mBank S.A. Group

IFRS Condensed Consolidated Financial Statements
for the first half of 2016

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Selected financial data

The selected financial data are supplementary information to the condensed consolidated financial statements of mBank S.A. Group for the first half of 2016.

SELECTED FINANCIAL DATA FOR THE GROUP		in PLN'000		in EUR'000	
		1st Half of 2016 period from 01.01.2016 to 30.06.2016	1st Half of 2015 period from 01.01.2015 to 30.06.2015	1st Half of 2016 period from 01.01.2016 to 30.06.2016	1st Half of 2015 period from 01.01.2015 to 30.06.2015
I.	Interest income	**1 892 534**	**1 781 151**	**432 036**	**430 844**
II.	Fee and commission income	**717 193**	**680 017**	**163 724**	**164 490**
III.	Net trading income	**143 600**	**137 930**	**32 782**	**33 364**
IV.	Operating profit	**1 054 161**	**858 996**	**240 649**	**207 783**
V.	Profit before income tax	**907 848**	**857 201**	**207 248**	**207 349**
VI.	Net profit attributable to Owners of mBank S.A.	**696 286**	**672 259**	**158 951**	**162 613**
VII.	Net profit attributable to non-controlling interests	**2 414**	**1 794**	**551**	**434**
VIII.	Net cash flows from operating activities	**2 673 693**	**483 258**	**610 363**	**116 896**
IX.	Net cash flows from investing activities	**33 628**	**273 143**	**7 677**	**66 071**
X.	Net cash flows from financing activities	**1 303 871**	**433 921**	**297 653**	**104 961**
XI.	Net increase / decrease in cash and cash equivalents	**4 011 192**	**1 190 322**	**915 693**	**287 928**
XII.	Basic earnings per share (in PLN/EUR)	**16.48**	**15.93**	**3.76**	**3.85**
XIII.	Diluted earnings per share (in PLN/EUR)	**16.46**	**15.91**	**3.76**	**2.57**
XIV.	Declared or paid dividend per share (in PLN/EUR)	**-**	**-**	**-**	**-**

SELECTED FINANCIAL DATA FOR THE GROUP		in PLN'000			in EUR'000		
		As at			As at		
		30.06.2016	31.12.2015	30.06.2015	30.06.2016	31.12.2015	30.06.2015
I.	Total assets	**128 733 485**	**123 523 021**	**120 604 115**	**29 089 026**	**28 985 808**	**28 753 604**
II.	Amounts due to the Central Bank	**1**	**-**	**2**	**0**	**-**	**0**
III.	Amounts due to other banks	**12 058 197**	**12 019 331**	**15 675 917**	**2 724 708**	**2 820 446**	**3 737 344**
IV.	Amounts due to customers	**85 302 300**	**81 140 866**	**73 058 259**	**19 275 178**	**19 040 447**	**17 418 048**
V.	Equity attributable to Owners of mBank S.A.	**12 761 967**	**12 242 346**	**11 516 001**	**2 883 734**	**2 872 779**	**2 745 566**
VI.	Non-controlling interests	**35 032**	**32 618**	**31 532**	**7 916**	**7 654**	**7 518**
VII.	Share capital	**168 956**	**168 956**	**168 841**	**38 178**	**39 647**	**40 254**
VIII.	Number of shares	**42 238 924**	**42 238 924**	**42 210 157**	**42 238 924**	**42 238 924**	**42 210 157**
IX.	Book value per share (in PLN/EUR)	**302.14**	**289.84**	**272.83**	**68.27**	**68.01**	**65.05**
X.	Total capital ratio	**18.33**	**17.25**	**16.38**	**18.33**	**17.25**	**16.38**

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

- for items of the statement of financial position – exchange rate announced by the National Bank of Poland as at 30 June 2016: EUR 1 = 4.4255, 31 December 2015: EUR 1 = PLN 4.2615 and 30 June 2015: EUR 1 = PLN 4.1944.

- for items of the income statement – exchange rate calculated as the arithmetic mean of exchange rates announced by the National Bank of Poland as at the end of each month of the first half of 2016 and 2015: EUR 1 = PLN 4.3805 and EUR 1 = PLN 4.1341 respectively.

IFRS Condensed Consolidated Financial Statements for the first half of 2016 PLN (000's)

Condensed consolidated income statement

	Note	Period from 01.04.2016 to 30.06.2016	Period from 01.01.2016 to 30.06.2016	Period from 01.04.2015 to 30.06.2015	Period from 01.01.2015 to 30.06.2015
Interest income	5	947 051	1 892 534	868 865	1 781 151
Interest expense	5	(262 608)	(531 673)	(263 317)	(588 164)
Net interest income		**684 443**	**1 360 861**	**605 548**	**1 192 987**
Fee and commission income	6	365 283	717 193	365 490	680 017
Fee and commission expense	6	(155 580)	(295 745)	(135 154)	(255 824)
Net fee and commission income		**209 703**	**421 448**	**230 336**	**424 193**
Dividend income	7	2 586	2 586	3 158	3 189
Net trading income, including:	8	59 513	143 600	35 312	137 930
Foreign exchange result		*66 065*	*137 882*	*66 000*	*144 687*
Other net trading income and result on hedge accounting		*(6 552)*	*5 718*	*(30 688)*	*(6 757)*
Gains less losses from investment securities, investments in subsidiaries and associates, including:	9	244 755	248 182	1 342	196 350
Gains less losses from investment securities		*244 755*	*248 624*	*2 227*	*6 174*
Gains less losses from investments in subsidiaries and associates		-	*(442)*	*(885)*	*190 176*
The share in the profits (losses) of joint ventures		(48)	(88)	(15)	(15)
Other operating income	10	55 081	149 168	45 638	134 312
Net impairment losses on loans and advances	11	(117 743)	(186 263)	(107 666)	(207 637)
Overhead costs	12	(427 329)	(854 374)	(435 245)	(840 046)
Amortisation		(63 370)	(117 097)	(49 167)	(96 298)
Other operating expenses	13	(53 041)	(113 862)	(36 470)	(85 969)
Operating profit		**594 550**	**1 054 161**	**292 771**	**858 996**
Taxes on the Group balance sheet items		(89 011)	(146 313)	(888)	(1 795)
Profit before income tax		**505 539**	**907 848**	**291 883**	**857 201**
Income tax expense	24	(116 344)	(209 148)	(70 174)	(183 148)
Net profit		**389 195**	**698 700**	**221 709**	**674 053**
Net profit attributable to:					
- Owners of mBank S.A.		388 504	696 286	221 323	672 259
- Non-controlling interests		691	2 414	386	1 794

Net profit attributable to Owners of mBank S.A.			**696 286**		**672 259**
Weighted average number of ordinary shares	14		**42 238 924**		**42 210 143**
Earnings per share (in PLN)	14		**16.48**		**15.93**
Weighted average number of ordinary shares for diluted earnings	14		**42 299 047**		**42 257 173**
Diluted earnings per share (in PLN)	14		**16.46**		**15.91**

IFRS Condensed Consolidated Financial Statements for the first half of 2016 PLN (000's)

Condensed consolidated statement of comprehensive income

	Period from 01.04.2016 to 30.06.2016	Period from 01.01.2016 to 30.06.2016	Period from 01.04.2015 to 30.06.2015	Period from 01.01.2015 to 30.06.2015
Net profit	**389 195**	**698 700**	**221 709**	**674 053**
Other comprehensive income net of tax, including:	**(222 007)**	**(182 287)**	**(278 382)**	**(206 554)**
Items that may be reclassified subsequently to the income statement				
Exchange differences on translation of foreign operations (net)	257	193	74	(5 281)
Change in valuation of available for sale financial assets (net)	(221 708)	(183 096)	(269 406)	(193 276)
Cash flows hedges (net)	(556)	616	(9 050)	(7 997)
Items that will not be reclassified to the income statement				
Actuarial gains and losses relating to post-employment benefits (net)	-	-	-	-
Total comprehensive income (net)	**167 188**	**516 413**	**(56 673)**	**467 499**
Total comprehensive income (net), attributable to:				
- Owners of mBank S.A.	166 497	513 999	(57 059)	465 705
- Non-controlling interests	691	2 414	386	1 794

IFRS Condensed Consolidated Financial Statements for the first half of 2016 PLN (000's)

Condensed consolidated statement of financial position

ASSETS	Note	30.06.2016	31.12.2015	30.06.2015
Cash and balances with the Central Bank		6 433 221	5 938 133	3 187 463
Loans and advances to banks		1 680 830	1 897 334	2 071 953
Trading securities	15	3 233 150	557 541	2 597 284
Derivative financial instruments	16	2 411 457	3 349 328	3 345 943
Loans and advances to customers	18	80 774 809	78 433 546	77 241 598
Hedge accounting adjustments related to fair value of hedged items		73	130	256
Investment securities	19	31 644 303	30 736 949	29 515 812
Investments in joint ventures		7 271	7 359	985
Intangible assets	20	503 561	519 049	469 853
Tangible assets	21	722 792	744 522	691 833
Current income tax assets		610	1 850	121
Deferred income tax assets	24	451 688	366 088	361 724
Other assets		869 720	971 192	1 119 290
Total assets		**128 733 485**	**123 523 021**	**120 604 115**
LIABILITIES AND EQUITY				
Liabilities				
Amounts due to the Central Bank		1	-	2
Amounts due to other banks		12 058 197	12 019 331	15 675 917
Derivative financial instruments	16	2 157 160	3 173 638	3 302 248
Amounts due to customers	22	85 302 300	81 140 866	73 058 259
Debt securities in issue		10 115 495	8 946 195	11 013 855
Hedge accounting adjustments related to fair value of hedged items		206 247	100 098	58 929
Other liabilities		1 949 265	1 764 091	1 848 017
Current income tax liabilities		59 622	50 126	33 257
Provisions for deferred income tax	24	909	981	1 085
Provisions	23	176 833	225 416	168 401
Subordinated liabilities		3 910 457	3 827 315	3 896 612
Total liabilities		**115 936 486**	**111 248 057**	**109 056 582**
Equity				
Equity attributable to Owners of mBank S.A.		**12 761 967**	**12 242 346**	**11 516 001**
Share capital:		**3 535 758**	**3 535 758**	**3 523 935**
- Registered share capital		168 956	168 956	168 841
- Share premium		3 366 802	3 366 802	3 355 094
Retained earnings:		**8 975 690**	**8 273 782**	**7 649 097**
- Profit from the previous years		8 279 404	6 972 536	6 976 838
- Profit for the current year		696 286	1 301 246	672 259
Other components of equity		**250 519**	**432 806**	**342 969**
Non-controlling interests		**35 032**	**32 618**	**31 532**
Total equity		**12 796 999**	**12 274 964**	**11 547 533**
Total liabilities and equity		**128 733 485**	**123 523 021**	**120 604 115**
Total capital ratio		**18.33**	**17.25**	**16.38**
Common Equity Tier 1 capital ratio		**15.61**	**14.29**	**13.45**
Book value		**12 761 967**	**12 242 346**	**11 516 001**
Number of shares		**42 238 924**	**42 238 924**	**42 210 157**
Book value per share (in PLN)		**302.14**	**289.84**	**272.83**

IFRS Condensed Consolidated Financial Statements for the first half of 2016 PLN (000's)

Condensed consolidated statement of changes in equity

Changes from 1 January to 30 June 2016

	Share capital		Retained earnings					Other components of equity						
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	Exchange differences on translation of foreign operations	Valuation of available for sale financial assets	Cash flows hedges	Actuarial gains and losses relating to post-employment benefits	Equity attributable to Owners of mBank S.A., total	Non-controlling interests	Total equity
Equity as at 1 January 2016	**168 956**	**3 366 802**	**4 883 602**	**103 972**	**1 095 453**	**2 190 755**	**-**	**(6 426)**	**442 354**	**859**	**(3 981)**	**12 242 346**	**32 618**	**12 274 964**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**696 286**	**193**	**(183 096)**	**616**	**-**	**513 999**	**2 414**	**516 413**
Transfer to general banking risk reserve	-	-	-	-	36 000	(36 000)	-	-	-	-	-	-	-	-
Transfer to reserve capital	-	-	61 087	-	-	(61 087)	-	-	-	-	-	-	-	-
Stock option program for employees	-	-	-	5 622	-	-	-	-	-	-	-	5 622	-	5 622
- value of services provided by the employees	-	-	-	*5 622*	-	-	-	-	-	-	-	*5 622*	-	*5 622*
Equity as at 30 June 2016	**168 956**	**3 366 802**	**4 944 689**	**109 594**	**1 131 453**	**2 093 668**	**696 286**	**(6 233)**	**259 258**	**1 475**	**(3 981)**	**12 761 967**	**35 032**	**12 796 999**

Changes from 1 January to 31 December 2015

	Share capital		Retained earnings					Other components of equity						
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	Exchange differences on translation of foreign operations	Valuation of available for sale financial assets	Cash flows hedges	Actuarial gains and losses relating to post-employment benefits	Equity attributable to Owners of mBank S.A., total	Non-controlling interests	Total equity
Equity as at 1 January 2015	**168 840**	**3 355 063**	**4 413 825**	**101 252**	**1 041 953**	**1 412 786**	**-**	**(1 765)**	**549 621**	**4 056**	**(2 389)**	**11 043 242**	**29 738**	**11 072 980**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**1 301 246**	**(4 661)**	**(107 267)**	**(3 197)**	**(1 592)**	**1 184 529**	**2 882**	**1 187 411**
Transfer to general banking risk reserve	-	-	-	-	53 500	(53 500)	-	-	-	-	-	-	-	-
Transfer to supplementary capital	-	-	469 777	-	-	(469 777)	-	-	-	-	-	-	-	-
Issue of shares	116	-	-	-	-	-	-	-	-	-	-	116	-	116
Other changes	-	-	-	-	-	-	-	-	-	-	-	-	(2)	(2)
Stock option program for employees	-	11 739	-	2 720	-	-	-	-	-	-	-	14 459	-	14 459
- value of services provided by the employees	-	-	-	*14 459*	-	-	-	-	-	-	-	*14 459*	-	*14 459*
- settlement of exercised options	-	*11 739*	-	*(11 739)*	-	-	-	-	-	-	-	-	-	-
Equity as at 31 December 2015	**168 956**	**3 366 802**	**4 883 602**	**103 972**	**1 095 453**	**889 509**	**1 301 246**	**(6 426)**	**442 354**	**859**	**(3 981)**	**12 242 346**	**32 618**	**12 274 964**

