultations with the Bank's external auditor and the Members of the Management Board of the Bank, the Audit Committee recommends whether the Supervisory Board should approve or reject annual financial statements.

The annual and semi-annual financial statements of mBank are respectively subject to an independent audit or review by a statutory auditor. The selection of the statutory auditor of the Bank requires a resolution of the General Meeting. The Audit Committee of the Supervisory Board issues an opinion on the selection of the statutory auditor. In the subsidiaries, supervisory boards decide on the selection of the statutory auditor.

mBank abides by the principle regarding the change of statutory auditors in line with the applicable provisions and recommendations issued by the PFSA in respect of the change of statutory auditors.

On March 24, 2016, the 29th Annual General Meeting of the Bank selected PricewaterhouseCoopers Sp. z o.o. as the auditor to review the Bank's financial statements and consolidated financial statements of mBank S.A. Group for the year 2016. The Bank has used the services of PricewaterhouseCoopers Sp. z o.o. as an auditor to review the financial statements of the Bank and consolidated financial statements of mBank S.A. Group with regards to financial statements for 2012 and for earlier years. However, in 2013-2015, Ernst & Young Audit Sp. z o.o. sp. k. was the entity authorised to audit the Bank's financial statements and consolidated financial statements of the Group.

The amount of fees paid to PricewaterhouseCoopers is presented in Note 47 to the Financial Statement of mBank S.A. for 2016 under the International Financial Reporting Standards

The procedures of co-operation of mBank and the external auditor ensure that all the important issues related to the recognition of economic events in the books and financial statements are being consulted on an on-going basis.

The aspiration to ensure the highest standards of financial statements is reflected in the high quality of reporting. In "The Best Annual Report 2015" contest organised by the Accounting and Tax Institute (IRiP), the results of which were announced in October 2016, mBank won the title "The Best of the Best" for the best annual report in the category of financial institutions for the fourth time in a row and for the fifth time in its history. Additionally, IRiP awarded mBank the distinction for the best report on performance.

6.3. Significant blocks of shares

Commerzbank AG is the majority shareholder of mBank.

As at December 31, 2016, Commerzbank held directly 29,352,897 shares of mBank, which accounted for 69.42% of the share capital and votes at the General Meeting.

30.58% of mBank shares in free float are held by institutional investors, in particular Polish pension funds and Polish and foreign investment funds as well as individual investors. Nationale-Nederlanden Otwarty Fundusz Emerytalny exceeded the 5% threshold of shares and votes at the General Meeting.

Pursuant to the By-laws of mBank, each share gives the right to one vote at the General Meeting. There are no preferred shares. The control rights of Commerzbank AG as the parent entity of mBank are a result of the number of shares held, their percentage share in the equity, and the number of votes at the General Meeting of mBank.

The By-laws of mBank do not impose any limitations on the exercise of the voting right. There are no provisions which would separate the equity rights attached to securities from the holding of securities. Furthermore, there are no limitations on the transfer of the property right to securities issued by the Bank.

Information on the majority shareholder

The strategic shareholder of mBank, Commerzbank AG, is a leading German bank with a history dating back to 1870. It provides services to private and corporate customers.

The German government, currently the largest shareholder of Commerzbank, holds a stake of above 15% in the share capital through Germany's Financial Market Stabilisation Fund (SoFFin). The largest institutional investors are BlackRock and Capital Group – each of them holds slightly less than 5% of the bank's shares. The remaining institutional investors hold about 45% of shares in free float.

Commerzbank holds branches and offices in nearly 50 countries. The main markets for the bank are Germany and Poland. With approximately 1,000 branches, Commerzbank has one of the most extensive branch networks among German private banks. In total, Commerzbank serves more than 17.5 million private and small business customers, as well as more than 60,000 corporate clients, multinational companies, financial service providers, and institutional clients. Commerzbank finances more than 30% of Germany's foreign trade and is the unchallenged leader in SME financing. Commerzbank Group is composed of two business segments: Private and Small Business Customers, as well as Corporate Clients.

In 2016, Commerzbank generated gross revenues of EUR 9.4 billion with ca. 49.9 thousand employees. As at December 31, 2016, Commerzbank Group held assets of EUR 480 billion.

6.4. Principles of appointing and dismissing Management Board Members

Pursuant to the By-laws of mBank, the Management Board is composed of at least three Members appointed for a joint term of five years. At least half of the Members of the Management Board, including the President of the Management Board, have to hold Polish citizenship, be habitually resident in Poland, speak Polish, and have experience on the Polish market which can be used while managing the Bank.

The President of the Management Board, the Vice-Presidents of the Management Board and other Members of the Management Board are appointed and dismissed by the Supervisory Board, which acts pursuant to the provisions of the Banking Law and considers whether they have the relevant qualifications for the assigned functions. The Polish Financial Supervision Authority (PFSA) approves two Members of the Management Board of the Bank: the President of the Management Board and the Chief Risk Officer (Board Member responsible for developing and implementing the Bank's credit policy and risk management).

In accordance with the Code of Commercial Partnerships and Companies, a Member of the Management Board may also be dismissed or suspended by the General Meeting.

The mandate of a Member of the Management Board expires at the latest on the day of the General Meeting that approves the financial statements for the last full financial year of the term of that Management Board Member. The mandate of a Member of the Management Board also expires if the Member dies, resigns from his or her position, or is dismissed. The mandate of a Member of the Management Board appointed before the end of the term expires on the expiration date of mandates of the other Members of the Management Board.

6.5. Amendments to the Company's By-Laws

Amendments to the By-Laws of mBank require adoption of a resolution by the General Meeting of mBank and registration of the adopted amendment in the National Court Register. Before the General Meeting of mBank is presented with a draft resolution concerning amendment to the By-Laws, the Management Board of mBank adopts a resolution on the proposed amendment by approving the draft resolution of the General Meeting. The draft is then presented to the Supervisory Board of mBank for approval.

In accordance with Article 34 (2) of the Banking Law Act of 29 August 1997, an amendment to the Bank's By-laws requires the authorisation of the Polish Financial Supervision Authority if such amendment relates to:

- the Bank's registered business name;
- the Bank's registered office, objects and scope of the Bank's operation;
- the bodies and their powers, including particularly the powers of the Members of the Management Board appointed with the approval of the Polish Financial Supervision Authority and the decision-making principles, the general organisational structure of the Bank, the procedures applicable to making legally binding statements regarding property rights and obligations, the procedures for issuing internal regulations and the procedure for making decisions on assuming obligations or disposing of assets whose total value with regard to a single entity exceeds 5% of the Bank's own funds;
- the principles of functioning of the internal control system;
- the own funds and the financial management principles;
- shares preferred or limited as to voting rights.

6.6. General Meeting and shareholder rights

General Meeting procedures and powers

The General Meeting is convened pursuant to the provisions of the Code of Commercial Partnerships and Companies, the Bank's By-laws, and the Standing Rules of the General Meeting. Both the By-laws and the Standing Rules of the General Meeting are available on the website of mBank (https://www.mbank.pl/o-nas/lad-korporacyjny/).

The General Meeting convened by the Management Board under the ordinary procedure is held once a year, no later than in June. The Supervisory Board may convene an Annual General Meeting if the Management Board fails to convene it within the time limit set out in the By-laws and an Extraordinary General Meeting, if the Supervisory Board considers it necessary. In addition, under specific circumstances, the shareholders have the right to convene a General Meeting or to request for a General Meeting to be convened.

The shareholders may participate in the General Meeting and cast their votes either in person or by proxies. One proxy may represent more than one shareholder.

Subject to the cases defined in the Code of Commercial Partnerships and Companies, the General Meeting is valid regardless of the number of shares represented at the General Meeting.

All matters submitted to the General Meeting are previously submitted to the Supervisory Board for consideration.

Subject to specific exceptions, resolutions of the General Meeting are passed in an open ballot by a simple majority of votes, unless the Code of Commercial Partnerships and Companies or mBank's By-laws impose a stricter requirement for the passing of resolutions on specific issues. A secret ballot is required in the case of elections and motions to dismiss members of the Bank's authorities or liquidators, motions to call members of the Bank's authorities or liquidators to account, and motions concerning personal issues. In addition, a secret ballot is required if requested by at least one shareholder present or represented at the General Meeting.