Changes from 1 January to 30 June 2015

	Share capital		Retained earnings					Other components of equity						
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year - restated	Exchange differences on translation of foreign operations	Valuation of available for sale financial assets	Cash flows hedges	Actuarial gains and losses relating to post-employment benefits	Equity attributable to Owners of mBank S.A., total	Non-controlling interests	Total equity
Equity as at 1 January 2015	**168 840**	**3 355 063**	**4 413 825**	**101 252**	**1 041 953**	**1 412 786**	**-**	**(1 765)**	**549 621**	**4 056**	**(2 389)**	**11 043 242**	**29 738**	**11 072 980**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**672 259**	**(5 281)**	**(193 276)**	**(7 997)**	**-**	**465 705**	**1 794**	**467 499**
Transfer to general banking risk reserve	-	-	-	-	53 500	(53 500)	-	-	-	-	-	-	-	-
Transfer to supplementary capital	-	-	435 764	-	-	(435 764)	-	-	-	-	-	-	-	-
Issue of shares	1	-	-	-	-	-	-	-	-	-	-	1	-	1
Stock option program for employees	-	31	-	7 022	-	-	-	-	-	-	-	7 053	-	7 053
- value of services provided by the employees	-	-	-	*7 053*	-	-	-	-	-	-	-	*7 053*	-	*7 053*
- settlement of exercised options	-	*31*	-	*(31)*	-	-	-	-	-	-	-	-	-	-
Equity as at 30 June 2015	**168 841**	**3 355 094**	**4 849 589**	**108 274**	**1 095 453**	**923 522**	**672 259**	**(7 046)**	**356 345**	**(3 941)**	**(2 389)**	**11 516 001**	**31 532**	**11 547 533**

IFRS Condensed Consolidated Financial Statements for the first half of 2016 PLN (000's)

Condensed consolidated statement of cash flows

	Period from 01.01.2016 to 30.06.2016	Period from 01.01.2015 to 30.06.2015
A. Cash flows from operating activities	**2 673 693**	**483 258**
Profit before income tax	**907 848**	**857 201**
Adjustments:	***1 765 845***	***(373 943)***
Income taxes paid	(245 873)	(100 368)
Amortisation, including amortisation of fixed assets provided under operating lease	140 366	119 018
Foreign exchange (gains) losses related to financing activities	498 415	1 924 476
(Gains) losses on investing activities	(251 664)	(196 449)
Impairment of investments in subsidiaries	8 119	(10)
Dividends received	(2 586)	(3 189)
Interest income (income statement)	(1 892 534)	(1 781 151)
Interest expense (income statement)	531 673	588 164
Interest received	1 774 691	1 633 447
Interest paid	(488 614)	(548 905)
Changes in loans and advances to banks	1 085 628	1 315 774
Changes in trading securities	528	(21 555)
Changes in assets and liabilities on derivative financial instruments	(9 646)	130 619
Changes in loans and advances to customers	(2 365 218)	(2 612 860)
Changes in investment securities	(832 468)	(2 031 355)
Changes in other assets	101 473	(312 361)
Changes in amounts due to other banks	(746 535)	480 052
Changes in amounts due to customers	3 669 334	422 592
Changes in debt securities in issue	648 543	(48 270)
Changes in provisions	(48 583)	(8 480)
Changes in other liabilities	190 796	676 868
Net cash generated from/(used in) operating activities	**2 673 693**	**483 258**
B.Cash flows from investing activities	**33 628**	**273 143**
Investing activity inflows	**218 918**	**445 133**
Disposal of shares in subsidiaries, net of cash disposed	2 000	427 424
Disposal of intangible assets and tangible fixed assets	15 300	14 520
Dividends received	2 586	3 189
Other investing inflows	199 032	-
Investing activity outflows	**185 290**	**171 990**
Acquisition of shares in subsidiaries	310	-
Purchase of intangible assets and tangible fixed assets	184 980	161 629
Other investing outflows	-	10 361
Net cash generated from/(used in) investing activities	**33 628**	**273 143**
C. Cash flows from financing activities	**1 303 871**	**433 921**
Financing activity inflows	**1 672 300**	**1 382 952**
Proceeds from loans and advances from other banks	570 635	180 475
Proceeds from other loans and advances	439 000	415 420
Issue of debt securities	662 665	787 056
Issue of ordinary shares	-	1
Financing activity outflows	**368 429**	**949 031**
Repayments of loans and advances from other banks	91 710	1 418
Repayments of other loans and advances	6 422	6 523
Redemption of debt securities	200 000	150 000
Decrease of subordinated liabilities	-	637 738
Payments of financial lease liabilities	166	243
Interest paid from loans and advances received from other banks, subordinated liabilities and long term issue	70 131	153 109
Net cash generated from/(used in) financing activities	**1 303 871**	**433 921**
Net increase / decrease in cash and cash equivalents (A+B+C)	**4 011 192**	**1 190 322**
Effects of exchange rate changes on cash and cash equivalents	35 834	4 658
Cash and cash equivalents at the beginning of the reporting period	6 656 382	4 711 505
Cash and cash equivalents at the end of the reporting period	**10 703 408**	**5 906 485**

Explanatory notes to the condensed consolidated financial statements

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

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

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

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

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

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

As at 30 June 2016, mBank S.A. Group covered by the condensed consolidated financial statements comprised the following companies:

mBank S.A., the parent entity

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

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

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

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

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

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

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

As at 30 June 2016 the headcount of mBank S.A. amounted to 5 359 FTEs (Full Time Equivalents) and of the Group to 6 529 FTEs (30 June 2015: Bank to 5 062 FTEs, Group 6 446 FTEs).

As at 30 June 2016 the employment in mBank S.A. was 6 293 persons and in the Group 8 308 persons (30 June 2015: Bank 6 262 persons, Group 8 501 persons).

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

Corporates and Financial Markets Segment, including:

Corporate and Investment Banking

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

Financial Markets

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

Retail Banking Segment (including Private Banking)

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

Other

- mCentrum Operacji Sp. z o.o., subsidiary
- mLocum S.A., subsidiary
- BDH Development Sp. z o.o., subsidiary

Other information concerning companies of the Group

On 20 May 2016, there was a division of Dom Maklerski mBanku S.A. ("mDM") and mWealth Management S.A. ("mWM"), the Group entities.

The division of mDM was effected in accordance with the procedure specified in Art. 529 § 1.1 of the Commercial Companies Code ("CCC"), i.e. through a transfer to:

- the Bank of a part of the assets and liabilities of mDM in the form of an organised part of the enterprise of mDM connected with the provision of brokerage services;
- mCentrum Operacji sp. z o.o., of a part of the assets and liabilities of mDM in the form of an organised part of the enterprise of mDM connected with the servicing of and rendering of human resources and payroll services.

The division of mWM was effected in accordance with the procedure specified in Art. 529 § 1.1 of the CCC, i.e. through a transfer to:

- the Bank of a part of the assets and liabilities of mWM in the form of an organised part of the enterprise of mWM connected with the provision of brokerage services, as well as other activities that do not constitute the Operations of the Office of the Real Estate Market and Alternative Investments as defined below; and
- through a transfer to BRE Property Partner sp. z o.o., the subsidiary of mBank, of a part of the assets and liabilities of mWM in the form of an organised part of the enterprise of mWM connected with advisory and intermediation services, within the scope of acquiring and investing in real estate as well as other alternative investments (investment gold, investment silver, fine art), in favour of natural persons as well as the performance of an analysis within the scope of the real estate market.

With reference to the mDM division and the mWM division, on 20 May 2016 the striking off took place:

- of mDM from the National Court Register by the District Court for the Capital City of Warsaw in Warsaw, XII Commercial Division of the National Court Register;
- of mWM from the National Court Register by the District Court for the Capital City of Warsaw in Warsaw, XII Commercial Division of the National Court Register.

Consequently, pursuant to Art. 530 § 1 of the CCC, as a result of the mDM division and the mWM division, mDM and mWM were wound up without going into liquidation on the date on which they were struck off the register while their activities were taken over and continued by mBank and other Group entities.

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

2. Description of the relevant accounting policies

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

2.1. Accounting basis

The condensed consolidated financial statements of mBank S.A. Group have been prepared for the 6-month period ended 30 June 2016.

The presented condensed consolidated financial statements for the first half of 2016 fulfill the requirements of the International Accounting Standard (IAS) 34 "Interim Financial Reporting", concerning interim financial statements and adopted for application by the European Union.

The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and, therefore, the presented condensed consolidated financial statements for the first half of 2016 should be read in conjunction with the mBank S.A. Group Consolidated Financial Statements for the year 2015, which have been prepared in accordance with IFRSs adopted for application by the European Union, on 25 February 2016 approved by the Bank's Management Board. Accounting policies applied to the preparation of the condensed consolidated financial statements are consistent with those applied in the annual consolidated financial statements for the year ended 31 December 2015, with the exception of the application of new or amended standards and interpretations binding for annual periods beginning on or after 1 January 2016 and described in Note 2.33.

The data presented in the mBank S.A. Group condensed consolidated financial statements for the year 2015 was audited by the auditor, while the data for the first half of 2015 was reviewed by the auditor.

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

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

The Management Board of mBank S.A. approved these condensed consolidated financial statements for issue on 28 July 2016.

2.2. Consolidation

Subsidiaries

Subsidiaries comprise entities, regardless of the nature of the involvement with an entity (including special purpose vehicles) over which the Group controls the investee. The control is achieved when the Group has power over the investee, is exposed or has rights, to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. When the Group has less than a majority of the voting rights of an investee, it considers all relevant facts and circumstances in assessing whether it has power over the investee, including a contractual arrangements between the Group and other vote holders, rights arising from other contractual arrangements, the Group's voting rights and potential voting rights. If facts and circumstances indicate that there are changes in at least one of the three elements of control listed above, the Group reassess whether it controls an investee. The consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. The consolidated financial statements combine items of assets, liabilities, equity, income and expenses of the parent with those of its subsidiaries eliminating the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary. Thus arises goodwill. If goodwill has negative value, it is recognised directly in the income statement (see Note 2.20). The profit or loss and each component of other comprehensive income is attributed to the Group's owners and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. If the Group loses control of a subsidiary, it shall account for all amounts previously recognised in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Group had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group shall reclassify the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses control of the subsidiary. If a revaluation surplus previously recognised in other comprehensive income would be transferred directly to retained earnings on the disposal of the assets, the Group shall transfer the revaluation surplus directly to retained earnings when it loses control of the subsidiary.

IFRS Condensed Consolidated Financial Statements for the first half of 2016 PLN (000's)

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

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

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

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

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

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

Company	30.06.2016		31.12.2015		30.06.2015	
	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method
Aspiro S.A.	100%	full	100%	full	100%	full
BDH Development Sp. z o.o.	100%	full	100%	full	100%	full
Dom Maklerski mBanku S.A.	-	-	100%	full	100%	full
Garbary Sp. z o.o.	100%	full	100%	full	100%	full
mBank Hipoteczny S.A.	100%	full	100%	full	100%	full
mCentrum Operacji Sp. z o.o.	100%	full	100%	full	100%	full
mFaktoring S.A.	100%	full	100%	full	100%	full
mLeasing Sp. z o.o.	100%	full	100%	full	100%	full
mWealth Management S.A.	-	-	100%	full	100%	full
Tele-Tech Investment Sp. z o.o.	100%	full	100%	full	-	-
mFinance France S.A.	99.998%	full	99.998%	full	99.98%	full
mLocum S.A.	79.99%	full	79.99%	full	79.99%	full
MLV 45 Sp. z o.o. spółka komandytowa	-	-	-	-	100%	full

The companies Dom Maklerski mBanku S.A. and mWealth Management S.A. were consolidated until their division described under Note 1.

Starting with the financial statements for the third quarter of 2015, the Group has begun to consolidate the company Tele-Tech Investment Sp. z o.o., a subsidiary of mBank.

2.3. Associates and joint ventures

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

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

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

After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment with respect to its net investment in the associate or joint venture. At the reporting date the Group determines whether there was an objective evidence for impairment of an investment in an associate or a joint venture. If there was an objective evidence for impairment, the Group calculates impairment comparing the recoverable amount of the investment with its carrying value. Investments in associates and joint ventures are settled using the equity method of accounting and they are initially recognised at cost.

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

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

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

2.4. Interest income and expenses

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

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

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

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

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

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

Income and expenses related to the interest component of the result on interest rate derivatives and resulting from current calculation of swap points on currency derivatives classified into banking book are presented in the interest results in the position Interest income/expense on derivatives classified into banking book. The banking book includes transactions, which are not concluded for trading purposes i.e. not aimed at generating a profit in a short-term period (up to 6 months) and those that do not constitute hedging a risk arising from the operations assigned into trading book.

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

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

2.5. Fee and commission income

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

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

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

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

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

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

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

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

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

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

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

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

2.7. Insurance premium revenue

Insurance premium revenue accomplished upon insurance activity is recognised at the policy issue date and calculated proportionally over the period of insurance cover. Insurance premium revenue is recognised under other operating income in the consolidated financial statements of the Group.

2.8. Compensations and benefits, net

Compensations and benefits, net relate to insurance activity. They comprise payoffs and charges made in the reporting period due to compensations and benefits for events arising in the current and previous periods, together with costs of claims handling and costs of enforcement of recourses, less received returns, recourses and any recoveries, including recoveries from sale of remains after claims and reduced by reinsurers' share in these positions. Costs of claims handling and costs of enforcement of recourses also comprise costs of legal proceedings. The item also comprises compensations and benefits due to co-insurance activity in the part related to the share of the Group. Compensations and benefits, net are recognised together with insurance premium revenue recognition under other operating income in the consolidated financial statements of the Group.

2.9. Segment reporting

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

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

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

2.10. Financial assets

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

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

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

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

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

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

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

- assets/liabilities are classified as held for trading i.e. they are acquired or incurred principally for the purpose of selling or repurchasing them in the near term, they are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit making or they are derivatives (except for derivatives that are designated as and being effective hedging instruments and financial guarantee contracts),

- upon initial recognition, assets/liabilities are designated by the entity at fair value through the income statement according to IAS 39.

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

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

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

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

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

Interest income/expense on financial assets/financial liabilities designated at fair value (Note 2.4), except for derivatives the recognition of which is discussed in Note 2.17, is recognised in net interest income. The valuation and result on disposal of financial assets/financial liabilities designated at fair value is recognised in trading income.

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

Loans and receivables

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

Financial assets held to maturity

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

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

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

Financial assets available for sale

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

Interest income and expense from available for sale investments are presented in net interest income. Gains and losses from sale of available for sale investments are presented in gains and losses from investment securities.

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

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

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

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

2.11. Reinsurance assets

The Group transfers insurance risks to reinsurers in the course of typical operating activities in insurance activity. Reinsurance assets comprise primarily reinsurers' share in technical-insurance provisions.

The amounts of settlements with reinsurers are estimated according to relevant reinsured polices and reinsurance agreements.

Tests for impairment of reinsurance assets are carried out if there is objective evidence that the reinsurance asset is impaired. Impairment loss of reinsurance asset is calculated if either there is an objective evidence that the Group might not receive the receivable in accordance with the agreement or the value of such impairment can be reliably assessed.

If in a subsequent period the impairment loss is decreasing and the decrease can be objectively related to an event occurring after the recognition of impairment, then the previously recognised impairment loss is reversed as an adjustment of the impairment loss through the consolidated income statement.

The reversal cannot cause an increase of the carrying amount of the financial asset more than the amount which would constitute the amortised cost of this asset on the reversal date if the recognition of the impairment did not occur at all.

2.12. Offsetting financial instruments

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

2.13. Impairment of financial assets

Assets carried at amortised cost

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

The Group measures impairment of loan exposures in accordance with the International Accounting Standard 39. The classification of customers to default portfolio and calculation of impairment write-off is as follows:

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

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

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

d) booking of impairment losses and provisions.