Voting takes place with the use of a computer system, which also counts the votes. The By-laws and Standing Rules of the General Meeting do not provide for the possibility to vote by mail or with the use of electronic means of communication.

The following matters require a resolution of the General Meeting (in addition to other matters set out in the Code of Commercial Partnerships and Companies):

- examination and approval of the report of the Management Board on the Bank's operation and financial statements for the past financial year;
- adoption of resolutions on the distribution of profits or coverage of losses;
- vote of discharge of duties for members of the Bank's authorities;

- election and dismissal of Members of the Supervisory Board;
- amendment to the By-laws;
- increase or reduction of the Bank's share capital;
- adoption of resolutions concerning the redemption of shares, which set the rules of acquiring shares by the Bank, in particular the amounts allotted to purchasing shares for redemption and funding sources, and in particular setting the policy of share redemption not regulated in the By-laws;
- creation and winding up of special purpose funds;
- issue of convertible bonds or preferred bonds;
- establishment of the principles of remunerating the Members of the Supervisory Board;
- liquidation of the Bank or its merger with another bank;
- appointment of liquidators;
- matters submitted by the Supervisory Board;
- matters submitted by the shareholders in accordance with the By-laws;
- election of the entity authorised to audit financial statements as a statutory auditor of the Bank.

The General Meetings of mBank take place in the Bank's headquarters in Warsaw and are broadcast on-line. The General Meetings may be attended by the representatives of the media.

Shareholder rights

The shareholders have the right to participate in the profit reported in the audited financial statements and allocated by the General Meeting to be paid to the shareholders.

The shareholders representing at least one-half of the share capital or at least one-half of the total number of votes in the Company may convene an Extraordinary General Meeting. The shareholders appoint the chairperson of such a meeting. The shareholder(s) representing at least one-twentieth of the share capital may request that the Management Board convene an Extraordinary General Meeting and that specific items be put on the agenda for such a meeting.

Only persons who are shareholders of the Bank sixteen days before the date of the General Meeting have the right to participate in the General Meeting of the Bank. The shareholder(s) of the Bank representing at least one-twentieth of the share capital may request that specific items be put on the agenda for the Annual General Meeting. The request should be submitted to the Management Board of the Bank no later than twenty-one days prior to the date of the Annual General Meeting.

The shareholders may participate in the General Meeting and cast their votes either in person or by proxies.

A shareholder has the right to:

- vote, propose motions and raise objections;
- justify his or her position briefly;
- stand for the election of the Chairperson of the General Meeting and propose a candidate for the Chairperson of the General Meeting to be noted in the minutes;
- take the floor during the proceedings and make a reply;
- table draft resolutions concerning the items put on the agenda;
- propose amendments and additions to draft resolutions being on the agenda for the General Meeting before the discussion on the item covering the draft resolution concerned by the proposal is closed;
- propose formal motions relating to the proceedings and the voting procedure;
- propose candidates for the Bank's Supervisory Board in writing to the Chairperson of the General Meeting or orally to the minutes;
- review the book of minutes and request copies of resolutions authenticated by the Management Board;

- take legal action to have a resolution of the General Meeting annulled where the shareholder voted against a resolution of the General Meeting and after its adoption raised an objection to the minutes or the shareholder was unreasonably prevented from participating in the General Meeting or the shareholder was not present at the General Meeting as a result of it being convened incorrectly or the adopted resolution not being on the agenda;
- take legal action against the Company to have a resolution of the General Meeting annulled where the resolution is in breach of law.

The Management Board is obliged to provide the shareholder, at the shareholder's request, with information concerning the Company if this is justified by the assessment of an issue on the agenda. The Management Board should refuse information if:

- this could damage the Company or its associated company or subsidiary, in particular due to disclosure of technical, trade or organisational secret of the Company;
- this could expose a Member of the Management Board to criminal, civil or administrative liability.

In justified cases, the Management Board may provide information in writing no later than two weeks after the General Meeting is adjourned.

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

Composition of the Management Board

The Management Board is composed of at least three members appointed for a joint term of 5 years. At least half of the Members of the Management Board, including the President of the Management Board, have to hold Polish citizenship, be habitually resident in Poland, speak Polish, and have experience on the Polish market which can be used while managing the Bank. The Members of the Management Board manage selected areas of the Bank's operation within the scope determined by the President of the Management Board. The division of powers of the Members of the Management Board has been described in detail in the Management Board's resolutions.

There was one change in the composition of the Management Board in 2016. On April 12, 2016, Mr Jörg Hessenmüller informed the Bank about his resignation from the position of the Member of the Management Board, Vice-President of the Management Board of mBank S.A, Chief Financial Officer, effective as of June 30, 2016. Jörg Hessenmüller assumed new duties as a Managing Director for Commerzbank Group Strategy. On June 10, 2016, the Supervisory Board of mBank appointed Mr Heins the Vice-President of the Management Board, Chief Financial Officer. He took the office on July 1, 2016.

Additionally, on December 12, 2016, the Bank was informed that Vice-President of the Management Board, Mr Hans Dieter Kemler, intended to resign from his function at the Bank. Mr Kemler decided to resign as he was offered the position of a member of the management board in German Landesbank Hessen Thueringen (Helaba) responsible for capital markets, Treasury and asset management.

On February 16, 2017, Vice President of the Management Board – Head of Operations and Information Technology, Jarosław Mastalerz, informed the Bank of his intention to resign from his functions performed in the Bank in the nearest future. The reason for the Mr Mastalerz resignation is his intention to engage in development and commercializing of new technologies in the finance sector within the project realized in cooperation with the Bank.

Please find below the composition of the Management Board of mBank as at December 31, 2016:

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

7. Jarosław Mastalerz – Vice-President of the Management Board, Head of Operations and Information Technology

Detailed information on mBank Management Board Members is presented below:

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

Cezary Stypułkowski holds a Ph.D. in Law from the University of Warsaw. In the late 1980s, he studied at Columbia University Business School in New York as a participant of the Fulbright Program. Starting in 1991, he chaired the management board of Bank Handlowy S.A. (currently Citibank Group) for nearly thirteen years. Mr Stypułkowski was appointed as president of the management board of the PZU Group in 2003 and hold this function for three years. From 2006 to 2010 he worked for J.P Morgan in London, and from 2007 as Managing Director of J.P. Morgan Investment Bank in Central and Eastern Europe. Mr Stypułkowski was also a member of the International Advisory Board for Deutsche Bank Management Board, INSEAD International Advisory Board and the Geneva Association. Since 2012 he has been the co-chairman of the Emerging Markets Advisory Council of the Institute of International Finance in Washington (IIF).

Cezary Stypułkowski was appointed President of the Management Board of mBank on 2 August 2010, acting as President of the Management Board of the Bank as of October 1, 2010. He was approved as President of the Management Board by the Polish Financial Supervision Authority on October 27, 2010.

Przemysław Gdański – Vice-President of the Management Board, Head of Corporate and Investment Banking

Przemysław Gdański graduated from the University of Gdansk (faculty: International Trade) and completed a one-year program in international banking and finance at the Loughborough University in the UK. In 2012, he completed the Advanced Management Program (AMP) at IESE Business School.

He has over 25-year experience in corporate and investment banking. From 1993 to 1995 he worked for IBP Bank S.A., then for ABN AMRO Bank in Poland, Romania and in the headquarters in Amsterdam. From 2002 to 2006, he was the Managing Director of the Large Corporates Division in Bank BPH Bank S.A. From May to November 2006 he was CEO and General Director of Calyon Bank Polska and Calyon S.A. Branch in Poland.

In November 2006, Przemysław Gdański took the position of Deputy CEO in BPH Bank, responsible for corporate banking and real estate financing. After the merger of part of BPH Bank and Pekao S.A., he became the Deputy CEO of Pekao S.A. responsible for the Corporate Banking, Markets and Investment Banking Division.

Mr Gdański has been a Member of the Management Board since November 19, 2008.

Christoph Heins – Vice-President of the Management Board, Chief Financial Officer

Christoph Heins graduated from Bankakademie in Frankfurt am Main (currently: Frankfurt School of Finance and Management) in 1996 and obtained a master's degree in banking (Diplom-Bankbetriebswirt (BA)).

Mr Heins embarked on his career in 1988 in Dresdner Bank as Relationship Manager. Since then he occupied many positions in Commerzbank Group, both in Germany and abroad, gaining valuable experience in the front office, back office and support area. In 2008 Mr Heins was appointed as CFO in Commerzbank's branch in New York and performed this function until his return to Frankfurt in 2012. Subsequently, Mr. Heins was the global head of divisional controlling, the unit responsible for the financial reporting and forecast of and for the divisions of Commerzbank Group.

Christoph Heins has been the Vice-President of the Management Board of mBank, Chief Financial Officer, since July 1, 2016.

Lidia Jabłonowska-Luba – Vice-President of the Management Board, Chief Risk Officer

Lidia Jabłonowska-Luba graduated from the Mathematics Institute of the University of Gdańsk.

From 1994 to 2001, Ms Jabłonowska-Luba was Vice-President of Schroder Salomon Smith Barney Poland, where she advised financial institutions on M&A and public equity transactions. In 2002, Lidia Jabłonowska-Luba joined Citigroup in Poland, first as Head of Financial Institutions & Public Sector Division and since November 2003 as Member of the Management Board in charge of finance and operational risk management, capital management and implementation of the New Capital Accord. From 2008 to 2010, she served as Vice-President of the Management Board of Kredyt Bank acting as Chief Finance and Risk Officer. She was also the Advisor to the CEO of Warta S.A. and TUnŻ Warta S.A. From 2010 to 2012, Ms Jabłonowska-Luba was the Senior General Manager at KBC Group in Brussels, where she was responsible for managing all risk types in the group, including model development and valuation, risk policies and procedures, risk support for business decisions, supervision and reporting, ICAAP and ORSA processes, capital adequacy policy and technological support for risk management. Additionally, Ms Jabłonowska-Luba held the position of Vice-Chairman of the Group Risk Management Committee and also served as a member of the Group Risk and Capital Oversight Committee and ALCO at KBC Group.

Member of the Management Board of the Bank since April 12, 2013.

Hans-Dieter Kemler – Vice-President of the Management Board, Head of Financial Markets

Hans-Dieter Kemler graduated from the Westphalian Wilhelm University of Munster with a degree in business administration in 1996.
In 1987-1990 he took part in manager traineeship at Dresdner Bank in Muenster. In 1990-1991 he participated in a training programme on trading in securities and investment banking at the headoffice of Dresdner Bank in Frankfurt. In 1991-1992 he worked in the Bond Trading Department at Dresdner Bank.
In 1992-1996, he studied Business Administration at the Westphalian Wilhelm University of Münster. Between 1996 and 1998, employed with Sal. Oppenheim jr. & Cie. KGaA, Financial Markets Department in Frankfurt am Main, where he was responsible for interest rate transactions. From 1998 to 2005, Head of the Corporate Risk Advisory in the Head Office of Commerzbank.
Since 2005 until mid-2009, member of the senior management of Commerzbank responsible for international public finance. He also acted as a managing director at Erste Europäische Pfandbrief- und Kommunalkreditbank AG in Luxemburg S.A.
Member of the Management Board of mBank responsible for Financial Markets since July 10, 2009.

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

Cezary Kocik graduated from the University of Łódź with a degree in Banking and Finance. In 2015, he completed the Advanced Management Program (AMP 189) at Harvard Business School. Holder of a securities broker license. From 1994 to 1996 Mr Kocik was employed with the brokerage house of Bank PBG as a securities broker. Starting in 1996 he worked for Bank PBG in the Investment Banking and Debt Collection and Restructuring divisions. In 1999, Mr Kocik was employed with the Debt Collection and Loan Restructuring Department of Bank Pekao S.A. In 2000 he was appointed director of a Pekao Branch in Łódź.

He has been shaping mBank's retail banking since 2004: first in the retail credit risk area, then in the sales and business processes area, contributing to successful implementation of CRM system and substantially improving the effectiveness of key sales processes in direct channels.

Member of the Management Board of the Bank since April 1, 2012.

Jarosław Mastalerz – Vice-President of the Management Board, Head of Operations and Information Technology

Jarosław Mastalerz graduated from the University of Łódź, the Economics and Sociology Department (major: Foreign Trade) and the Management Department (major: Management Accounting). He holds a certificate of the British Association of Chartered Certified Accountants. From 1996 to 1998, he worked as a consultant in PricewaterhouseCoopers. In 1998, he started to work for the Zurich Group. Initially, he was responsible for the organisation and market strategy of the pension fund, and then he took over the position of Marketing Director and became a Member of the Management Board. Starting in 2000, he served as the Member of the Management Board responsible for the retail client segment of the Zurich Group in Poland, and from 2001 – as the Financial Director. From January 2003 to June 2006, he was a Member of the Management Board and the Financial Director of Generali T.U. S.A and Generali Życie T.U. S.A. From January 1, 2003, he was responsible for the financial department, the actuarial office, controlling and bancassurance. In 2002, he participated in the process of merging Zurich companies with Generali companies. On July 20, 2006, he was appointed Chief Executive Officer of BRE Ubezpieczenia Sp. z o.o., then Chief Executive Officer of BRE Ubezpieczenia Towarzystwo Ubezpieczeń S.A.

In August 2007, Jarosław Mastalerz was appointed by the Supervisory Board as Member of the Management Board of BRE Bank SA (currently mBank S.A.), Head of Retail Banking. Since April 2012, Jarosław Mastalerz has been a Member of the Management Board, Head of Operations and Information Technology responsible for IT and logistics area.

Powers and procedures of the Management Board

The Members of the Management Board are jointly liable for the overall operations of the Bank. They work collegially and inform each other about the most important matters concerning the Bank for which particular Members of the Management Board are responsible. The Management Board may appoint standing committees or teams to perform specific functions or to co-ordinate the work of organisational units of the Bank or to perform specific tasks.

The following committees led by Members of the Management Board operate at mBank:

- Resource Management Committee (chairperson: Cezary Stypułkowski)
- Capital Management Committee (chairperson: Christoph Heins)
- Data Quality and IT Systems Development Committee (chairperson: Christoph Heins)
- Assets and Liabilities Management Committee of mBank Group (chairperson: Hans-Dieter Kemler)
- Foreign Branch Supervision Committee of mBank S.A. (chairperson: Cezary Kocik)
- Credit Committee of mBank Group (chairperson: Lidia Jabłonowska-Luba)
- Retail Banking Risk Committee (chairperson: Lidia Jabłonowska-Luba)
- Corporate and Investment Banking Risk Committee (chairperson: Lidia Jabłonowska-Luba)
- Financial Markets Risk Committee (chairperson: Lidia Jabłonowska-Luba)
- Model Risk Committee (chairperson: Lidia Jabłonowska-Luba)
- IT Architecture Committee of mBank S.A. (chairperson: Jarosław Mastalerz)

The Management Board manages the Bank’s business, represents the Bank and defines the guidelines for the Bank’s operations, especially for the areas subject to risks, including the credit policy, the investment policy, the Bank’s assets and liabilities management policy, and the guarantee policy. The Management Board presents to the Supervisory Board on a regular basis comprehensive information on all significant aspects of the Bank’s operations and related risks as well as risk management methods.

The Management Board operates pursuant to its Rules approved by the Supervisory Board. The Rules determine among others the issues which require consideration of the Management Board as a collegial body and adoption of a resolution of the Management Board.

All resolutions are adopted by a majority of votes of the Management Board Members present at the meeting, and in the case of an equal number of opposing votes, the President of the Management Board has the casting vote.

Rules and levels of remuneration of Members of the Management Board are determined by the Remuneration Committee of the Supervisory Board. The rules of the incentive programme for the Management Board as well as the principles of allocating bonuses to Management Board Members are defined in Resolutions of the Supervisory Board.

Total remuneration of the Members of the Management Board includes a fixed and a variable part.