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

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

1. The number of days past due is above 90 days (14 days in the case of banks) and the overdue amount exceeds PLN 3 000.

2. The Bank has sold exposures with a significant economic loss related to the decrease of the debtor creditworthiness.

3. The Bank performed enforced restructuring of the exposure, which resulted in the change of the loan/transaction service schedule due to the lack of possibility of the obligor to meet his obligations under loan/transaction agreement, as initially stipulated, which resulted in:

a) remitting part of these obligations, or

b) postponing the repayment of the substantial part of the principal, interest or (if it refers to) commission; provided that the lack of approval for restructuring would cause more than 90 calendar days delay in repayment of substantial part of the obligation.

4. Filing by the Bank, the parent or subsidiary entity of the Bank a bankruptcy motion against debtor or filing similar motion in respect of credit obligations of the debtor towards the Bank, the parent or subsidiary entity of the Bank.

5. Bankruptcy of debtor or acquiring by him a similar legal protection resulting in his evasion of or delay in repayment of credit obligations towards the Bank, the parent or subsidiary entity of the Bank.

6. Termination of part or whole credit agreement by the Bank and the beginning of restructuring/collection procedures.

7. Client's fraud.

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

a) governments and central banks,

b) banks,

c) corporations, including specialised lending,

d) local government units,

e) insurers,

f) pension fund managing companies, investment fund managing companies.

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

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

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

The Group first assesses whether objective indications exist individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that for the given financial asset assessed individually there are no objective indications of its impairment (regardless of whether that particular item is material or not), the given asset is included in a group of financial assets featuring similar credit risk characteristics, which is subsequently collectively assessed in terms of its possible impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Recognition of default in respect of one exposure to a customer leads to recognision of the default status for all exposures to that customer.

If there is impairment indicator for impairment of loans and receivables or investments held to maturity and recognised at amortised cost, the impairment amount is calculated as the difference between the carrying value in the statement of financial position of the respective asset and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying value of the asset is reduced through the use of an allowance account, and the resulting impairment loss is charged to the income statement. If a loan or held to maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of collective evaluation of impairment, the credit exposures are grouped in order to ensure the uniformity of credit risk attached to the given portfolio. Many different parameters may be applied to the grouping into homogeneous portfolios, e.g., the type of counterparty, the type of exposure, estimated probability of default, the type of collateral provided, overdue status outstanding, maturities, and their combinations. Such features influence the estimation of the future cash flows attached to specific groups of assets as they indicate the capabilities of repayment on the part of debtors of their total liabilities in conformity with the terms and conditions of the contracts concerning the assessed assets.

Future cash flows concerning groups of financial assets assessed collectively in terms of their possible impairment are estimated on the basis of contractual cash flows and historical loss experience for assets with credit risk characteristics similar to those in the group.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

For the purpose of calculation of the amount to be provisioned against balance sheet exposures analysed collectively, the probability of default (PD) method has been applied. By calibration of PD values, taking into account characteristics of specific products and emerging periods for losses on those products, such PD values allow already arisen losses to be identified and cover only the period in which the losses arising at the date of establishment of impairment should crystallise.

When a loan is uncollectible, it is written off against the related provision for impairment. Before any loan is written off, it is necessary to conduct all the procedures required by the Group and sets the amount of the loss. Subsequent recoveries of amounts previously written off reduce the amount of the provision for loan impairment in the income statement.

If in a subsequent period, after the transitional period, the impairment loss amount is decreasing and the decrease can be related objectively to an event occurring after the impairment was recognised (e.g., improvement of the debtor's credit rating), then the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recorded in the income statement.

Assets measured at fair value available for sale

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

Renegotiated agreements

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

2.14. Financial guarantee contracts

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

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

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

2.15. Cash and cash equivalents

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

2.16. Sell-buy-back, buy-sell-back, reverse repo and repo contracts

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

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

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

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

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

2.17. Derivative financial instruments and hedge accounting

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

The best fair value indicator for a derivative instrument at the time of its initial recognition is the price of the transaction (i.e., the fair value of the paid or received consideration). If the fair value of the particular instrument may be determined by comparison with other current market transactions concerning the same instrument (not modified) or relying on valuation techniques based exclusively on market data that are available for observation, then the Group recognises the respective gains or losses from the first day in accordance with the principles described under Note 2.18.

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

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

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

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

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

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

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

Fair value hedges

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

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

Cash flow hedges

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

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

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

Derivative instruments not fulfilling the criteria of hedge accounting

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

The Group holds the following derivative instruments in its portfolio:

Market risk instruments:

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

Interest rate risk instruments:

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

Foreign exchange risk instruments:

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

2.18. Gains and losses on initial recognition

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

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

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

2.19. Borrowings and deposits taken

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

2.20. Intangible assets

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

Goodwill

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

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

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

Computer software

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

Capitalised costs attached to the development of software are amortised over the period of their estimated useful life.

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

Development costs

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

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

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

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

2.21. Tangible fixed assets

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

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

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

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

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

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

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

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

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

2.22. Inventories

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

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

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

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

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

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

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

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

2.24. Deferred income tax

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

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

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

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

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

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

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

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

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

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

2.25. Assets repossessed for debt

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

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

2.26. Prepayments, accruals and deferred income

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

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

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

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

2.27. Leasing

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

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

mBank S.A. Group as a lessor

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

Revenue from leasing agreements is recognised as follows:

- Interests on finance lease

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

- Net revenue from operating lease

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

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

mBank S.A. Group as a lessee

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

2.28. Provisions

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

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

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

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

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

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

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

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

2.29. Post-employment employee benefits and other employee benefits

Post-employment employee benefits

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

Equity-settled share-based payment transactions

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

Cash-settled share-based payment transactions

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

Other employee benefits

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

2.30. Equity

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

Registered share capital

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

- Own shares

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

Share premium

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

- Share issue costs

Costs directly connected with the issue of new shares or reduce the proceeds from the issue recognised in equity.

Retained earnings

Retained earnings include:

- other supplementary capital,
- other reserve capital,

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

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

Moreover, other reserve capital comprises valuation of employee options.

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

<u>Other components of equity</u>

Other components of equity result from:

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

2.31. Valuation of items denominated in foreign currencies

<u>Functional currency and presentation currency</u>

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

<u>Transactions and balances</u>

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

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

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

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

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

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

<u>Companies belonging to the Group</u>

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

- assets and liabilities in each presented statement of financial position are converted at the average rate of exchange of the National Bank of Poland (NBP) in force at the end of this reporting period;
- revenues and expenses in each income statement are converted at the rate equal to the arithmetical mean of the average rates quoted by NBP on the last day of each of 6 months of each presented periods; whereas
- all resulting foreign exchange differences are recognised as a distinct item of other comprehensive income.

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

Leasing business

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

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

2.32. Trust and fiduciary activities

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

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

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

2.33. New standards, interpretations and amendments to published standards

These financial statements include the requirements of all the International Accounting Standards and the International Financial Reporting Standards endorsed by the European Union, and the related with them interpretations which have been endorsed and binding for annual periods starting on 1 January 2016.

Published Standards and Interpretations which have been issued and binding for the Group for annual periods starting on 1 January 2016

Standards and interpretations approved by the European Union:

- IAS 19 (Amended), *Defined Benefit Plans: Employee Contributions*, published by the International Accounting Standards Board on 21 November 2013, approved by European Union on 17 December 2014 and binding for annual periods starting on or after 1 July 2014, in EU effective at the latest for financial years beginning on or after 1 February 2015.
- Improvements to IFRSs 2010 - 2012, published by the International Accounting Standards Board on 12 December 2013, approved by European Union on 17 December 2014, in majority binding for annual periods starting on or after 1 July 2014 and some effective prospectively for transactions occurring on or after 1 July 2014, in EU effective at latest for financial years beginning on or after 1 February 2015.
- Amendments to IAS 1, *Disclosure initiative*, published by the International Accounting Standards Board on 18 December 2014 approved by European Union on 18 December 2015 and binding for annual periods starting on or after 1 January 2016.
- Amendments to IAS 16 and IAS 38, *Clarification of acceptable methods of depreciation and amortization*, published by the International Accounting Standards Board on 12 May 2014, approved by European Union on 2 December 2015, binding for annual periods beginning on or after 1 January 2016.
- Amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants* published by the International Accounting Standards Board on 30 June 2014, approved by European Union on 23 November 2015, binding for annual periods beginning on or after 1 January 2016.

- Amendments to IAS 27, *Equity method in separate financial statements*, published by the International Accounting Standards Board on 12 August 2014, approved by European Union on 18 December 2015, binding for annual periods beginning on or after 1 January 2016. The impact of applying the amended IAS 27 on the standalone comparative data presented in these financial statements has been presented under Note 2.34 "Comparative data".
- IFRS 11 (Amended), *Accounting for acquisitions of interests in joint operations*, published by the International Accounting Standards Board on 6 May 2014, approved by European Union on 24 November 2015, binding for annual periods beginning on or after 1 January 2016.
- Annual Improvements to IFRSs 2012-2014 Cycle, changing 4 standards, published by the International Accounting Standards Board on 25 September 2014, approved by European Union on 15 December 2015 and binding for annual periods beginning on or after 1 January 2016.

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

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

Standards and interpretations not yet approved by the European Union:

- Amendments to IFRS 10 and IAS 28, *Sale or contribution of assets between an investor and its associate or joint venture*, published by the International Accounting Standards Board on 11 September 2014, binding for annual periods beginning on or after 1 January 2016, wherein the term has been initially postponed by the International Accounting Standards Board.

  The Group is of the opinion that the application of the amended standards will have no significant impact on the financial statements in the period of its initial application.
- Amendments to IFRS 10, IFRS 12 and IAS 28, *Investment entities: applying the consolidation exception,* published by the International Accounting Standards Board on 18 December 2014, binding for annual periods starting on or after 1 January 2016.

  The Group is of the opinion that the application of the amended standards will have no significant impact on the financial statements in the period of their initial application.
- IFRS 14, *Regulatory Deferral Accounts*, published by the International Accounting Standards Board on 30 January 2014, binding for annual periods starting on or after 1 January 2016.

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

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

Standards and interpretations not yet approved by the European Union:

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

  The Group is of the opinion that the application of the standard will have an impact on the presentation and measurement of these instruments in the financial statements.
- IFRS 15, *Revenue from Contracts with Customers*, published by the International Accounting Standards Board on 28 May 2014, binding for annual periods beginning on or after 1 January 2018.

  Amendments to IFRS 15 were published by International Accounting Standards Board on 11 September 2015 and are binding for annuals periods starting on or after 1 January 2018.

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

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

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

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

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

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

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

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

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

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

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

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

2.34. Comparative data

Consolidated data as at 30 June 2015 and 31 December 2015 are comparable with the current accounting period and therefore have not been adjusted except for the presentation of the amount of tax on the Group's balance sheet items, as described below.

Following the entry into force on 1 February 2016 of the Act on tax on certain financial institutions in the comparative data of the income statement for the period from 1 January to 30 June 2015 and for the period from 1 April to 30 June 2015, the Group reclassified the amounts of PLN 1 795 thousand and PLN 888 thousand respectively of the tax paid by the mBank's branch in Slovakia on its total amount of liabilities, from overhead costs (from "Taxes and fees") to the new position "Taxes on the Group balance sheet items". This change had no impact on the net income and equity of the Group.

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

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

Impairment of loans and advances

The Group reviews its loan portfolio in terms of possible impairments at least once per quarter. In order to determine whether any impairment loss should be recognised in the income statement, the Group assesses whether any evidence exists that would indicate some measurable reduction of estimated future cash flows attached to the loan portfolio. The methodology and the assumptions (on the basis of which the estimated cash flow amounts and their anticipated timing are determined) are regularly verified. The rules of determining write-downs and provisions for impairment of credit exposures have been described under Note 3.4.6 of the Consolidated Financial Statements of mBank S.A. Group for the year 2015.

Fair value of derivatives and other financial instruments

The fair value of financial instruments not listed on active markets is determined by applying valuation techniques. All the models are approved prior to being applied and they are also calibrated in order to assure that the obtained results indeed reflect the actual data and comparable market prices. As far as possible, observable market data originating from an active market are used in the models. Methods for determining the fair value of financial instruments are described in Note 3.16 of the Consolidated Financial Statements of mBank S.A. Group for the year 2015.

Impairment of available for sale financial assets

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

Deferred tax assets

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

Revenue and expenses from sale of insurance products bundled with loans

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

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

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

Liabilities due to post-employment employee benefits

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

Leasing classification

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

Classification for forborne exposures

In accordance with the Group's forbearance policy presented under Note 3.4.7 of the Consolidated Financial Statements of mBank S.A. Group for the year 2015, the Group classifies exposure / customers which are subject to the forbearance policy on the basis of professional judgment.

4. Business segments

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

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

According to above-mentioned changes, the comparative data concerning business segments of the Group were restated to reflect changes in presentation made to the current financial year.

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

- The Retail Banking segment, which divides its customers into mBank customers and Private Banking customers and which offers a full range of the Bank's banking products and services as well as specialized products offered by a number of subsidiaries belonging to the Retail Banking segment. The key products in this segment include current and savings accounts (including accounts in foreign currencies), term deposits, lending products (retail mortgage loans and non-mortgage loans such as cash loans, car loans, overdrafts, credit cards and other loan products), debit cards, insurance products, investment products, brokerage and leasing services offered to both individual customers and to micro-businesses. The results of the Retail Banking segment include the results of foreign branches of mBank in the Czech Republic and Slovakia. The Retail Banking segment also includes the results of Aspiro S.A., as well as the results of retail segments of mLeasing Sp. z o.o. and mBank Hipoteczny S.A. . Moreover this segment includes the result of mWealth Management S.A. and retail segment of Dom Maklerski mBanku S.A. until the integration with the Bank (see Note 1). In 2015, this segment also includes the results of BRE Ubezpieczenia TUiR S.A. and AWL I Sp. z o.o. until the date of their sale as well as the result of BRE Ubezpieczenia Sp. z o.o. and BRE Agent Ubezpieczeniowy Sp. z o.o. until the date of their merger with Aspiro, as well as the Group's result on sale of BRE Ubezpieczenia TUiR S.A.

- The Corporates and Financial Markets segment, which is divided into two sub-segments:

- *Corporate and Investment Banking sub-segment (business line), which targets small, medium and* large-sized companies and public sector entities. The key products offered to these customers include transactional banking products and services including current account products, multi-functional internet banking, tailor-made cash management and trade finance services, term deposits, foreign exchange transactions, a comprehensive offer of short-term financing and investment loans, cross-border credit, project finance, structured and mezzanine finance services, investment banking products including foreign exchange options, forward contracts, interest rate derivatives and commodity swaps and options, structured deposit products with embedded options (interest on structured deposit products are directly linked to the performance of certain underlying financial instruments such as foreign exchange options, interest rate options and stock options), debt origination for corporate clients, treasury bills and bonds, non-government debt, medium-term bonds, buy sell back and sell buy back transactions and repo transactions, as well as leasing, factoring and brokerage services. The Corporate and Investment Banking sub-segment includes the results of the following subsidiaries: mFaktoring S.A., Garbary Sp. z o.o., Tele-Tech Investment Sp. z o.o. as well as the results of corporate segments of mLeasing Sp. z o. o. and mBank Hipoteczny S.A. Moreover this segment includes the results of corporate segment of Dom Maklerski mBanku S.A. until the integration with the Bank (see Note 1).