A detailed description of the rules of the incentive programme for the Management Board based on shares is presented in Note 44 of the Financial Statements of mBank S.A. for 2016 in line with the International Financial Reporting Standards.

The section below presents a brief description of the 2014 incentive programme for the Management Board which replaced the Incentive Programme Rules of December 7, 2012.

Under the programme, the Members of the Bank's Management Board have the right to receive a bonus, including a non-cash bonus paid in the Bank's shares, including phantom shares.

The net ROE of mBank Group and the monthly remuneration as at the end of the financial year for which the bonus is to be awarded constitute the basis for the acquisition of the right to a bonus and for the calculation of the bonus amount for a given financial year. One part of the base bonus is the equivalent of 50% of the base amount calculated depending on the ROE. The other part of the bonus may be granted by the Remuneration Committee of the Supervisory Board on the basis of its appraisal of the Management Board Member and achievement of the MbO objectives. The two parts of the bonus constitute the base bonus. 40% of the base bonus is paid in the year when it is determined: 50% in cash and 50% in Bank's shares, or bonds with a pre-emptive right to take up shares, or phantom shares. The remaining 60% of the base bonus is deferred and paid in three equal tranches in three subsequent years: 50% in cash and 50% in Bank's shares, or bonds with a pre-emptive right to take up shares, or phantom shares.

The remuneration of the Members of Management Board in 2015 and in 2016 is presented below.

		Remuneration paid in 2016 (in PLN)			
		Basic remuneration	Other benefits	Bonus for 2015	Deferred bonus*
1.	Cezary Stypułkowski	2,725,108	252,868	500,000	325,000
2.	Lidia Jabłonowska-Luba	1,500,000	170,504	280,000	180,000
3.	Przemysław Gdański	1,500,000	194,440	280,000	180,000
4.	Christoph Heins	841,392	368,824	-	-
5.	Hans-Dieter Kemler	1,509,926	348,238	280,000	180,000
6.	Cezary Kocik	1,500,000	185,316	300,000	200,000
7.	Jarosław Mastalerz	1,500,000	203,396	340,000	180,000
	In total	**11,076,426**	**1,723,586**	**1,980,000**	**1,245,000**

** In 2016, the 1st deferred tranche was paid out as part of the settlement of cash bonus for 2014.*

		Remuneration paid in 2016 (in PLN)			
		Basic remuneration	Other benefits	Bonus for 2015	Deferred bonus*
Remuneration of Members of the Management Board who resigned from the Management Board in 2016					
1.	Jörg Hessenmüller	781,500	93,768	300,000	190,000

** In 2016, Jörg Hessenmüller was paid the 1st deferred tranche as part of the settlement of cash bonus for 2014.*

		Remuneration paid in 2015 (in PLN)			
		Basic remuneration	Other benefits	Bonus for 2014	Cash settlement of the incentive programme based on Commerzbank shares
1.	Cezary Stypułkowski	2,092,108	174,833	650,000	827,941
2.	Lidia Jabłonowska-Luba	1,219,483	228,872	360,000	-
3.	Przemysław Gdański	1,200,000	143,184	360,000	658,950
4.	Jörg Hessenmüller	1,263,000	166,535	380,000	-
5.	Hans-Dieter Kemler	1,218,561	366,354	360,000	688,900
6.	Cezary Kocik	1,200,000	156,825	400,000	-
7.	Jarosław Mastalerz	1,200,000	125,670	360,000	778,749
	In total	**9,393,152**	**1,362,273**	**2,870,000**	**2,954,540**

Composition of the Supervisory Board

The Supervisory Board acts on the basis of adopted Rules and performs the functions provided for in the By-laws of the Bank, the Code of Commercial Partnerships and Companies, and the Banking Law. The By-laws of mBank provide that the Supervisory Board consists of no less than five Members elected by the General Meeting for a joint term of three years. Members of the Supervisory Board should possess knowledge, skills and experience adequate for fulfilling their function and duties entrusted to them and should guarantee proper fulfilment of these duties. At least half of all Supervisory Board Members, including the Chairman, shall hold Polish citizenship, permanently reside in Poland, speak Polish and have experience on the Polish market which can be used while supervising the Bank’s operations. Pursuant to the statutory requirement, at least two Supervisory Board Members are independent, unless the General Meeting decides otherwise. The independence criteria of the Supervisory Board Members are stipulated in the Rules of the Supervisory Board.

In 2016, the composition of mBank’s Supervisory Board changed twice.

In March 2016, Martin Blessing resigned from his position as Member of the Supervisory Board and the Executive Committee of the Supervisory Board as of April 30, 2016. On March 24, 2016, Michael Mandel was appointed to replace Martin Blessing from May 1, 2016 to the end of the current term of office of the Supervisory Board. Since May 23, 2016, Michael Mandel has held the position of a Member of the Management Board at Commerzbank AG responsible for private banking.

Furthermore, on October 27, 2016, the Bank received a letter from Martin Zielke, Deputy Chairman of the Bank's Supervisory Board, Member of the Remuneration Committee of the Supervisory Board and Member of the Executive Committee, with his resignation from these functions as of December 15, 2016. By the Resolution of the Supervisory Board of December 15, 2016, Jörg Hessenmüller, the Managing Director for Commerzbank Group Strategy was appointed Member of the Supervisory Board.

The composition of the Supervisory Board as at the end of 2016 is presented below.

1. Maciej Leśny – Chairman of the Supervisory Board
2. Stephan Engels – Deputy Chairman of the Supervisory Board
3. Andre Carls – Member of the Supervisory Board
4. Marcus Chromik – Member of the Supervisory Board
5. Jörg Hessenmüller – Member of the Supervisory Board
6. Thorsten Kanzler – Member of the Supervisory Board

7. Michael Mandel – Member of the Supervisory Board
8. Teresa Mokrysz – Member of the Supervisory Board
9. Agnieszka Słomka-Gołębiowska – Member of the Supervisory Board
10. Waldemar Stawski – Member of the Supervisory Board
11. Wiesław Thor – Member of the Supervisory Board
12. Marek Wierzbowski – Member of the Supervisory Board

More detailed information on mBank Supervisory Board Members as at December 31, 2016, is presented in the table below.

Maciej Leśny – Chairman of the Bank's Supervisory Board

In 1969 Maciej Leśny completed his studies at the Faculty of Economic Sciences at Warsaw University. During his professional career, Mr Leśny worked for 6 years in the shipbuilding industry in Gdańsk and 8 years for Zakłady Elektronicznej Techniki Obliczeniowej. For more than 22 years, he worked in the central state administration, including 8 years in the position of Undersecretary of State: in the Ministry of Foreign Economic Co-operation; the Ministry of Economy; the Ministry of Economy, Labour and Social Policy; and finally in the Ministry of Infrastructure.

He completed post-graduate studies and training in the United States at Michigan University (Business School of Administration) and De Paul University (Chicago). In 1992-1993, as a scholarship holder of the US government, Mr Leśny studied at the American University in Washington, DC. During his scholarship he served a four-month internship at the World Bank and completed a privatization training course in the International Monetary Fund.

From March 1994 to 1998, Mr Leśny was the Chairman of the Supervisory Board of mBank (former BRE Bank). By December 2001, Member of the Supervisory Board. In 2004, Mr Leśny was re-elected Chairman of the Supervisory Board.

Stephan Engels – Deputy Chairman of the Supervisory Board

He is a graduate from the University of St. Gallen in Switzerland. Between 1988-1993, he worked at Daimler-Benz AG’s internal audit department. Afterwards he headed the Regional Controlling (Europe) at debis AG for three years. From 1996 to 2000 he served as Chief Financial Officer at debis AirFinance B.V. In 2000, he joined DaimlerChrysler Bank AG, as Member of the Board for Credit then Chief Financial Officer & IT. From 2003 he worked at DaimlerChrysler Services AG as a Member of the Board for Finance, Controlling, Risk Management & Strategy. From 2007 to 2012 he was a Member of the Executive Committee of Mercedes-Benz Car Group for Finance & Controlling and Head of Management Group Controlling at Daimler AG.

Since April 1, 2012, Member of the Board, Chief Financial Officer at Commerzbank AG.

Andre Carls – Member of the Supervisory Board

Having studied business economics and completed a doctorate at the University of Cologne, Dr Carls joined Commerzbank through an international trainee programme in 1990.

He subsequently held various positions in Corporate Finance and Capital Markets in Frankfurt and from 1998 to 2000 was Executive Director of the Investment Banking Division of Commerzbank in London.

From 2000 to 2008, Dr Carls was a Member of the Board of Managing Directors of comdirect bank AG, from September 2002 to November 2004 as CFO and from November 2004 to March 2008 as CEO. From March 2008 to September 2008 he held the position of Vice-President of the Management Board and CFO of BRE Bank S.A. (currently mBank S.A.).

From March 2008 to December 2013, Dr Carls was CEO of Commerzbank Auslandsbanken Holding AG and CEO of Central & Eastern Europe-Holding of Commerzbank AG. In January 2014, Dr Carls became a Divisional Board Member in the "Mittelstandsbank" of Commerzbank AG.

Marcus Chromik – Member of the Supervisory Board
Marcus Chromik studied physics in Munich, Göttingen, and Kiel. He also spent time in the US, engaged in scientific research at Michigan State University. Mr Chromik holds a PhD in nuclear physics. He started his professional career with McKinsey in 2001. In 2004 he joined Postbank Group, where he held various executive positions, including new issues and syndication, liquidity management, and Credit Treasury. Then he served as Chief Market Risk Officer for Commerzbank more than three years and was responsible for the bank's market and liquidity risk management. Dr Marcus Chromik has been a Divisional Board Member and Chief Credit Risk Officer at Commerzbank since 2012. On January 1, 2016, he was appointed Member of the Board of Managing Directors at Commerzbank AG, Chief Risk Officer.
Jörg Hessenmüller – Member of the Supervisory Board
Jörg Hessenmüller graduated from Hochschule für Bankwirtschaft in Frankfurt am Main in 1997 and was awarded a Master's in Management (Diplom–Betriebswirt (FH)). From 1989 to 2009 he worked for Dresdner Bank, holding the position of, among others, Head of Financial Control responsible for London, New York, Moscow, Sao Paulo and Asia. In 2009 Mr Hessenmüller was appointed Managing Director in Commerzbank Group and worked as Head of Investment Banking Finance, Group Finance. From April 2012 to June 2016, he was the Member of the Management Board of mBank S.A. responsible for the finance area. Since July 2016, Mr Jörg Hessenmüller has been the Managing Director in Commerzbank Group responsible for Group Management Development & Strategy.
Thorsten Kanzler – Member of the Supervisory Board
Thorsten Kanzler studied mechanical engineering and economics at the University of Technology in Darmstadt (Germany), where he obtained the Diplom-Wirtschaftsingenieur (M.Sc. Eng.). From 1991 to 2004 he was employed with Deutsche Bank AG on various positions in the treasury and risk management area in Frankfurt, New York, Sydney and London. Between 2004 and 2007, Mr Kanzler was Group Treasurer and Divisional Board Member of Corporate & Investment Banking in WestLB AG in Düsseldorf. From May 2007, Mr Kanzler was Head of Group Treasury & Capital Management at Dresdner Bank AG in Frankfurt am Main. Since the beginning of 2009, Mr Kanzler has been Divisional Board Member for Group Treasury at Commerzbank AG. He is responsible for assets and liabilities management, risk management, capital management and funding.
Michael Mandel – Member of the Supervisory Board
Michael Mandel is a graduate of Business Administration at the University of Muenster. Between 1986-2000 he worked for Dresdner Bank AG, where he was responsible for private banking. In the years 2000-2002 he was a consultant in McKinsey&Company. Since 2002 he has worked for Commerzbank AG, first as the Director for Business Development – private clients segment, and then the Group Manager – Private and Business Clients. In 2008, he was appointed CEO of Comdirect Bank AG. Since 2010, Divisional Board Member for private customers at Commerzbank AG. In May 2016 Michael Mandel was appointed Member of the Board of Managing Directors at Commerzbank AG responsible for the segment of "private and business customers".
Teresa Mokrysz – Member of the Supervisory Board
Teresa Mokrysz is a graduate of the Academy of Economics (now the University of Economics) in Katowice (1978). In 1990, she created the Mokate brand, one of the most recognisable Polish brands in the world. She transformed a small family-run company into a group of international companies with worldwide operations. As a co-owner, she directs nine Mokate companies with their business seats in

Poland and Central Europe. She built from scratch production plants in Żory and Ustroń and expanded a production facility near Prague (production of coffee, tea, ingredients for the food industry). She has successfully launched her products in several dozen countries on all continents.

In 2000, the International Association of Women Entrepreneurs from Los Angeles awarded her the title "The Leading Women Entrepreneurs of the World". Teresa Mokrysz has been the recipient of numerous prestigious awards in Poland and abroad. She has been awarded Commander's Cross of Polonia Restituta by the President of the Republic of Poland. She funds scholarships for talented and less well-off young people and provides financial support to health care institutions, nursing care homes, orphanages and schools.

Agnieszka Słomka-Gołębiowska – Member of the Supervisory Board

Agnieszka Słomka-Gołębiowska is a graduate of Warsaw School of Economics (SGH) of faculty: finance and banking and MBA in the French Management Institute (IFG). She obtained a PhD degree in economics at SGH, where she is currently working as a lecturer and conducting research into corporate governance.

From 2006 to 2009, the director in the Industrial Development Agency responsible for corporate governance and before that, a consultant for private and public companies at Arthur Andersen. Since 2006, she has been a member of supervisory boards. She completed the Alexander von Humboldt Fellowship at the University of Muenster and the Polish-American Fulbright Fellowship at the University of California, Berkeley. She was a visiting scholar at universities in Cambridge (MIT), Tucson (UOA), Munster, Copenhagen (CBS), Birmingham (BBS), Berlin (HSoG), Genoa (UoG - Law School), Vienna (WU) and Florence (UniFi). She is the author of many publications on corporate governance.

Waldemar Stawski – Member of the Supervisory Board

Graduate of the Gdańsk Technical University and post-graduate studies in: Accounting and Finance (2009-2010), Financial Analysis in Business Management (1992-1993), Microprocessors in Energoelectronics and Propulsions (1986-1987), Didactics and Pedagogy (1984-1985).

In 1991-2011 he underwent domestic and foreign training on banking, finance and banks' organisation.

Mr Stawski holds the Accounting Certificate issued by the Minister of Finance and is authorised to provide bookkeeping services. He passed the exam for the candidates for members of supervisory boards at state-owned companies (certificate MPW April 8, 1995).

In 1983-1991, Mr Stawski was a member of the teaching staff of the Maritime University of Gdynia. In 1991, he became an employee of Pomorski Bank Kredytowy. In 1993, Mr Stawski became a branch director in Gdynia. In 1995-2000, he was director of the Regional Branch of PKO BP in Gdańsk. In 2000, Mr Stawski was appointed Vice-President of the Management Board of PKO BP S.A. responsible for managing the treasury, corporate clients, capital market and corporate governance areas. From June 2002 to February 2003, Mr Stawski was Chairman of the Team of Receivers for Wschodni Bank Cukrownictwa S.A. He then served as a Member of the Management Board of CTL Logistics S.A. and General Director of the Polish Association of Transport and Logistics Employers.

From 2006 to 2015, Mr Stawski was a consultant of ALDAZ Sp. z o.o., and he currently acts as director at Zarzecki, Lasota i Wspólnicy Sp. z o.o.

In the years 2012-2014 he was the Member of the Management Board of Gdańsk Business Club of which he has been a member since 1995. In 2012, he was appointed to the Council of the Maritime University of Gdynia. From November 2014 to February 2015, Waldemar Stawski was special administrator of SKOK Wołomin.

Wiesław Thor – Member of the Supervisory Board

Wiesław Thor graduated from the Central School of Planning and Statistics (currently Warsaw School of Economics – SGH), training program "Train the Trainer" organised by KPMG and the South Carolina Business School, and summer school of banking at McIntire University Business School. Employed with

BRE Bank since 1990 (currently mBank) in the following positions: Specialist, Division Head, Deputy Director of the Warsaw Branch, Director of the Credit Department, and Chief Risk Officer from May 2000. From August 1, 2002, Managing Director at Bank Handlowy in Warsaw.