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

- Operations which are not included in the Retail Banking segment and the Corporates and Financial Markets segment are reported under "Other". This segment includes the results of mLocum S.A., mCentrum Operacji Sp. z o.o. and BDH Development Sp. z o.o.

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

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

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

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

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

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

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

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

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

	Corporates & Financial Markets		Retail Banking (including Private Banking)	Other	Total figure for the Group	Statement of financial position reconciliation/ income statement reconciliation
	Corporate and Investment Banking	Financial Markets				
Net interest income	**363 223**	**156 399**	**838 515**	**2 724**	**1 360 861**	**1 360 861**
- sales to external clients	354 635	357 995	646 536	1 695	1 360 861	
- sales to other segments	8 588	(201 596)	191 979	1 029	-	
Net fee and commission income	**177 936**	**(1 684)**	**238 757**	**6 439**	**421 448**	**421 448**
Dividend income	**-**	**17**	**5**	**2 564**	**2 586**	**2 586**
Trading income	**125 906**	**(36 500)**	**50 549**	**3 645**	**143 600**	**143 600**
Gains less losses from investment securities, investments in subsidiaries and associates	**20 973**	**4 375**	**230 511**	**(7 677)**	**248 182**	**248 182**
The share in the profits (losses) of joint ventures	**-**	**-**	**-**	**(88)**	**(88)**	**(88)**
Other operating income	**29 397**	**422**	**27 407**	**91 942**	**149 168**	**149 168**
Net impairment losses on loans and advances	**(47 275)**	**266**	**(140 331)**	**1 077**	**(186 263)**	**(186 263)**
Overhead costs	**(316 375)**	**(45 877)**	**(474 143)**	**(17 979)**	**(854 374)**	**(854 374)**
Amortisation	**(36 411)**	**(4 562)**	**(74 607)**	**(1 517)**	**(117 097)**	**(117 097)**
Other operating expenses	**(20 798)**	**(55)**	**(24 515)**	**(68 494)**	**(113 862)**	**(113 862)**
Operating profit	**296 576**	**72 801**	**672 148**	**12 636**	**1 054 161**	**1 054 161**
Taxes on Group balance sheet items	**(54 049)**	**(11 730)**	**(79 401)**	**(1 133)**	**(146 313)**	**(146 313)**
Gross profit of the segment	**242 527**	**61 071**	**592 747**	**11 503**	**907 848**	**907 848**
Income tax					(209 148)	(209 148)
Net profit attributable to Owners of mBank S.A.					696 286	696 286
Net profit attributable to non-controlling interests					2 414	2 414
Assets of the segment	**33 913 097**	**43 129 525**	**50 129 616**	**1 561 247**	**128 733 485**	**128 733 485**
Liabilities of the segment	**30 157 101**	**34 171 216**	**50 905 243**	**702 926**	**115 936 486**	**115 936 486**
Other items of the segment						
Expenditures incurred on fixed assets and intangible assets	80 229	2 257	36 487	636	119 609	

Business segment reporting on the activities of mBank S.A. Group
for the period from 1 January to 31 December 2015
(PLN'000)

	Corporates & Financial Markets		Retail Banking (including Private Banking)	Other	Total figure for the Group	Statement of financial position reconciliation/ income statement reconciliation
	Corporate and Investment Banking	Financial Markets				
Net interest income	**755 179**	**191 746**	**1 565 578**	**(1 130)**	**2 511 373**	**2 511 373**
- sales to external clients	749 959	607 685	1 151 618	2 111	2 511 373	
- sales to other segments	5 220	(415 939)	413 960	(3 241)	-	
Net fee and commission income	**376 722**	**(1 804)**	**507 286**	**14 972**	**897 176**	**897 176**
Dividend income	**14 226**	**139**	**77**	**3 098**	**17 540**	**17 540**
Trading income	**215 769**	**(17 419)**	**95 671**	**(1 086)**	**292 935**	**292 935**
Gains less losses from investment securities, investments in subsidiaries and associates	**19 138**	**5 802**	**194 032**	**95 436**	**314 408**	**314 408**
The share in the profits (losses) of joint ventures	**-**	**-**	**-**	**(141)**	**(141)**	**(141)**
Other operating income	**65 254**	**708**	**52 168**	**127 729**	**245 859**	**245 859**
Net impairment losses on loans and advances	**(177 783)**	**(754)**	**(224 262)**	**(18 423)**	**(421 222)**	**(421 222)**
Overhead costs	**(620 795)**	**(89 550)**	**(964 778)**	**(175 823)**	**(1 850 946)**	**(1 850 946)**
Amortisation	**(74 939)**	**(8 552)**	**(112 638)**	**(3 521)**	**(199 650)**	**(199 650)**
Other operating expenses	**(35 345)**	**(150)**	**(48 816)**	**(101 516)**	**(185 827)**	**(185 827)**
Operating profit	**537 426**	**80 166**	**1 064 318**	**(60 405)**	**1 621 505**	**1 621 505**
Taxes on Group balance sheet items	**-**	**-**	**(3 650)**	**-**	**(3 650)**	**(3 650)**
Gross profit of the segment	**537 426**	**80 166**	**1 060 668**	**(60 405)**	**1 617 855**	**1 617 855**
Income tax					(313 727)	(313 727)
Net profit attributable to Owners of mBank S.A.					1 301 246	1 301 246
Net profit attributable to non-controlling interests					2 882	2 882
Assets of the segment	**35 057 604**	**41 162 527**	**46 210 195**	**1 092 695**	**123 523 021**	**123 523 021**
Liabilities of the segment	**30 224 844**	**33 481 611**	**46 866 764**	**674 838**	**111 248 057**	**111 248 057**
Other items of the segment						
Expenditures incurred on fixed assets and intangible assets	157 002	8 922	185 493	4 427	355 844	

Business segment reporting on the activities of mBank S.A. Group
for the period from 1 January to 30 June 2015
(PLN'000)

	Corporates & Financial Markets		Retail Banking (including Private Banking)	Other	Total figure for the Group	Statement of financial position reconciliation/ income statement reconciliation
	Corporate and Investment Banking	Financial Markets				
Net interest income	**362 486**	**66 961**	**765 188**	**(1 648)**	**1 192 987**	**1 192 987**
- sales to external clients	377 143	261 561	554 188	95	1 192 987	
- sales to other segments	(14 657)	(194 600)	211 000	(1 743)	-	
Net fee and commission income	**183 891**	**(850)**	**232 887**	**8 265**	**424 193**	**424 193**
Dividend income	**31**	**98**	**14**	**3 046**	**3 189**	**3 189**
Trading income	**107 724**	**(16 867)**	**47 669**	**(596)**	**137 930**	**137 930**
Gains less losses from investment securities, investments in subsidiaries and associates	**2 067**	**3 834**	**194 348**	**(3 899)**	**196 350**	**196 350**
The share in the profits (losses) of joint ventures	**-**	**-**	**-**	**(15)**	**(15)**	**(15)**
Other operating income	**31 556**	**222**	**36 029**	**66 505**	**134 312**	**134 312**
Net impairment losses on loans and advances	**(84 760)**	**(453)**	**(116 418)**	**(6 006)**	**(207 637)**	**(207 637)**
Overhead costs	**(312 828)**	**(46 589)**	**(462 391)**	**(18 238)**	**(840 046)**	**(840 046)**
Amortisation	**(36 679)**	**(4 449)**	**(53 479)**	**(1 691)**	**(96 298)**	**(96 298)**
Other operating expenses	**(16 262)**	**(114)**	**(20 585)**	**(49 008)**	**(85 969)**	**(85 969)**
Operating profit	**237 226**	**1 793**	**623 262**	**(3 285)**	**858 996**	**858 996**
Taxes on Group balance sheet items	**-**	**-**	**(1 795)**	**-**	**(1 795)**	**(1 795)**
Gross profit of the segment	**237 226**	**1 793**	**621 467**	**(3 285)**	**857 201**	**857 201**
Income tax					(183 148)	(183 148)
Net profit attributable to Owners of mBank S.A.					672 259	672 259
Net profit attributable to non-controlling interests					1 794	1 794
Assets of the segment	**34 562 915**	**39 865 430**	**45 413 820**	**761 950**	**120 604 115**	**120 604 115**
Liabilities of the segment	**26 810 521**	**38 720 678**	**42 677 144**	**848 239**	**109 056 582**	**109 056 582**
Other items of the segment						
Expenditures incurred on fixed assets and intangible assets	58 155	1 852	48 739	1 884	110 630	

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Geographical areas reporting on the activities of mBank S.A. Group for the period	from 1 January to 30 June 2016			from 1 January to 31 December 2015			from 1 January to 30 June 2015		
	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total
Net interest income	1 291 966	68 895	**1 360 861**	2 383 730	127 643	**2 511 373**	1 132 549	60 438	**1 192 987**
Net fee and commission income	419 442	2 006	**421 448**	871 654	25 522	**897 176**	413 628	10 565	**424 193**
Dividend income	2 586	-	**2 586**	17 540	-	**17 540**	3 189	-	**3 189**
Trading income	141 326	2 274	**143 600**	288 215	4 720	**292 935**	135 626	2 304	**137 930**
Gains less losses from investment securities, investments in subsidiaries and associates	203 832	44 350	**248 182**	314 408	-	**314 408**	196 350	-	**196 350**
The share in the profits (losses) of joint ventures	(88)	-	**(88)**	(141)	-	**(141)**	(15)	-	**(15)**
Other operating income	142 776	6 392	**149 168**	242 745	3 114	**245 859**	132 328	1 984	**134 312**
Net impairment losses on loans and advances	(185 620)	(643)	**(186 263)**	(411 834)	(9 388)	**(421 222)**	(202 445)	(5 192)	**(207 637)**
Overhead costs	(793 899)	(60 475)	**(854 374)**	(1 750 584)	(100 362)	**(1 850 946)**	(788 049)	(51 997)	**(840 046)**
Amortisation	(115 158)	(1 939)	**(117 097)**	(195 794)	(3 856)	**(199 650)**	(94 369)	(1 929)	**(96 298)**
Other operating expenses	(113 165)	(697)	**(113 862)**	(182 917)	(2 910)	**(185 827)**	(83 417)	(2 552)	**(85 969)**
Operating profit	993 998	60 163	**1 054 161**	1 577 022	44 483	**1 621 505**	845 375	13 621	**858 996**
Taxes on the Group balance sheet items	(136 974)	(9 339)	**(146 313)**	-	(3 650)	**(3 650)**	-	(1 795)	**(1 795)**
Gross profit of the segment	**857 024**	**50 824**	**907 848**	**1 577 022**	**40 833**	**1 617 855**	**845 375**	**11 826**	**857 201**
Income tax			(209 148)			(313 727)			(183 148)
Net profit attributable to Owners of mBank S.A.			696 286			1 301 246			672 259
Net profit attributable to non-controlling interests			2 414			2 882			1 794
Assets of the segment, including:	**123 934 257**	**4 799 228**	**128 733 485**	**119 572 565**	**3 950 456**	**123 523 021**	**117 161 382**	**3 442 733**	**120 604 115**
- tangible assets	1 216 430	9 923	1 226 353	1 253 137	10 434	1 263 571	1 151 354	10 332	1 161 686
- deferred income tax assets	447 627	4 061	451 688	366 088	-	366 088	358 693	3 031	361 724
Liabilities of the segment	**108 525 050**	**7 411 436**	**115 936 486**	**104 825 293**	**6 422 764**	**111 248 057**	**103 010 023**	**6 046 559**	**109 056 582**

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5. Net interest income

the period	from 01.01.2016 to 30.06.2016	from 01.01.2015 to 30.06.2015
Interest income		
Loans and advances including the unwind of the impairment provision discount	1 334 618	1 268 294
Investment securities	353 866	382 785
Cash and short-term placements	26 443	26 480
Trading debt securities	32 865	20 843
Interest income on derivatives classified into banking book	106 693	52 772
Interest income on derivatives concluded under the hedge accounting	28 244	21 415
Interest income on derivatives concluded under the cash flow hedge	7 932	6 221
Other	1 873	2 341
Total interest income	**1 892 534**	**1 781 151**
Interest expense		
Arising from amounts due to banks	(37 831)	(55 623)
Arising from amounts due to customers	(338 005)	(345 121)
Arising from issue of debt securities	(117 167)	(137 648)
Arising from subordinated liabilities	(33 736)	(44 543)
Other	(4 934)	(5 229)
Total interest expense	**(531 673)**	**(588 164)**

Interest income related to impaired financial assets amounted to PLN 46 612 thousand (30 June 2015: PLN 61 889 thousand).

6. Net fee and commission income

the period	from 01.01.2016 to 30.06.2016	from 01.01.2015 to 30.06.2015
Fee and commission income		
Payment cards-related fees	168 733	160 113
Credit-related fees and commissions	138 406	131 719
Commissions for agency service regarding sale of insurance products of external financial entities	78 068	66 221
Fees from brokerage activity and debt securities issue	57 995	63 757
Commissions from bank accounts	84 516	82 217
Commissions from money transfers	53 899	51 007
Commissions due to guarantees granted and trade finance commissions	28 586	23 687
Commissions for agency service regarding sale of other products of external financial entities	51 285	54 018
Commissions on trust and fiduciary activities	12 573	11 533
Fees from portfolio management services and other management-related fees	5 701	7 560
Fees from cash services	23 364	18 664
Other	14 067	9 521
Total fee and commission income	**717 193**	**680 017**

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the period	from 01.01.2016 to 30.06.2016	from 01.01.2015 to 30.06.2015
Fee and commission expense		
Payment cards-related fees	(111 021)	(98 365)
Commissions paid to external entities for sale of the Bank's products	(55 645)	(48 179)
Commissions paid for agency service regarding sale of insurance products of external financial entities	(2 752)	(2 554)
Discharged brokerage fees	(20 232)	(14 988)
Cash services	(22 745)	(14 103)
Fees to NBP and KIR	(4 727)	(4 414)
Other discharged fees	(78 623)	(73 221)
Total fee and commission expense	**(295 745)**	**(255 824)**

7. Dividend income

the period	from 01.01.2016 to 30.06.2016	from 01.01.2015 to 30.06.2015
Trading securities	22	112
Securities available for sale	2 564	3 077
Total dividend income	**2 586**	**3 189**

8. Net trading income

the period	from 01.01.2016 to 30.06.2016	from 01.01.2015 to 30.06.2015
Foreign exchange result	**137 882**	**144 687**
Net exchange differences on translation	245 781	152 644
Net transaction gains/(losses)	(107 899)	(7 957)
Other net trading income and result on hedge accounting	**5 718**	**(6 757)**
Interest-bearing instruments	3 887	(7 433)
Equity instruments	1 514	2 756
Market risk instruments	4 514	1 025
Result on fair value hedge accounting, including:	5 462	1 020
- Net profit on hedged items	(106 208)	44 249
- Net profit on fair value hedging instruments	111 670	(43 229)
Ineffective portion of cash flow hedge	(9 659)	(4 125)
Total net trading income	**143 600**	**137 930**

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

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

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

the period	from 01.01.2016 to 30.06.2016	from 01.01.2015 to 30.06.2015
Sale/redemption of financial assets available for sale	256 301	6 174
Gains less losses related to sale of subsidiaries and associates	-	190 165
Impairment of available for sale equity securities	(7 677)	-
Impairment of investments in subsidiaries	(442)	11
Total gains less losses from investment securities and investments in subsidiaries and associates	**248 182**	**196 350**

In 2016, the position of sale/redemption of financial assets available for sale include mainly the result of PLN 251 732 thousand realized in connection with the settlement of the takeover transaction of Visa Europe Limited by Visa Inc., as described under item 4 of Selected Explanatory Information.