On November 2, 2002, Mr Thor was appointed Member of the Management Board of BRE Bank, Chief Risk Officer. He was Deputy President of the Management Board of BRE Bank from March 15, 2008 to April 11, 2013.

Lecturer at the Warsaw Institute of Banking and SGH. Long-time Member of the Steering Committee of the Risk Management Association (formerly: Robert Morris Association European Credit & Risk Management Round Table) and Member of PRMIA Polska.

Marek Wierzbowski - Member of the Supervisory Board

Professor ordinarius at the University of Warsaw, legal advisor, the founding partner of the law firm Wierzbowski and Partners - Legal Advisors and Advocates, President of the Arbitration Court of the Chamber of Brokerage Houses, member of the Board of Directors of the Polish-U.S. Fulbright Commission, and member of the Council in the European Law Institute based in Vienna. He was a member of the College of the Supreme Audit Office, member of the Public Procurement Council, Vice-President and President of the Supervisory Board of the Warsaw Stock Exchange, and President of the Construction Law Codification Committee. He was the deputy dean of the Faculty of Law and Administration, as well as vice rector of the University of Warsaw.

For many years he was an associate of law firms Weil Gotshal & Manages and Linklaters. He was an advisor to the Minister of Ownership Transformations, the Minister of Treasury, the President of the Energy Regulatory Office, and Deputy President of the Court of Arbitration at the National Chamber of Commerce.

In his legal practise, Prof. Marek Wierzbowski managed legal teams, supporting numerous transactions, including sales of shares in connection with privatization of large enterprises. He is the scientific editor and co-author of many legal commentaries and textbooks.

The Supervisory Board has five independent members: Maciej Leśny, Teresa Mokrysz, Agnieszka Słomka-Gołębiowska, Waldemar Stawski and Marek Wierzbowski. Wiesław Thor is not an independent member as he was a Member of the Management Board of mBank, and holding the function of a Member of the Management Board of the Bank in the past five years is one of the reasons why a Member of the Supervisory Board cannot be considered an independent member.

Andre Carls, Marcus Chromik, Stephan Engels, Jörg Hessenmüller and Thorsten Kanzler are not independent members due to their relationship with the main shareholder of mBank.

Powers and procedures of the Supervisory Board

The responsibilities of the Supervisory Board include, in particular, the following matters:

- Advising and supervising the Management Board in defining internal guidelines for the activity of the Bank, especially for the areas subject to risks, including the Bank's credit policy, investment policy, guarantee policy, compliance policy, and approving the Management Board's proposals concerning the general organisational structure of the Bank.
- Supervising compliance of the Bank's risk-taking regulations with the strategy and financial plan of the Bank.
- Approving the disclosure policy rules concerning risk management and capital adequacy adopted by the Management Board.
- Approving strategies and procedures for the internal control system, the risk management system, the internal capital assessment process, capital management and capital planning, as proposed by the Management Board.
- Assessing the adequacy and effectiveness of the risk management system.

- Reviewing regular and exhaustive reports presented by the Management Board on all relevant issues related to the activity of the Bank, the risks of its activity, and the means and effectiveness of risk management.
- Preparing a concise assessment of the position of the Bank to be presented to the Annual General Meeting and attached to the annual report of the Bank for the previous financial year.
- Approving the Bank's annual financial plans, multi-year growth plans, as well as the strategy of the Bank and the rules of prudent and stable management of the Bank.
- Reviewing any motions and matters to be decided in a resolution of the General Meeting, including draft resolutions of the General Meeting; the Supervisory Board prepares the justification for draft resolutions to be presented to the General Meeting for approval.
- Issuing and approving rules provided for in the By-laws of the Bank.
- Appointing and dismissing the President of the Management Board, the Vice-Presidents of the Management Board and other Members of the Management Board subject to the procedures laid down in the Banking Law and taking into account relevant qualifications for the functions assigned to them.
- Defining the terms of contracts and remuneration of the Management Board.
- Authorising the Chairman of the Supervisory Board to represent the Bank in agreements with Management Board Members, including the conclusion of management contracts with Management Board Members.
- Approving conclusion or amendment of any significant contract or agreement with Members of the Management Board or the Supervisory Board.
- Approving conclusion, amendment or termination of any significant alliance or co-operation agreements.
- Analysing reports of the Internal Audit Department Director received at least once per year.

Meetings of the Supervisory Board are convened by the Chairman of the Supervisory Board on his or her own initiative or on request of the Management Board or on request of a Supervisory Board Member at least three times a year. All Management Board Members participate in the meetings of the Supervisory Board except for those agenda items which directly concern the Management Board or its Members.

Resolutions of the Supervisory Board are adopted by a simple majority of votes. In the case of an equal number of opposing votes, the Chairman of the Supervisory Board has the casting vote.

No resolution should be passed without the consent of the majority of the Independent Members of the Supervisory Board on the following matters:

- any benefits provided by the Bank or any entities associated with the Bank to the Members of the Management Board.
- consent for the Bank to enter into a significant agreement with an entity associated with the Bank, a Member of the Supervisory Board or the Management Board, and entities associated with them.

The Supervisory Board has four committees: the Executive Committee, the Risk Committee, the Audit Committee, and the Remuneration Committee. Members of the Committees are presented below (in the first place - Chairman of the Committee).

Executive Committee	Risk Committee	Audit Committee	Remuneration Committee
Maciej Leśny	Marcus Chromik	Stephan Engels	Andre Carls
Andre Carls	Thorsten Kanzler	Andre Carls	Stephan Engels *
Stephan Engels *	Maciej Leśny	Maciej Leśny	Maciej Leśny
Teresa Mokrysz	Agnieszka Słomka-Gołębiowska	Waldemar Stawski	Marek Wierzbowski

** Since December 16, 2016. Until December 15, 2016 Martin Zielke was a member of the Committee.*

The tasks of the Executive Committee involve, in particular, exercising regular supervision over the Bank's operation in the periods between meetings of the Supervisory Board. The Executive Committee authorises the Management Board to acquire, encumber or dispose of real estate, perpetual leasehold, or interests in real estate, shares or equity interests in companies, and other fixed assets if the value of the transaction exceeds 1% of the Bank's own funds. Such authorisation is not required if the aforesaid acquisition took place as part of enforcement or bankruptcy proceedings, including the bankruptcy proceeding with the possibility to make an arrangement or other settlement with the Bank's debtor or in the case of the sale of assets so acquired.

The Audit Committee issues opinions about the selection of the Bank's statutory auditor by the General Meeting, recommends whether the Supervisory Board should approve or reject financial statements, exercises regular supervision over the internal control system at the Bank, and approves changes proposed by the Management Board of the Bank as regards the head of the Internal Audit Department. The Audit Committee must have at least one independent Supervisory Board Member with qualifications and experience in accounting and finance.

The Risk Committee has, among others, the following tasks: exercising permanent supervision over credit risk, market risk, operational risk, and liquidity risk. Moreover, the Risk Committee issues recommendations for approval or rejection of exposures with single entity risk, in accordance with the parameters defined by the Supervisory Board at the time. Moreover, the Risk Committee provides the Supervisory Board with recommendations for approval or rejection of the transactions, provided for in the Banking Law, concluded between the Bank and Members of the Bank's authorities, and recommendations for approval or rejection of the Bank's disclosure policy regarding risk management.

The tasks of the Remuneration Committee include among others: reviewing the remuneration principles and amounts of remuneration paid to the Members of the Management Board, setting the remuneration levels, presenting opinions concerning approval for Members of the Management Board of mBank to engage in competitive activity, issuing recommendations to the Supervisory Board regarding the general guidelines for the Management Board on the level and structure of remuneration for the Bank's senior management and the policy of variable components of remuneration paid to persons holding managerial positions at the Bank. Moreover, the Committee monitors the level and structure of the remuneration paid to senior managers.

All standing committees of the Supervisory Board make reports on their activity in the past reporting period available to the shareholders. The aforesaid reports are appended to the set of materials for the Annual General Meeting.