In 2016, the impairment of investments in subsidiaries applies to the Call Center Poland S.A. that was in 100% sold by the Group sold in the first quarter of 2016.

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

In 2015, the item "Gains less losses related to sale of subsidiaries and associates" includes mainly the profit on sale of BRE Ubezpieczenia TUiR S.A. shares in the amount of PLN 194 348 thousand.

10. Other operating income

the period	from 01.01.2016 to 30.06.2016	from 01.01.2015 to 30.06.2015
Income from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories	98 968	73 402
Income from insurance activity net	-	23 898
Income from services provided	11 301	11 760
Net income from operating lease	4 462	4 584
Income due to release of provisions for future commitments	1 578	1 862
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	1 892	1 353
Income from compensations, penalties and fines received	43	58
Other	30 924	17 395
Total other operating income	**149 168**	**134 312**

Income from sale or liquidation of tangible fixed assets, intangible assets as well as assets held for disposal comprises primarily income of the company mLocum S.A. from developer activity.

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

In 2015, net income from insurance activities include income realised by BRE Ubezpieczenia TUiR S.A. in the first quarter of 2015, i.e. until the sale of the company BRE Ubezpieczenia TUiR S.A. by mBank S.A. Group. This income included income from premiums, reinsurance and co-insurance activity, reduced by claims paid and costs of claims handling and adjusted by the changes in provisions for claims connected with the insurance activity conducted within mBank S.A. Group.

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

Net income from operating lease for the first half of 2016 and the first half of 2015 is presented below.

the period	from 01.01.2016 to 30.06.2016	from 01.01.2015 to 30.06.2015
Net income from operating lease, including:		
- Income from operating lease	27 731	27 304
- Depreciation cost of fixed assets provided under operating lease	(23 269)	(22 720)
Total net income from operating lease	**4 462**	**4 584**

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11. Net impairment losses on loans and advances

the period	from 01.01.2016 to 30.06.2016	from 01.01.2015 to 30.06.2015
Net impairment losses on amounts due from other banks	629	(19)
Net impairment losses on loans and advances to customers	(189 271)	(211 201)
Net impairment losses on off-balance sheet contingent liabilities due to customers	2 379	3 583
Total net impairment losses on loans and advances	**(186 263)**	**(207 637)**

12. Overhead costs

the period	from 01.01.2016 to 30.06.2016	from 01.01.2015 to 30.06.2015
Staff-related expenses	(436 770)	(427 190)
Material costs, including:	(319 694)	(322 303)
- logistics cost	(168 788)	(168 322)
- IT costs	(66 084)	(60 546)
- marketing costs	(57 434)	(60 141)
- consulting costs	(22 910)	(27 656)
- other material costs	(4 478)	(5 638)
Taxes and fees	(20 115)	(18 860)
Contributions and transfers to the Bank Guarantee Fund	(74 179)	(68 219)
Contributions to the Social Benefits Fund	(3 616)	(3 474)
Total overhead costs	**(854 374)**	**(840 046)**

Following the entry into force on 1 February 2016 of the Act on tax on certain financial institutions, in the comparative data for the period from 1 January to 30 June 2015 the Group reclassified the amount of PLN 1 795 thousand from overhead costs (from "Taxes and fees") to a new position "Taxes on the Group's balance sheet items" due to the tax paid by the mBank's branch in Slovakia on the total amount of liabilities.

According to the recommendation of the Polish Financial Supervision Authority (KNF) of 30 April 2015, in 2015 the Bank applied IFRIC 21, *Levies*, published by International Financial Reporting Standard Interpretations Committee in a way, that costs of fees payable to the Bank Guarantee Fund (BFG) and income related to these costs will be recognised over time throughout the year 2015. In connection with the Act of 14 December 1994 on the Bank Guarantee Fund, which amendment came into force on 11 March 2016 and changed the manner and timing of charging for BFG, the comparative data for the first half of 2015 are fully comparable with the data for the period for the first half of 2016.

Had the Group applied IFRIC 21 in a way that the costs of fees payable to BFG and income related to these costs were included in full in the costs and income of the first quarter of 2015, the Group's net profit for the first half of 2015 and equity as at 30 June 2015 presented in these condensed consolidated financial statements would have been lower by PLN 38 305 thousand.

Staff-related expenses for first half of 2016 and first half of 2015 are presented below.

the period	from 01.01.2016 to 30.06.2016	from 01.01.2015 to 30.06.2015
Wages and salaries	(355 422)	(343 329)
Social security expenses	(60 696)	(58 013)
Remuneration concerning share-based payments, including:	(6 477)	(11 374)
- share-based payments settled in mBank S.A. shares	(5 621)	(7 053)
- cash-settled share-based payments	(856)	(4 321)
Other staff expenses	(14 175)	(14 474)
Staff-related expenses, total	**(436 770)**	**(427 190)**

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13. Other operating expenses

the period	from 01.01.2016 to 30.06.2016	from 01.01.2015 to 30.06.2015
Costs arising from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories	(72 274)	(52 687)
Provisions for future commitments	(8 585)	(3 981)
Donations made	(2 538)	(2 562)
Compensation, penalties and fines paid	(113)	(2 285)
Costs arising from provisions created for other receivables (excluding loans and advances)	(2 042)	(2 285)
Costs of sale of services	(1 004)	(1 161)
Costs arising from receivables and liabilities recognised as prescribed, remitted and uncollectible	(111)	(120)
Impairment losses on non-financial assets	(788)	-
Impairment provisions created for tangible fixed assets and intangible assets	(1 000)	-
Other operating costs	(25 407)	(20 888)
Total other operating expenses	**(113 862)**	**(85 969)**

Costs arising from a sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories comprise primarily the expenses incurred by mLocum S.A. in connection with its developer activity.

Costs of services provided concern non-banking services.

14. Earnings per share

Earnings per share for 6 months

the period	from 01.01.2016 to 30.06.2016	from 01.01.2015 to 30.06.2015
Basic:		
Net profit attributable to Owners of mBank S.A.	696 286	672 259
Weighted average number of ordinary shares	42 238 924	42 210 143
Net basic profit per share (in PLN per share)	**16.48**	**15.93**
Diluted:		
Net profit attributable to Owners of mBank S.A., applied for calculation of diluted earnings per share	696 286	672 259
Weighted average number of ordinary shares	42 238 924	42 210 143
Adjustments for:		
- share options	60 123	47 030
Weighted average number of ordinary shares for calculation of diluted earnings per share	42 299 047	42 257 173
Diluted earnings per share (in PLN per share)	**16.46**	**15.91**

15. Trading securities

	30.06.2016			31.12.2015			30.06.2015		
	Trading securities without pledge	Pledged trading securities	Total trading securities	Trading securities without pledge	Pledged trading securities	Total trading securities	Trading securities without pledge	Pledged trading securities	Total trading securities
Debt securities:	**2 184 042**	**1 040 022**	**3 224 064**	**533 998**	**16 697**	**550 695**	**2 094 800**	**485 236**	**2 580 036**
Issued by government	1 914 738	1 040 022	2 954 760	161 795	16 697	178 492	1 630 764	485 236	2 116 000
- government bonds	1 914 738	1 040 022	2 954 760	161 795	16 697	178 492	1 630 764	485 236	2 116 000
Other debt securities	269 304	-	269 304	372 203	-	372 203	464 036	-	464 036
- bank's bonds	165 371	-	165 371	248 156	-	248 156	338 305	-	338 305
- deposit certificates	1 009	-	1 009	73 124	-	73 124	15 102	-	15 102
- corporate bonds	102 924	-	102 924	50 923	-	50 923	110 629	-	110 629
Equity securities:	**9 086**	**-**	**9 086**	**6 846**	**-**	**6 846**	**17 248**	**-**	**17 248**
- listed	6 549	-	6 549	4 192	-	4 192	11 639	-	11 639
- unlisted	2 537	-	2 537	2 654	-	2 654	5 609	-	5 609
Total debt and equity securities:	**2 193 128**	**1 040 022**	**3 233 150**	**540 844**	**16 697**	**557 541**	**2 112 048**	**485 236**	**2 597 284**

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16. Derivative financial instruments

	30.06.2016		31.12.2015		30.06.2015	
	assets	liabilities	assets	liabilities	assets	liabilities
Held for trading derivative financial instruments classified into banking book	152 491	207 336	199 861	114 081	129 069	216 832
Held for trading derivative financial instruments classified into trading book	2 048 527	2 054 457	2 952 012	3 057 543	3 031 844	3 064 992
Derivative financial instruments held for fair value hedging	265 168	54	146 694	2 014	144 316	17 675
Derivative financial instruments held for cash flow hedging	35 246	-	50 761	-	40 714	2 749
Offsetting effect	(89 975)	(104 687)	-	-	-	-
Total derivative financial instruments assets/liabilities	**2 411 457**	**2 157 160**	**3 349 328**	**3 173 638**	**3 345 943**	**3 302 248**

The Group uses the following derivative instruments for economic hedging and for other purposes:

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

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

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

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

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

17. Derivatives held for hedges

The Group applies fair value hedge accounting for:

- Part of the portfolio of fixed interest rate mortgage loans granted by foreign branches of the Bank in the Czech Republic. An Interest Rate Swap is the hedging instrument changing the fixed interest rate to a variable interest rate;
- Eurobonds issued by mFinance France, subsidiary of mBank. An Interest Rate Swap is the hedging instrument changing the fixed interest rate to a variable interest rate;

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- Mortgage bonds issued by mBank Hipoteczny, subsidiary of mBank. An Interest Rate Swap is the hedging instrument changing the fixed interest rate to a variable interest rate.

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

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

The period from July 2016 to August 2018 is the period in which the cash flows are expected, and when they are expected to have an impact on the result.

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

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

the period	from 01.01.2016 to 30.06.2016	from 01.01.2015 to 30.06.2015
Interest income on derivatives concluded under the fair value hedge (Note 5)	28 244	21 415
Net profit on hedged items (Note 8)	(106 208)	44 249
Net profit on fair value hedging instruments (Note 8)	111 670	(43 229)
Total result on fair value hedging instruments recognised in the income statement	**33 706**	**22 435**

The following note presents other comprehensive income due to cash flow hedges as at 30 June 2016 and as at 30 June 2015.

the period	from 01.01.2016 to 30.06.2016	from 01.01.2015 to 30.06.2015
Other comprehensive income from cash flow hedge at the beginning of the period (gross)	1 061	5 008
Gains/losses rocognised in the comprehensive income during the reporting period (gross)	(966)	(7 777)
Amount included as interest income in the income statement during the reporting period	7 932	6 221
Ineffective portion of cash flow hedge recognised in the income statement	(9 659)	(4 125)
Accumulated other comprehensive income at the end of the reporting period (gross)	1 822	(4 865)
Deferred tax due to accumulated other comprehensive income at the end of the reporting period	(347)	924
Accumulated net other comprehensive income at the end of the reporting period	1 475	(3 941)
Impact on other comprehensive income in the reporting period (gross)	761	(9 873)
Deferred tax on cash flow hedges	(145)	1 876
Impact on other comprehensive income in the reporting period (net)	616	(7 997)

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

the period	from 01.01.2016 to 30.06.2016	from 01.01.2015 to 30.06.2015
Interest income on derivatives concluded under the cash flow hedge (Note 5)	7 932	6 221
Ineffective portion of cash flow hedge (Note 8)	(9 659)	(4 125)
Total result on cash flow hedging instruments recognised in the income statement	**(1 727)**	**2 096**

18. Loans and advances to customers

	30.06.2016	31.12.2015	30.06.2015
Loans and advances to individuals:	**48 272 191**	**46 258 683**	**45 328 730**
- current receivables	6 276 593	5 897 129	5 800 143
- term loans, including:	41 995 598	40 361 554	39 528 587
housing and mortgage loans	35 220 185	34 184 208	33 521 442
Loans and advances to corporate entities:	**33 936 902**	**33 446 644**	**32 226 547**
- current receivables	4 725 577	3 976 187	4 218 458
- term loans:	27 424 522	26 976 422	25 752 358
corporate & institutional enterprises	5 293 658	5 825 318	5 843 425
medium & small enterprises	22 130 864	21 151 104	19 908 933
- reverse repo / buy-sell-back transactions	131 734	1 031 029	842 093
- other	1 655 069	1 463 006	1 413 638
Loans and advances to public sector	**1 357 033**	**1 520 728**	**1 661 475**
Other receivables	**296 038**	**183 355**	**1 043 880**
Total (gross) loans and advances to customers	**83 862 164**	**81 409 410**	**80 260 632**
Provisions for loans and advances to customers (negative amount)	(3 087 355)	(2 975 864)	(3 019 034)
Total (net) loans and advances to customers	**80 774 809**	**78 433 546**	**77 241 598**
Short-term (up to 1 year)	26 897 267	26 169 938	23 185 351
Long-term (over 1 year)	53 877 542	52 263 608	54 056 247

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

Loans to micro enterprises in the presented reporting periods amounted to respectively: 30 June 2016 – PLN 5 218 229 thousand, 31 December 2015 – PLN 4 846 128 thousand, 30 June 2015 – PLN 4 820 038 thousand.

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

	30.06.2016	31.12.2015	30.06.2015
Housing and mortgage loans to individuals (in PLN 000's), including:	**35 220 185**	**34 184 208**	**33 521 442**
- PLN	8 813 526	8 120 780	6 658 061
- CHF	19 139 631	19 177 139	20 400 095
- EUR	4 068 909	4 001 819	3 897 246
- CZK	2 817 765	2 502 599	2 187 035
- USD	333 159	338 628	339 938
- Other currency	47 195	43 243	39 067
Housing and mortgage loans to individuals in original curriencies (main curriencies in 000's)			
- PLN	8 813 526	8 120 780	6 658 061
- CHF	4 705 271	4 868 035	5 048 029
- EUR	919 424	939 063	929 155
- CZK	17 223 502	15 869 366	14 219 993
- USD	83 554	86 803	90 301

Provisions for loans and advances

	30.06.2016	31.12.2015	30.06.2015
Incurred but not identified losses			
Gross balance sheet exposure	79 016 656	76 777 938	75 411 743
Impairment provisions for exposures analysed according to portfolio approach	(253 341)	(247 198)	(261 858)
Net balance sheet exposure	**78 763 315**	**76 530 740**	**75 149 885**
Receivables with impairment			
Gross balance sheet exposure	4 845 508	4 631 472	4 848 889
Provisions for receivables with impairment	(2 834 014)	(2 728 666)	(2 757 176)
Net balance sheet exposure	**2 011 494**	**1 902 806**	**2 091 713**

The table below presents the structure of concentration of mBank S.A. Group's exposures in particular sectors.