The amount of monthly remuneration of the Members of the Supervisory Board was set in Resolution No. 26 adopted by the 25th Annual General Meeting held on March 30, 2012. The Chairperson of the Supervisory Board earns PLN 17,000 monthly, the Deputy Chairperson - PLN 14,500 monthly, while members of the Supervisory Board earn PLN 12,000 monthly each.

Additional monthly remuneration is granted for participation in the standing committees of the Supervisory Board: 50% of the monthly basic remuneration for the first committee and 25% for participating in every other committee. Total remuneration for the participation in committees cannot exceed 75% of basic remuneration.

The remuneration of the Supervisory Board for 2015-2016 is presented in the table below.

		Remuneration paid in 2016 (in PLN)	Remuneration paid in 2015 (in PLN)
1.	Maciej Leśny	367,235	367,235
2.	Andre Carls	252,000	252,000
3.	Marcus Chromik	-	-
4.	Stephan Engels	-	-
5.	Jörg Hessenmüller	-	-
6.	Michael Mandel	-	-
7.	Thorsten Kanzler	216,000	216,000
8.	Teresa Mokrysz	220,225	220,225
9.	Agnieszka Słomka-Gołębiowska	221,435	221,435
10.	Waldemar Stawski	221,435	221,435
11.	Wiesław Thor	149,435	149,435
12.	Marek Wierzbowski	216,000	216,000
	Martin Zielke*		-
	Martin Blessing**		
	Stefan Schmittmann***		-
	In total	**1,863,765**	**1,863,765**

**On December 15, 2016 Mr Martin Zielke resigned from his position.*

***On April 30, 2016 Mr Martin Blessing resigned from his position.*

****On December 31, 2015 Mr Stefan Schmittmann resigned from his position.*

Activity of the Supervisory Board and its Committees in 2016

In 2016, the Supervisory Board held six meetings and adopted 65 resolutions. The resolutions covered all areas of the Bank's operation and were consistent with the scope of supervisory functions specified in generally applicable laws, the Banking Law, PFSA recommendations, corporate governance principles, and the Bank's By-laws and the Rules of the Supervisory Board.

The adopted resolutions concerned among others:

- Approval of financial statements of mBank and mBank Group and other materials for the Annual General Meeting.
- Adoption of the Financial Plan for 2017 and the Medium-Term Plan for 2017-2020.
- Approval of the assessment of mBank's application of the Corporate Governance Principles for Supervised Institutions in 2015.
- Approval of the "Mobile Bank - mBank Group Strategy for 2016-2020".
- Approval of mBank's IT Strategy and Cyber-Security Strategy for 2016-2020.
- Approval of the documentation and the report on a review of the Internal Capital Adequacy Assessment Process (ICAAP) at mBank Group.
- Adoption of the Capital Management Policy at mBank Group.
- Allocation of funds to mBank Foundation.
- Approval of the general organisational structure of mBank and the division of powers among Members of the Management Board of and Managing Directors of mBank.
- Approval of the Risk Takers Identification Policy, as well as the Risk Takers Remuneration Policy and Rules.

- Approval of the Rules of mBank Management Board Incentive Programme.
- Approval of the Employee Incentive Programme Rules and the Information Memorandum drawn up to implement the Employee Incentive Programme.
- Approval of the Audit Plan of the Internal Audit Department for 2016 and adoption of the Internal Control Rules of mBank S.A.
- Approval of the Compliance Policy, and approval of the Compliance Risk Management Report.
- Approval of reports on the outsourcing and complaints handling supervision functions.
- Approval of the strategies and policies requiring approval of the Risk Committee and the Supervisory Board including: market and liquidity risks management strategy and corporate and retail credit risks management strategy.
- Approval of the Contingency Plan in the event of a threat of losing financial liquidity by mBank S.A.
- Approval of mBank Group's Models Management Policy.
- Approval of the Reputation Risk Management Strategy of mBank Group.
- Approval of the Limit Book – Limit Rules and the levels of limits for mBank Group.

In the past year, current results of mBank Group and its business areas were discussed and evaluated in a systematic, regular manner at meetings of the Supervisory Board with reference to the financial plan.

Attendance of the Supervisory Board Members at Supervisory Board meetings in 2016 is presented in the table below.

	Attendance*
Martin Blessing	2/2
Andre Carls	6/6
Marcus Chromik	6/6
Jörg Hessenmüller	1/1
Stephan Engels	5/6
Thorsten Kanzler	5/6
Maciej Leśny	6/6
Michael Mandel	3/3
Teresa Mokrysz	6/6
Agnieszka Słomka-Gołębiowska	6/6
Waldemar Stawski	6/6
Wiesław Thor	6/6
Marek Wierzbowski	6/6
Martin Zielke	5/6

* *Attendance at meetings / number of meetings during the term of office.*

In 2016, the Executive Committee performing its function of ongoing supervision over the Bank's operation in the periods between the meetings of the Supervisory Board co-operated closely with the Management Board and was informed about the situation of the Bank on an ongoing basis. Apart from the meetings of the Supervisory Board, Members of the Committee had regular meetings with the Members of the Management Board discussing the most important current issues of the Bank. According to its powers, the Executive Committee took decisions on the strategic transactions concluded by mBank. In a decision, the Executive Committee approved its report for the previous year which is presented to the Annual General Meeting.

The Audit Committee was regularly informed about the results and the financial position of the Bank and the Group. It received and analysed information on actions taken in the key risk areas.

The Committee held four meetings in 2016 and discussed, among others, the following:

- Compliance of the process of preparing financial statements with the applicable law.
- Co-operation with the external auditor.
- Conclusions from the audit of the annual financial statements of mBank Group for 2015.
- Scope of the audit of the annual financial statements for 2016.
- Assessment of mBank's internal control system in 2016.
- On-going supervision of proposed changes to mBank's internal control system in 2016.
- Ongoing supervision over the activity of the Internal Audit Department.
- Approval of reports of the Compliance Department.

The Audit Committee provided the Supervisory Board with recommendations on the approval of: Reports of the Management Board on the activity of mBank and mBank Group in 2015, and the financial statements for 2015, the annual report on compliance risk management at mBank in 2015, report of the Outsourcing Coordinator on the implementation of the Outsourcing Policy at mBank in 2015 and the Audit Plan of the Internal Audit Department for 2016.

In 2016, the Risk Committee held four meetings, during which it discussed the following matters: changes in the economic situation in Poland and their impact on the Bank, quarterly risk reports (capital adequacy, liquidity risk, credit risk, operational risk, market risk, interest rate risk, key events in the risk area), as well as a range of issues related to mBank's portfolios, including dedicated presentations on corporate, investment, financial markets, and retail portfolio risks.

Other major issues considered by the Committee included the largest exposures, development of risk parameters, and loan loss provisions at the Bank and in the Group. Furthermore, in accordance with its work plan, the Risk Committee discussed in detail the effectiveness of particular portfolios of the Bank, analysing risk parameters, change directions and forecasts. It also reviewed the management strategies covering individual risks of mBank Group and the strategic risk limits.

In 2016, the Risk Committee issued:

- 16 recommendations concerning exposures subject to single entity risk in accordance with the parameters defined by the Supervisory Board
- 16 decisions containing recommendations for the Supervisory Board regarding the approval of a range of strategies and policies and other risk management documents requiring the Supervisory Board's approval.

The Remuneration Committee held four meetings in 2016 and issued 19 decisions. During its meetings the Remuneration Committee discussed and issued recommendations for the Supervisory Board regarding the approval of:

- Rules of mBank Management Board Incentive Programme.
- Rules of mBank Employee Incentive Programme.
- Assessment and definition of the MbO objectives for the Members of the Management Board of mBank.
- Risk Takers Identification Policy.
- Risk Takers Remuneration Policy and Rules.
- Policy for the assessment of qualifications (suitability) of members of the supervisory body, management body and key function holders in the Bank.

6.8. mBank's Diversity Policy

Being guided by the rule that diversity creates value added for the organisation, mBank has made use of the basic elements of the diversity policy in its HR policy for many years. Elements of the diversity policy are present in various procedures and processes, but the Bank does not have in place a uniform diversity policy document approved by the company's authorities.