No.	Sectors	Principal exposure (in PLN thousand)	%	Principal exposure (in PLN thousand)	%	Principal exposure (in PLN thousand)	%
		30.06.2016		31.12.2015		30.06.2015	
1.	Household customers	48 272 191	57.56	46 258 683	56.82	45 328 730	56.48
2.	Real estate management	5 433 725	6.48	4 975 227	6.11	4 838 856	6.03
3.	Construction	3 895 390	4.64	3 743 369	4.60	3 464 386	4.32
4.	Wholesale trade	3 486 683	4.16	3 141 017	3.86	3 192 562	3.98
5.	Retail trade	2 274 467	2.71	2 244 062	2.76	2 455 716	3.06
6.	Transport and logistics	1 877 594	2.24	1 858 064	2.28	1 839 980	2.29
7.	Food sector	1 817 376	2.17	1 899 778	2.33	1 787 981	2.23
8.	Fuels and chemicals	1 795 853	2.14	1 789 636	2.20	1 693 257	2.11
9.	Metals	1 543 259	1.84	1 395 689	1.71	1 431 327	1.78
10.	Forestry	1 377 025	1.64	1 552 832	1.91	1 363 099	1.70
11.	Information and communication	1 211 263	1.44	1 032 953	1.27	1 209 923	1.51
12.	Financial activities	1 018 900	1.22	934 170	1.15	824 714	1.03
13.	Public administration	1 016 965	1.21	1 161 955	1.43	1 321 869	1.65
14.	Power, power and heating distribution	867 167	1.03	1 472 862	1.81	1 279 049	1.59
15.	Services	850 261	1.01	538 987	0.66	505 055	0.63
16.	Hotels and restaurants	718 658	0.86	645 710	0.79	678 494	0.85
17.	Scientific and technical activities	670 888	0.80	734 330	0.90	654 964	0.82
18.	Motorization	584 327	0.70	489 478	0.60	488 944	0.61
19.	Mining	519 537	0.62	498 312	0.61	346 027	0.43
20.	Electronics and household equipment	496 326	0.59	517 183	0.64	434 185	0.54
21.	Industry	449 944	0.54	438 525	0.54	462 348	0.58
22.	Municipal services	419 473	0.50	369 308	0.45	372 821	0.46
23.	Arts, entertainment	322 462	0.39	448 834	0.55	409 171	0.51

As at 30 June 2016, the total exposure of the Group in the above sectors (excluding household customers) amounted to 38.93% of the credit portfolio (31 December 2015 – 39.16%, 30 June 2015 – 38.71%).

19. Investment securities

	30.06.2016			31.12.2015			30.06.2015		
	Investment securities without pledge	Pledged investment securities	Total investment securities	Investment securities without pledge	Pledged investment securities	Total investment securities	Investment securities without pledge	Pledged investment securities	Total investment securities
Debt securities	**24 893 692**	**6 690 380**	**31 584 072**	**25 141 089**	**5 396 481**	**30 537 570**	**23 714 489**	**5 558 604**	**29 273 093**
Issued by government	22 110 835	6 690 380	28 801 215	16 842 144	5 396 481	22 238 625	18 848 712	5 558 604	24 407 316
- government bonds	20 251 556	6 690 380	26 941 936	16 842 144	5 396 481	22 238 625	18 848 712	5 558 604	24 407 316
- treasury bills	1 859 279	-	1 859 279	-	-	-	-	-	-
Issued by central bank	1 649 957	-	1 649 957	7 442 384	-	7 442 384	4 349 396	-	4 349 396
Other debt securities	1 132 900	-	1 132 900	856 561	-	856 561	516 381	-	516 381
- bank's bonds	184 487	-	184 487	233 158	-	233 158	68 602	-	68 602
- corporate bonds	907 422	-	907 422	583 456	-	583 456	406 139	-	406 139
- communal bonds	40 991	-	40 991	39 947	-	39 947	41 640	-	41 640
Equity securities:	**60 231**	**-**	**60 231**	**199 379**	**-**	**199 379**	**242 719**	**-**	**242 719**
Listed	-	-	-	-	-	-	204 717	-	204 717
Unlisted	60 231	-	60 231	199 379	-	199 379	38 002	-	38 002
Total debt and equity securities:	**24 953 923**	**6 690 380**	**31 644 303**	**25 340 468**	**5 396 481**	**30 736 949**	**23 957 208**	**5 558 604**	**29 515 812**
Short-term (up to 1 year)	7 366 040	80 270	7 446 310	11 196 419	90 975	11 287 394	9 330 881	20 715	9 351 596
Long-term (over 1 year)	17 587 883	6 610 110	24 197 993	14 144 049	5 305 506	19 449 555	14 626 327	5 537 889	20 164 216

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

The value of equity securities presented above includes provisions for impairment of PLN 19 135 thousand (31 December 2015: PLN 19 754 thousand, 30 June 2015: PLN 11 997 thousand).

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As at 30 June 2016, equity securities include fair value of preferred shares of Visa Inc. in the amount of PLN 34 759 thousand. As at 31 December 2015, equity securities include fair value of shares of Visa Europe Ltd. in the amount of PLN 167 243 thousand.

As at 30 June 2015, listed equity securities include fair value of PZU S.A. shares in the amount of PLN 204 717 thousand. As at 30 June 2016 and as at 31 December 2015, the Group did not have any PZU shares.

20. Intangible assets

	30.06.2016	31.12.2015	30.06.2015
Development costs	-	-	1
Goodwill	3 532	3 532	3 532
Patents, licences and similar assets, including:	328 085	347 357	347 057
- computer software	239 283	249 964	248 577
Other intangible assets	4 615	5 154	5 717
Intangible assets under development	167 329	163 006	113 546
Total intangible assets	**503 561**	**519 049**	**469 853**

21. Tangible assets

	30.06.2016	31.12.2015	30.06.2015
Tangible assets, including:	682 113	660 017	649 664
- land	1 335	1 335	1 335
- buildings and structures	188 946	193 652	199 420
- equipment	167 113	149 573	134 127
- vehicles	246 374	231 210	225 437
- other fixed assets	78 345	84 247	89 345
Fixed assets under construction	40 679	84 505	42 169
Total tangible assets	**722 792**	**744 522**	**691 833**

22. Amounts due to customers

	30.06.2016	31.12.2015	30.06.2015
Individual customers:	**49 452 537**	**46 117 051**	**41 411 278**
Current accounts	35 049 356	32 468 053	30 537 368
Term deposits	14 348 704	13 604 623	10 632 517
Other liabilities:	54 477	44 375	241 393
- liabilities in respect of cash collaterals	25 588	22 205	21 932
- other	28 889	22 170	219 461
Corporate customers:	**35 119 136**	**34 423 929**	**29 661 223**
Current accounts	17 670 036	16 800 113	15 795 237
Term deposits	11 353 431	12 209 975	8 765 735
Loans and advances received	4 208 554	3 634 064	3 583 354
Repo transactions	1 287 591	1 093 712	997 877
Other liabilities:	599 524	686 065	519 020
- liabilities in respect of cash collaterals	429 021	566 645	429 657
- other	170 503	119 420	89 363
Public sector customers:	**730 627**	**599 886**	**1 985 758**
Current accounts	386 243	468 038	451 896
Term deposits	343 670	131 104	1 532 082
Other liabilities:	714	744	1 780
- other	714	744	1 780
Total amounts due to customers	**85 302 300**	**81 140 866**	**73 058 259**
Short-term (up to 1 year)	79 207 303	74 696 817	67 464 456
Long-term (over 1 year)	6 094 997	6 444 049	5 593 803

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

In the presented reporting periods the value of liabilities in respect of current accounts and term deposits accepted from micro enterprises amounted to respectively: 30 June 2016: PLN 4 074 139 thousand, 31 December 2015: PLN 4 111 261 thousand, 30 June 2015: PLN 3 312 910 thousand).

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23. Provisions

	30.06.2016	31.12.2015	30.06.2015
For off-balance sheet granted contingent liabilities *	43 417	45 606	45 976
For legal proceedings	102 268	99 582	93 319
Other	31 148	80 228	29 106
Total provisions	**176 833**	**225 416**	**168 401**

* includes valuation of financial guarantees

As at 31 December 2015 the item "Other" includes provisions in the amount of PLN 52 077 thousand relating to the payments to be made by mBank and mBank Hipoteczny to the Borrowers Support Fund. The payments were made in February 2016.

Movements in the provisions

	30.06.2016	31.12.2015	30.06.2015
As at the beginning of the period (by type)	**225 416**	**176 881**	**176 881**
For off-balance sheet granted contingent liabilities	45 606	49 613	49 613
For legal proceedings	99 582	96 933	96 933
Other	80 228	30 335	30 335
Change in the period (due to)	**(48 583)**	**48 535**	**(8 480)**
- increase of provisions	58 273	215 357	73 129
- release of provisions	(53 009)	(150 761)	(81 561)
- write-offs	(54 067)	(16 167)	-
- reclassification	8	37	37
- foreign exchange differences	212	69	(85)
As at the end of the period (by type)	**176 833**	**225 416**	**168 401**
For off-balance sheet granted contingent liabilities	43 417	45 606	45 976
For legal proceedings	102 268	99 582	93 319
Other	31 148	80 228	29 106

24. Assets and provisions for deferred income tax

Deferred income tax assets	30.06.2016	31.12.2015	30.06.2015
As at the beginning of the period	**778 252**	**645 554**	**645 554**
Changes recognized in the income statement	94 037	112 886	(15 662)
Changes recognized in other comprehensive income	589	4 621	53 341
Other changes	(1 248)	15 191	23
As at the end of the period	**871 630**	**778 252**	**683 256**

Provisions for deferred income tax	30.06.2016	31.12.2015	30.06.2015
As at the beginning of the period	**(413 145)**	**(382 923)**	**(382 923)**
Changes recognized in the income statement	(49 024)	(17 887)	58 323
Changes recognized in other comprehensive income	40 035	524	1 983
Other changes	1 283	(12 859)	-
As at the end of the period	**(420 851)**	**(413 145)**	**(322 617)**

Income tax	30.06.2016	31.12.2015	30.06.2015
Current income tax	(254 161)	(408 726)	(225 809)
Deferred income tax recognised in the income statement	45 013	94 999	42 661
Income tax recognised in the income statement	**(209 148)**	**(313 727)**	**(183 148)**
Recognised in other comprehensive income	32 825	47 704	89 901
Total income tax	**(176 323)**	**(266 023)**	**(93 247)**

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25. Fair value of financial assets and liabilities

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

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

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

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

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

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

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

	30.06.2016		31.12.2015		30.06.2015	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Financial assets						
Loans and advances to banks	**1 680 830**	**1 681 667**	**1 897 334**	**1 895 673**	**2 071 953**	**2 082 975**
Loans and advances to customers	**80 774 809**	**81 039 995**	**78 433 546**	**78 962 650**	**77 241 598**	**77 500 615**
Loans and advances to individuals	**46 664 221**	**47 217 391**	**44 726 181**	**45 635 346**	**43 691 256**	**44 343 966**
current accounts	5 584 612	5 613 759	5 214 087	5 283 808	5 121 211	5 133 293
term loans including:	41 079 609	41 603 632	39 512 094	40 351 538	38 570 045	39 210 673
- housing and mortgage loans	34 693 955	35 058 716	33 692 879	34 412 912	32 916 487	33 455 201
Loans and advances to corporate entities	**32 458 442**	**32 175 110**	**32 004 393**	**31 635 612**	**30 846 159**	**30 464 900**
current accounts	4 530 692	4 492 622	3 771 327	3 737 886	3 980 449	3 945 513
term loans	26 190 034	25 944 772	25 788 441	25 453 099	24 625 594	24 279 271
- corporate & institutional enterprises	5 115 645	5 048 724	5 667 803	5 591 521	5 647 715	5 588 041
- medium & small enterprises	21 074 389	20 896 048	20 120 638	19 861 578	18 977 879	18 691 230
reverse repo / buy sell back transactions	131 734	131 734	1 031 029	1 031 029	842 093	842 093
other	1 605 982	1 605 982	1 413 596	1 413 598	1 398 023	1 398 023
Loans and advances to public sector	**1 356 108**	**1 351 456**	**1 519 617**	**1 508 337**	**1 660 303**	**1 647 869**
Other receivables	**296 038**	**296 038**	**183 355**	**183 355**	**1 043 880**	**1 043 880**
Financial liabilities						
Amounts due to other banks	**12 058 197**	**11 933 086**	**12 019 331**	**11 813 534**	**15 675 917**	**15 478 077**
Amounts due to customers	**85 302 300**	**85 390 832**	**81 140 866**	**81 266 808**	**73 058 259**	**73 177 562**
Debt securities in issue	**10 115 495**	**10 179 688**	**8 946 195**	**8 890 686**	**11 013 855**	**10 975 585**
Subordinated liabilities	**3 910 457**	**3 831 184**	**3 827 315**	**3 919 644**	**3 896 612**	**3 887 433**

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

Loans and advances to banks and loans and advances to customers. The fair value for loans and advances to banks and loans and advances to customers is disclosed as the present value of future cash flows using current interest rates including appropriate credit spreads and is based on the expected maturity of the respective loan agreements. The level of credit spread was determined based on market quotation of median credit spreads for Moody's rating grade. Attribution of a credit spread to a given credit exposure is based on a mapping between Moody's rating grade and internal rating grades of the Group. To reflect the fact that the majority of the Group's exposures is collateralised whereas the median of market quotation is centred around unsecured issues, the Group applied appropriate adjustments.

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

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Financial liabilities. Financial instruments representing liabilities for the Group include the following:

- Contracted borrowings;
- Deposits;
- Issues of debt securities;
- Subordinated liabilities.