Diversity arising from experience, knowledge, education, interests and a number of other things fosters creativity, innovation and effectiveness, and thus contributes to the company's competitive advantage, service quality and economic results.

mBank treats people equally regardless of their sex, age, material status, family background, physical abilities, nationality, sexual orientation, and political and religious beliefs, that is all the factors that may give rise to direct or indirect discrimination. The Bank offers a workplace that helps the management make use of and develop their unique features, skills and interests, for example through participation in training activities and clubs that bring together people with similar interests.

In accordance with the sex equality policy, the Bank tries to ensure that both men and women take part in external and internal recruitment and in the succession planning regarding the key functions at the Bank, taking into account the principles of equal treatment in hiring new employees. mBank's recruitment process involves a selection method that ensures objective assessment of candidates' skills. Every employee of the Bank can be promoted to manager, if they have a relevant professional track record.

Among the seven Members of the Bank's Management Board there is one woman, whereas two women sit on the twelve-person Supervisory Board of the Bank.

The composition of mBank's Supervisory Board reflects the care exercised to achieve the greatest possible diversification of members both in terms of their professional experience, as well as their knowledge and skills. The Supervisory Board is composed of representatives of mBank's main shareholder, representatives of science and business, and persons having vast legal knowledge and banking expertise.

Women account for 25% of top managers at the Bank. mBank's managers graduated from different fields of study in Poland and abroad, including economics, technology, IT, law, and philology. The management consists of people with diverse experience in Polish, European and American financial and non-financial institutions. The managers are aware of how important diversity is to the workplace and take part in training to learn how to identify differences and make use of them. mBank employs the Success Insights method to identify skills and personal features that may turn profitable in the workplace.

7. Glossary

AIRB - Advanced Internal Rating-Based

ALM – Asset and Liability Management

BaFin – Bundesanstalt für Finanzdienstleistungsaufsicht, the Federal Financial Supervisory Authority

BFG – Bank Guarantee Fund

BGK - Bank Gospodarstwa Krajowego; it is a Poland's only state-owned bank which primary business covers providing banking services for the public finance sector

BRRD – Banking Recovery and Resolution Directive

CATI - Computer Assisted Telephone Interview (survey)

CEE – Central and Eastern Europe

CET 1 - Core Tier 1 ratio, core equity capital ratio, calculated as: core funds after deductions / total risk exposure amount (from the end of March 2014, capital ratios are calculated in line with Basel III principles)

C/I ratio – Cost to Income; calculated as: (overhead costs + amortisation) / total income (including net other operating income/costs)

CNB – Czech National Bank

CRD IV – Capital Requirement Directive, a part of regulatory package CRD IV / CRR, which forms a part of Basel III

Cross-selling – a trade technique of selling a product or service combined with purchase of another product to an existing customer

CRR – Capital Requirement Regulation, EU regulation

ECB - European Central Bank

EIB – European Investment Bank

ESMA – European Securities and Markets Authority

EURIBOR – Euro Interbank Offer Rate – a daily reference rate, published by the European Money Market Institute; European equivalent of LIBOR

Fed – US Federal Reserve

FTE – Full Time Equivalent

GDP – Gross Domestic Product – a monetary measure of the value of all final goods and services produced in a country or region over a given period

Guarantee de minimis – A form of security of a loan, which dedicates funds to guaranteeing the repayment of loans in case of non-timely repayment

GUS – Polish Central Statistical Office

IBNI –Incured but Not Idenified Losses

ICAAP - Internal Capital Adequacy Assessment Process

IPO – Initial Public Offering, shares of stock in a company are sold to the general public on stock exchange market for the first time

K1 - Large enterprises (annual sales exceeding PLN 500 million)

K2 - Mid-sized enterprises (annual sales of PLN 30 – 500 million)

K3 - Small enterprises (annual sales below PLN 30 million)

PFSA – Polish Financial Supervision Authority (pol. KNF)

KSF – Financial Stability Committee

KUKE – Medium-term lending insured in Export Credit Insurance Corporation

LIBOR - London Interbank Offered Rate – the reference rate of interest on deposits and loans in the interbank market in London. Libor rates are set for the following currencies: USD, EUR, CHF, GBP, JPY, for 1 day, 1 week, 2 months, 3 months, 6 months and 1 year loans

LtV ratio – Loan to Value ratio, expressing a relation between an amount of a loan and a value of its collateral (usually mortgage)

M&A – Mergers and Acquisitions

MBA studies – Executive Master of Business Administration postgraduate studies offered in Polish and addressed to working professionals with higher education who have several years of experience in business, mainly occupying middle and higher management positions

MbO – Management by Objectives

„Mieszkanie dla Młodych" program – „Flats for Youth", the government's support program for people up to 35 years old in the process of purchase of their first, new flat

ML - Mortgage Loans - mortgage-secured products

MPC – Monetary Policy Council

NBP – National Bank of Poland

NBS – National Bank of Slovakia

Net interest margin – Net interest income / Average interest earning assets

NFC - Near Field Communication - technology that allows to pay using mobile phones

NFSR – Net Stable Funding Ratio

NML - Non-Mortgage Loans - unsecured products or products with collateral other than mortgage

NPL ratio – Non-Performing Loans ratio – a ratio of loans in default or close to being in default to total loans

„On-the-job" learning – Learning of new skills during work, i.e. through participation in projects, workshops, etc.

P/BV ratio – Price / Book value

PD – Probability of Default

P/E ratio – Price / Earnings

PPS – purchasing power standards

ROA net – Net profit attributable to owners of the Bank / average total assets

ROE gross – Profit before income tax/ average total equity net of the year's result

ROE net - Net profit attributable to owners of the Bank / average total equity net of the year's result

RWA – Risk Weighted Assets

RWD – Responsive Web Design – a technology enabling to adapt website layouts to the screen of a device displaying the content

SME – Small and Medium Enterprises

SoFFin - Germany's Financial Market Stabilisation Fund

SREP Guideline – Guidelines on Supervisory Review and Evaluation

Total income - Net interest income + Net fee and commission income + Dividend income + Net trading income + Gains less losses from investment securities, investments in subsidiaries and associates + The share in profits (losses) of joint ventures + Other operating income - Other operating expenses

TREA – Total Risk Exposure Amount

WIBOR - Warsaw Interbank Offered Rate; Polish equivalent of LIBOR

WIG – Warsaw Stock Exchange Index

WSE – Warsaw Stock Exchange

ZBP – The Polish Bank Association

8. Statements of the Management Board

True and fair picture in the presented reports

The Management Board of mBank S.A. declares that according to their best knowledge:

- The annual financial statements and the comparative figures were prepared in compliance with the binding accounting principles and present a true, fair and clear picture of the financial position and the condition of the assets of mBank S.A. as well as its financial performance.
- The report of the Management Board on the business of mBank in 2016 presents a true picture of the developments, achievements, and situation of the mBank S.A., including a description of the main risks and threats.

Appointment of the auditor

The Auditor authorised to audit financial statements and performing the audit of the annual financial statements of mBank S.A. for 2016 – PricewaterhouseCoopers Spółka z ograniczoną odpowiedzialnością - was appointed in compliance with legal regulations. The audit company and its auditors fulfilled the conditions necessary for an impartial and independent audit report in compliance with respective provisions of Polish law and professional standards.

Signatures of the Management Board of mBank S.A.

Date	First and last name	Position	Signature
01.03.2017	Cezary Stypułkowski	President of the Management Board	
01.03.2017	Lidia Jabłonowska-Luba	Deputy President of the Management Board, Chief Risk Officer	
01.03.2017	Przemysław Gdański	Deputy President of the Management Board, Head of Corporate and Investment Banking	
01.03.2017	Christoph Heins	Deputy President of the Management Board, Chief Financial Officer	
01.03.2017	Hans-Dieter Kemler	Deputy President of the Management Bard, Head of Financial Markets	
01.03.2017	Cezary Kocik	Deputy President of the Management Board, Head of Retail Banking	
01.03.2017	Jarosław Mastalerz	Deputy President of the Management Board, Head of Operations and Information Technology	