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

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

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

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

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

30.06.2016	Including:	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS				
TRADING SECURITIES	**3 233 150**	**2 965 287**	**2 537**	**265 326**
Debt securities	**3 224 064**	**2 958 738**	**-**	**265 326**
- government bonds	2 954 760	2 954 760	-	-
- deposit certificates	1 009	-	-	1 009
- banks bonds	165 371	1 056	-	164 315
- corporate bonds	102 924	2 922	-	100 002
Equity securities	**9 086**	**6 549**	**2 537**	**-**
- listed	6 549	6 549	-	-
- unlisted	2 537	-	2 537	-
DERIVATIVE FINANCIAL INSTRUMENTS	**2 411 457**	**-**	**2 411 457**	**-**
Derivative financial instruments held for trading	**2 111 043**	**-**	**2 111 043**	**-**
- interest rate derivatives	1 694 717	-	1 694 717	-
- foreign exchange derivatives	395 263	-	395 263	-
- market risks derivatives	21 063	-	21 063	-
Derivative financial instruments held for hedging	**300 414**	**-**	**300 414**	**-**
- derivatives designated as fair value hedges	265 168	-	265 168	-
- derivatives designated as cash flow hedges	35 246	-	35 246	-
INVESTMENT SECURITIES	**31 644 303**	**28 842 899**	**1 650 264**	**1 151 140**
Debt securities	**31 584 072**	**28 842 206**	**1 649 957**	**1 091 909**
- government bonds	28 801 215	28 801 215	-	-
- money bills	1 649 957	-	1 649 957	-
- banks bonds	184 487	-	-	184 487
- corporate bonds	907 422	-	-	907 422
- communal bonds	40 991	40 991	-	-
Equity securities	**60 231**	**693**	**307**	**59 231**
- unlisted	60 231	693	307	59 231
TOTAL FINANCIAL ASSETS	**37 288 910**	**31 808 186**	**4 064 258**	**1 416 466**

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30.06.2016	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
FINANCIAL LIABILITIES				
Derivative financial instruments	**2 157 160**	**-**	**2 157 160**	**-**
Derivative financial instruments held for trading	**2 157 106**	**-**	**2 157 106**	**-**
- interest rate derivatives	1 666 653	-	1 666 653	-
- foreign exchange derivatives	472 437	-	472 437	-
- market risks derivatives	18 016	-	18 016	-
Derivative financial instruments held for hedging	**54**	**-**	**54**	**-**
- derivatives designated as fair value hedges	54	-	54	-
Total financial liabilities	**2 157 160**	**-**	**2 157 160**	**-**
TOTAL RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS	**37 288 910**	**31 808 186**	**4 064 258**	**1 416 466**
FINANCIAL LIABILITIES	**2 157 160**	**-**	**2 157 160**	**-**

Assets Measured at Fair Value Based on Level 3 - changes in the period from 1 January to 30 June of 2016	Debt trading securities	Derivative financial instruments	Debt investment securities	Equity investment securities
As at the beginning of the period	**371 229**	**420**	**816 614**	**198 624**
Gains and losses for the period:	(3 579)	(420)	(15 423)	79 629
Recognised in profit or loss:	(3 579)	(420)	1 848	248 316
Net trading income	*(3 579)*	*(420)*	*1 848*	*6 120*
Gains less losses from investment securities, investments in subsidiaries and associates	-	-	-	*242 196*
Recognised in other comprehensive income:	-	-	*(17 271)*	*(168 687)*
Available for sale financial assets	-	-	*(17 271)*	*(168 687)*
Purchases	959 554	-	627 239	2 878
Redemptions	(73 434)	-	-	-
Sales	(2 257 741)	-	(568 721)	(221 902)
Issues	1 269 297	-	232 200	-
Settlements	-	-	-	2
As at the end of the period	**265 326**	**-**	**1 091 909**	**59 231**

In the first half of 2016, there were no transfers of financial instruments between levels of the fair value hierarchy.

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

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31.12.2015	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS				
TRADING SECURITIES	**557 541**	**183 658**	**2 654**	**371 229**
Debt securities	**550 695**	**179 466**	**-**	**371 229**
- government bonds	178 492	178 492	-	-
- deposit certificates	73 124	-	-	73 124
- banks bonds	248 156	974	-	247 182
- corporate bonds	50 923	-	-	50 923
Equity securities	**6 846**	**4 192**	**2 654**	**-**
- listed	4 192	4 192	-	-
- unlisted	2 654	-	2 654	-
DERIVATIVE FINANCIAL INSTRUMENTS	**3 349 328**	**-**	**3 348 908**	**420**
Derivative financial instruments held for trading	**3 151 873**	**-**	**3 151 453**	**420**
- interest rate derivatives	2 783 388	-	2 783 388	-
- foreign exchange derivatives	348 317	-	348 317	-
- market risks derivatives	20 168	-	19 748	420
Derivative financial instruments held for hedging	**197 455**	**-**	**197 455**	**-**
- derivatives designated as fair value hedges	146 694	-	146 694	-
- derivatives designated as cash flow hedges	50 761	-	50 761	-
INVESTMENT SECURITIES	**30 736 949**	**22 279 327**	**7 442 384**	**1 015 238**
Debt securities	**30 537 570**	**22 278 572**	**7 442 384**	**816 614**
- government bonds	22 238 625	22 238 625	-	-
- money bills	7 442 384	-	7 442 384	-
- banks bonds	233 158	-	-	233 158
- corporate bonds	583 456	-	-	583 456
- communal bonds	39 947	39 947	-	-
Equity securities	**199 379**	**755**	**-**	**198 624**
- unlisted	199 379	755	-	198 624
TOTAL FINANCIAL ASSETS	**34 643 818**	**22 462 985**	**10 793 946**	**1 386 887**

31.12.2015	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
FINANCIAL LIABILITIES				
Derivative financial instruments	**3 173 638**	**-**	**3 173 638**	**-**
Derivative financial instruments held for trading	**3 171 624**	**-**	**3 171 624**	**-**
- interest rate derivatives	2 811 493	-	2 811 493	-
- foreign exchange derivatives	342 407	-	342 407	-
- market risks derivatives	17 724	-	17 724	-
Derivative financial instruments held for hedging	**2 014**	**-**	**2 014**	**-**
- derivatives designated as fair value hedges	2 014	-	2 014	-
Total financial liabilities	**3 173 638**	**-**	**3 173 638**	**-**
TOTAL RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS	**34 643 818**	**22 462 985**	**10 793 946**	**1 386 887**
FINANCIAL LIABILITIES	**3 173 638**	**-**	**3 173 638**	**-**

Assets Measured at Fair Value Based on Level 3 - changes in the period from 1 January to 31 December of 2015	Debt trading securities	Equity trading securities	Derivative financial instruments	Debt investment securities	Equity investment securities
As at the beginning of the period	**527 067**	**22**	**469**	**309 761**	**30 696**
Gains and losses for the period:	931	(18)	(49)	14 312	160 974
Recognised in profit or loss:	931	(18)	(49)	3 967	1 827
Net trading income	*931*	*(18)*	*(49)*	*-*	*99*
Gains less losses from investment securities, investments in subsidiaries and associates	-	-	-	*3 967*	*1 728*
Recognised in other comprehensive income:	-	-	-	*10 345*	*159 147*
Available for sale financial assets	-	-	-	*10 345*	*159 147*
Purchases	1 870 076	-	-	308 663	9 850
Redemptions	(281 307)	-	-	(49 980)	-
Sales	(7 594 537)	-	-	(984 211)	(2 753)
Issues	5 848 999	-	-	1 218 069	-
Settlements	-	-	-	-	(381)
Transfers into Level 3	-	-	-	-	238
Transfers out of Level 3	-	(4)	-	-	-
As at the end of the period	**371 229**	**-**	**420**	**816 614**	**198 624**

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Transfers between levels in 2015	Transfer into level 1	Transfer out of level 1	Transfer into level 2	Transfer out of level 2
Investment securities	**4**	**(238)**	**-**	**-**
Equity securities	4	(238)	-	-

In 2015, one transfer has been observed from level 1 to level 3 of fair value hierarchy which resulted from the liquidation process of the issuer.

Moreover, in 2015 there has been observed one transfer from level 3 to level 1 of fair value hierarchy which resulted from the effect of valuation techniques revision applied to minority stakes of low value held by the Bank.

30.06.2015	Including:	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS				
TRADING SECURITIES	**2 597 284**	**2 128 633**	**5 592**	**463 059**
Debt securities	**2 580 036**	**2 116 994**	**-**	**463 042**
- government bonds	2 116 000	2 116 000	-	-
- banks bonds	338 305	994	-	337 311
- corporate bonds	110 629	-	-	110 629
Equity securities	**17 248**	**11 639**	**5 592**	**17**
- listed	11 639	11 639	-	-
- unlisted	5 609	-	5 592	17
DERIVATIVE FINANCIAL INSTRUMENTS	**3 345 943**	**-**	**3 345 287**	**656**
Derivative financial instruments held for trading	**3 160 913**	**-**	**3 160 257**	**656**
- interest rate derivatives	2 761 151	-	2 761 151	-
- foreign exchange derivatives	389 754	-	389 754	-
- market risks derivatives	10 008	-	9 352	656
Derivative financial instruments held for hedging	**185 030**	**-**	**185 030**	**-**
- derivatives designated as fair value hedges	144 316	-	144 316	-
- derivatives designated as cash flow hedges	40 714	-	40 714	-
INVESTMENT SECURITIES	**29 515 812**	**24 654 667**	**4 349 396**	**511 749**
Debt securities	**29 273 093**	**24 448 956**	**4 349 396**	**474 741**
- government bonds	24 407 316	24 407 316	-	-
- money bills	4 349 396	-	4 349 396	-
- banks bonds	68 602	-	-	68 602
- corporate bonds	406 139	-	-	406 139
- communal bonds	41 640	41 640	-	-
Equity securities	**242 719**	**205 711**	**-**	**37 008**
- listed	204 717	204 717	-	-
- unlisted	38 002	994	-	37 008
TOTAL FINANCIAL ASSETS	**35 459 039**	**26 783 300**	**7 700 275**	**975 464**

30.06.2015	Including:	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
FINANCIAL LIABILITIES				
Derivative financial instruments	**3 302 248**	**-**	**3 302 050**	**198**
Derivative financial instruments held for trading	**3 281 824**	**-**	**3 281 626**	**198**
- interest rate derivatives	2 858 593	-	2 858 593	-
- foreign exchange derivatives	413 208	-	413 010	198
- market risks derivatives	10 023	-	10 023	-
Derivative financial instruments held for hedging	**20 424**	**-**	**20 424**	**-**
- derivatives designated as fair value hedges	17 675	-	17 675	-
- derivatives designated as cash flow hedges	2 749	-	2 749	-
Total financial liabilities	**3 302 248**	**-**	**3 302 050**	**198**

TOTAL RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS	**35 459 039**	**26 783 300**	**7 700 275**	**975 464**
FINANCIAL LIABILITIES	**3 302 248**	**-**	**3 302 050**	**198**

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Assets Measured at Fair Value Based on Level 3 - changes in period from 1 January to 30 June of 2015	Debt trading securities	Equity trading securities	Derivative financial instruments	Debt investment securities	Equity investment securities
As at the beginning of the period	**527 067**	**22**	**469**	**309 761**	**30 696**
Gains and losses for the period:	1 693	(5)	187	3 943	2 424
Recognised in profit or loss:	1 693	(5)	187	-	2 340
Net trading income	*1 693*	*(5)*	*187*	-	-
Gains less losses from investment securities, investments in subsidiaries and associates	-	-	-	-	*2 340*
Recognised in other comprehensive income:	-	-	-	*3 943*	*84*
Available for sale financial assets	-	-	-	*3 943*	*84*
Purchases	867 251	-	-	76 758	6 140
Redemptions	(103 316)	-	-	(49 980)	-
Sales	(4 916 736)	-	-	(169 437)	(2 753)
Issues	4 087 083	-	-	303 696	501
As at the end of the period	**463 042**	**17**	**656**	**474 741**	**37 008**

In the first half of 2015, there were no transfers of financial instruments between levels of the fair value hierarchy.

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

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

Level 1

As at 30 June 2016, at level 1 of the fair value hierarchy, the Group has presented the fair value of held for trading government bonds in the amount of PLN 2 954 760 thousand (see Note 15) and the fair value of investment government bonds and treasury bills in the amount of PLN 28 801 215 thousand (see Note 19) (31 December 2015 respectively: PLN 178 492 thousand and 22 238 625 thousand, 30 June 2015 respectively: PLN 2 116 000 thousand and PLN 24 407 316 thousand). Level 1 also includes the fair value of local government bonds in the amount of PLN 40 991 thousand (31 December 2015: PLN 39 947 thousand, 30 June 2015: PLN 41 640 thousand), and the fair value of bonds issued by banks in the amount of PLN 1 056 thousand (31 December 2015: PLN 974 thousand, 30 June 2015: PLN 994 thousand) and the fair value of corporate bonds in the amount of PLN 2 922 thousand (31 December 2015 and 30 June 2015 - 0).

In addition, as at 30 June 2016 level 1 includes the value of the shares of listed companies in the amount of PLN 42 001 thousand (31 December 2015: PLN 4 192 thousand, 30 June 2015: PLN 217 350 thousand, including value of PZU S.A. shares in the amount of PLN 204 717 thousand

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

Level 2

Level 2 of the fair vale hierarchy includes the fair values of short term bills issued by NBP in the amount of PLN 1 649 957 thousand (31 December 2015: PLN 7 442 384 thousand, 30 June 2015: PLN 4 349 396 thousand;), whose valuation is based on a NPV model (discounted future cash flows) fed with interest rate curves generated by transformation of quotations taken directly from active and liquid financial markets.

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

As at 30 June 2016, 31 December 2015 and 30 June 2015, level 2 also includes the value of options referencing on the WIG 20 index, listed on the Stock Exchange. For the valuation of index options on WIG20 the Bank applied an internal model (based on a model for implied volatility) for which market data have been used as input parameters.

Level 3

Level 3 of the hierarchy presents the fair values of commercial debt securities issued by local banks and companies (bonds and deposit certificates) in the amount of PLN 1 357 235 thousand (31 December 2015: PLN 1 187 843 thousand, 30 June 2015: PLN 937 783 thousand).

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

Moreover, level 3 covers mainly the fair value of equity securities amounting to PLN 59 231 thousand (31 December 2015: PLN 198 624 thousand, 30 June 2015: PLN 37 025 thousand). As at 30 June 2016, these amount includes the value of preferred stock in Visa Inc. in the amount of PLN 34 759 thousand. As at 31 December 2015 this amount includes the value of Visa Europe Ltd. shares in the amount of PLN 167 243 thousand which was valuated at fair value on the basis on information held by the Bank in connection with the takeover transaction of Visa Europe Ltd by Visa Inc. The other equity securities presented at level 3 have been valuated using the market multiples method. The market multiples method, consists of valuating the equity capital of a company by using a relation between the market values of the own equity capital or market values of the total capital invested in comparable companies (goodwill) and selected economic and financial figures.

26. Prudential consolidation

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

Financial information presented below does not represent IFRS measures as defined by the standards.

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

Basis of the preparation of the consolidated financial data

mBank S.A. Group consolidated financial data based on the rules of prudential consolidation specified by the CRR Regulation ("Consolidated prudentially financial data") have been prepared for the 6-month period ended 30 June 2016 and for the 6-month period ended 30 June 2015.

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

The accounting policies applied for the preparation of the Group consolidated prudentially financial data are identical to those, which have been applied to the mBank S.A. Group consolidated financial data for the firts half of 2016, prepared in compliance with International Financial Reporting Standard ("IFRS"), except for the consolidation standards presented below.

Consolidation

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

Company	30.06.2016		31.12.2015		30.06.2015	
	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method
Aspiro S.A.	100%	full	100%	full	100%	full
Dom Maklerski mBanku S.A.	-	-	100%	full	100%	full
mBank Hipoteczny S.A.	100%	full	100%	full	100%	full
mCentrum Operacji Sp. z o.o.	100%	full	100%	full	100%	full
mFaktoring S.A.	100%	full	100%	full	100%	full
mLeasing Sp. z o.o.	100%	full	100%	full	100%	full
MLV 45 Sp. z o.o. spółka komandytowa	-	-	-	-	100%	full
mWealth Management S.A.	-	-	100%	full	-	-
Tele-Tech Investment Sp. z o.o.	100%	full	100%	full	-	-
mFinance France S.A.	99.998%	full	99.998%	full	99.98%	full

In 2016, the companies Dom Maklerski mBanku S.A. and mWealth Management S.A. were consolidated until their division described under Note 1.

IFRS Condensed Consolidated Financial Statements for the first half of 2016 PLN (000's)

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

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

The consolidated financial data combine items of assets, liabilities, equity, income and expenses of the parent with those of its subsidiaries eliminating the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary. Thus arises goodwill. If goodwill has negative value, it is recognised directly in the income statement. The profit or loss and each component of other comprehensive income is attributed to the Group's owners and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. If the Group loses control of a subsidiary, it shall account for all amounts previously recognised in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Group had directly disposed of the related assets or liabilities

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

Consolidated prudentially income statement

	Period from 01.04.2016 to 30.06.2016	Period from 01.01.2016 to 30.06.2016	Period from 01.04.2015 to 30.06.2015 - restated	Period from 01.01.20145 to 30.06.2015 - restated
Interest income	946 943	1 892 323	867 900	1 777 968
Interest expense	(262 604)	(531 665)	(263 312)	(588 155)
Net interest income	**684 339**	**1 360 658**	**604 588**	**1 189 813**
Fee and commission income	365 283	717 193	352 399	672 017
Fee and commission expense	(155 463)	(295 511)	(134 698)	(254 445)
Net fee and commission income	**209 820**	**421 682**	**217 701**	**417 572**
Dividend income	2 586	2 586	18 069	18 100
Net trading income, including:	59 513	143 600	35 293	137 002
Foreign exchange result	*66 065*	*137 882*	*65 981*	*144 524*
Other net trading income and result on hedge accounting	*(6 552)*	*5 718*	*(30 688)*	*(7 522)*
Gains less losses from investment securities, investments in subsidiaries and associates, including:	247 459	259 436	(5 432)	204 780
Gains less losses from investment securities	*244 755*	*248 624*	*2 227*	*6 174*
Gains less losses from investments in subsidiaries and associates	*2 704*	*10 812*	*(7 659)*	*198 606*
Other operating income	22 883	63 321	23 404	49 171
Net impairment losses on loans and advances	(117 743)	(186 263)	(107 666)	(207 637)
Overhead costs	(424 273)	(848 179)	(427 605)	(820 208)
Amortisation	(63 296)	(116 951)	(49 077)	(95 894)
Other operating expenses	(28 514)	(51 919)	(19 191)	(41 938)
Operating profit	**592 774**	**1 047 971**	**290 084**	**850 761**
Taxes on the Group balance sheet items	(89 011)	(146 313)	(888)	(1 795)
Profit before income tax	**503 763**	**901 658**	**289 196**	**848 966**
Income tax expense	(115 260)	(205 373)	(67 873)	(176 707)
Net profit	**388 503**	**696 285**	**221 323**	**672 259**
Net profit attributable to:				
- Owners of mBank S.A.	388 503	696 285	221 323	672 259
- Non-controlling interests	-	-	-	-

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Consolidated prudentially statement of financial position

ASSETS	30.06.2016	31.12.2015 - restated	30.06.2015 -restated	01.01.2015 -restated
Cash and balances with the Central Bank	6 433 220	5 938 132	3 187 461	3 054 548
Loans and advances to banks	1 680 780	1 897 233	2 049 224	3 727 309
Trading securities	3 233 150	557 541	2 597 284	1 156 450
Derivative financial instruments	2 411 457	3 349 328	3 345 943	4 865 517
Loans and advances to customers	80 782 788	78 464 673	77 274 194	74 697 423
Hedge accounting adjustments related to fair value of hedged items	73	130	256	461
Investment securities	31 897 953	30 973 487	29 784 211	28 139 847
Non-current assets held for sale	-	-	-	291 829
Intangible assets, including:	503 561	519 049	466 180	456 522
Tangible assets	718 334	739 978	687 113	708 103
Current income tax assets	610	1 721	121	61 336
Deferred income tax assets	451 359	357 207	352 351	238 980
Other assets	608 916	702 967	838 184	509 114
Total assets	**128 722 201**	**123 501 446**	**120 582 522**	**117 907 439**
LIABILITIES AND EQUITY				
Liabilities				
Amounts due to the Central Bank	1	-	2	-
Amounts due to other banks	12 058 197	12 019 331	15 675 917	13 383 829
Derivative financial instruments	2 157 160	3 173 638	3 302 248	4 719 056
Amounts due to customers	85 376 175	81 185 025	73 104 614	72 615 316
Debt securities in issue	10 115 496	8 946 195	11 013 855	10 341 742
Hedge accounting adjustments related to fair value of hedged items	206 247	100 098	58 929	103 382
Liabilities held for sale	-	-	-	91 793
Other liabilities	1 899 432	1 730 975	1 812 275	1 301 051
Current income tax liabilities	59 328	50 126	32 581	1 441
Provisions for deferred income tax	909	981	1 085	1 980
Provisions	176 833	225 416	168 401	176 881
Subordinated liabilities	3 910 457	3 827 315	3 896 612	4 127 724
Total liabilities	**115 960 235**	**111 259 100**	**109 066 519**	**106 864 195**
Equity				
Equity attributable to Owners of mBank S.A.	**12 761 966**	**12 242 346**	**11 516 001**	**11 043 242**
Share capital:	**3 535 758**	**3 535 758**	**3 523 935**	**3 523 903**
- Registered share capital	168 956	168 956	168 841	168 840
- Share premium	3 366 802	3 366 802	3 355 094	3 355 063
Retained earnings:	**8 975 689**	**8 273 782**	**7 649 099**	**6 969 816**
- Profit from the previous years	8 279 404	6 972 536	6 976 840	6 969 816
- Profit for the current year	696 285	1 301 246	672 259	-
Other components of equity	**250 519**	**432 806**	**342 967**	**549 523**
Non-controlling interests	**-**	**-**	**2**	**2**
Total equity	**12 761 966**	**12 242 346**	**11 516 003**	**11 043 244**
Total liabilities and equity	**128 722 201**	**123 501 446**	**120 582 522**	**117 907 439**

Restatement of the comparative data

Due to the change in accounting policy relating to the valuation method of investments in subsidiaries, associates and joint ventures used in the stand-alone financial statements, the Group restated prudentially consolidated comparative data as at 30 June 2015, as at 1 January 2015 and as at 31 December 2015. Starting from 1 January 2016 shares in subsidiaries, associates and joint ventures which are not in the scope of prudential consolidation were valued using the equity method which the Bank applies to the valuation of these assets in the stand-alone financial statements. The Bank applies the equity method to the valuation of such assets following the entry into force of IAS 27 Separate financial statements amendments allowing usage of such valuation method (IAS 27.10 (c)). The scope of prudential consolidation differs from the scope of consolidation under IFRS, therefore prudentially consolidated financial data includes valuation of unconsolidated subsidiaries which in the past were valued using at cost method and now, after the change of mBank S.A. accounting policy, are valued using the equity method.

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The impact of changes introduced in the accounting policy on the prudentially consolidated comparative data of the Group is presented in the following tables.The impact of changes in the accounting policies on the consolidated prudentially comparative data of mBank S.A. Group are presented in the following tables.

Restatement of the mBank Group S.A. consolidated prudentially statement of financial position as at 30 June 2015.

ASSETS	30.06.2015 before restatement	Restatement	30.06.2015 after restatement
Investment securities	29 687 808	96 403	29 784 211
Other items of assets	90 798 311	-	90 798 311
Total assets	**120 486 119**	**96 403**	**120 582 522**
LIABILITIES AND EQUITY			
Liabilities			
Other liabilities	1 788 249	24 026	1 812 275
Other items of liabilities	107 254 244	-	107 254 244
Total liabilities	**109 042 493**	**24 026**	**109 066 519**
Equity			
Equity attributable to Owners of mBank S.A.	**11 443 624**	**72 377**	**11 516 001**
Share capital	**3 523 935**	**-**	**3 523 935**
Retained earnings:	**7 576 719**	**72 380**	**7 649 099**
- Profit from the previous years	6 871 925	104 915	6 976 840
- Profit for the current year	704 794	(32 535)	672 259
Other components of equity	**342 970**	**(3)**	**342 967**
Non-controlling interests	**2**	**-**	**2**
Total equity	**11 443 626**	**72 377**	**11 516 003**
Total liabilities and equity	**120 486 119**	**96 403**	**120 582 522**

Restatement of the mBank Group S.A. consolidated prudentially income statement for the period from 1 January 2015 to 30 June 2015.

	Period from 01.01.2015 to 30.06.2015 before restatement	Restatement	Period from 01.01.2015 to 30.06.2015 after restatement
Interest income	1 777 968	-	1 777 968
Interest expense	(588 155)	-	(588 155)
Net interest income	**1 189 813**	**-**	**1 189 813**
Fee and commission income	672 017	-	672 017
Fee and commission expense	(254 445)	-	(254 445)
Net fee and commission income	**417 572**	**-**	**417 572**
Dividend income	18 100	-	18 100
Net trading income, including:	137 002	-	137 002
Foreign exchange result	*144 524*	-	*144 524*
Other net trading income and result on hedge accounting	*(7 522)*	-	*(7 522)*
Gains less losses from investment securities, investments in subsidiaries and associates, including:	237 315	(32 535)	204 780
Gains less losses from investment securities	*6 174*	-	*6 174*
Gains less losses from investments in subsidiaries and associates	*231 141*	*(32 535)*	*198 606*
Other operating income	49 171	-	49 171
Net impairment losses on loans and advances	(207 637)	-	(207 637)
Overhead costs	(822 003)	1 795	(820 208)
Amortisation	(95 894)	-	(95 894)
Other operating expenses	(41 938)	-	(41 938)
Operating profit	**881 501**	**(30 740)**	**850 761**
Taxes on the Group balance sheet items	-	(1 795)	(1 795)
Profit before income tax	**881 501**	**(32 535)**	**848 966**
Income tax expense	(176 707)	-	(176 707)
Net profit	**704 794**	**(32 535)**	**672 259**
Net profit attributable to:			
- Owners of mBank S.A.	704 794	(32 535)	672 259
- Non-controlling interests	-	-	-

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Restatement of the mBank Group S.A. consolidated prudentially statement of financial position as at 31 December 2015.

ASSETS	31.12.2015 before restatement	Restatement	31.12.2015 after restatement
Investment securities	30 980 449	(6 962)	30 973 487
Other items of assets	92 527 959	-	92 527 959
Total assets	**123 508 408**	**(6 962)**	**123 501 446**
LIABILITIES AND EQUITY			
Liabilities			
Other liabilities	1 708 139	22 836	1 730 975
Other items of liabilities	109 528 125	-	109 528 125
Total liabilities	**111 236 264**	**22 836**	**111 259 100**
Equity			
Equity attributable to Owners of mBank S.A.	**12 272 144**	**(29 798)**	**12 242 346**
Share capital	**3 535 758**	**-**	**3 535 758**
Retained earnings:	**8 303 580**	**(29 798)**	**8 273 782**
- Profit from the previous years	6 983 272	(10 736)	6 972 536
- Profit for the current year	1 320 308	(19 062)	1 301 246
Other components of equity	**432 806**	**-**	**432 806**
Non-controlling interests	**-**	**-**	**-**
Total equity	**12 272 144**	**(29 798)**	**12 242 346**
Total liabilities and equity	**123 508 408**	**(6 962)**	**123 501 446**

Restatement of the mBank Group S.A. consolidated prudentially statement of financial position as at 1 January 2015 (opening balance).

ASSETS	01.01.2015 before restatement	Restatement	01.01.2015 after restatement
Investment securities	27 906 260	233 587	28 139 847
Other items of assets	89 767 592	-	89 767 592
Total assets	**117 673 852**	**233 587**	**117 907 439**
LIABILITIES AND EQUITY			
Liabilities			
Total liabilities	**106 864 195**	**-**	**106 864 195**
Equity			
Equity attributable to Owners of mBank S.A.	**10 809 655**	**233 587**	**11 043 242**
Share capital	**3 523 903**	**-**	**3 523 903**
Retained earnings:	**6 736 229**	**233 587**	**6 969 816**
- Profit from the previous years	6 736 229	233 587	6 969 816
- Profit for the current year	-	-	-
Other components of equity	**549 523**	**-**	**549 523**
Non-controlling interests	**2**	**-**	**2**
Total equity	**10 809 657**	**233 587**	**11 043 244**
Total liabilities and equity	**117 673 852**	**233 587**	**117 907 439**

Selected explanatory information

1. Compliance with international financial reporting standards

The presented condensed consolidated report for the first half of 2016 fulfils the requirements of the International Accounting Standard (IAS) 34 "Interim Financial Reporting" relating to interim financial reports.

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

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

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

3. Seasonal or cyclical nature of the business

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

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

- Act on tax on certain financial institutions

On 15 January 2016 the Polish Parliament adopted the "Act on tax on certain financial institutions". The Act came into force on 1 February 2016.

The Act regulates the taxation of the assets of certain financial institutions. In the case of the banks, the tax base is the excess of the total value of assets, resulting from the trial balance determined on the basis of the general ledger records as of the last day of the month in accordance with the accounting standards applied by the banks, above the amount of PLN 4 billion, reduced by the value of own funds and treasury securities. The tax rate introduced by the Act is 0.0366% of the tax base per month. The cost of tax on certain financial institutions included in the results and equity of the mBank Group for the six months of 2016 amounted to PLN 146 313 thousand.

- Closing of the takeover of Visa Europe Limited (Visa Europe) by Visa Inc. transaction

On 21 June 2016, the Bank received the information regarding the closing of the Visa Europe Limited takeover by Visa Inc. transaction on the terms described below.

On 21 June 2016, as a result of the settlement of the takeover of Visa Europe by Visa Inc. transaction, the Bank received in cash the amount of EUR 46.5 million, equivalent to PLN 204.2 million (at the average NBP exchange rate of 21 June 2016) and 16 878 preferred shares of Visa Inc. Series C (preferred shares). In addition, as a result of the changed conditions of the settlement, the before expected *"earn-out"* payment has been replaced by increase of the amount payable in cash in the second quarter of 2016 and the deferred amount payable in cash in the second quarter of 2019 (deferred payment). The total amount of deferred payment attributable to all the participants of the Transaction will amount to EUR 1.12 billion, of which the Bank's share amounts to 0.3582436136%. Deferred payment may be subject to some adjustments when in the period preceding the date of payment one or more of participating entities cease to exist without a successor or if the body representing the members of Visa Europe (Visa Europe Member Representative) considers that it would be in the interest of beneficiaries to retain some cash in order to protect the value of capital component of the settlement. Preferred shares will be converted into Visa Inc. common shares. Conversion of all preferred shares will take place no later than in 2028. The current conversion rate of the preferred shares into common shares amounts to 13.952. It can be subject to a decrease until 2028 depending on potential liabilities resulting from litigation proceedings concerning "interchange" during that period. The preferred shares were classified as investment securities and measured at fair value by reference to the market price of listed ordinary shares including a discount which takes into account preferred shares market illiquidity and adjustments related to litigation proceedings (current or potential) in which Visa Inc. is involved that have an influence on conversion rate.

In connection with the settlement of the above described transaction, the Bank realized profit in the amount of PLN 251 732 thousand which was recognized in the income statement under "Gains less losses from investment securities, investments in subsidiaries and associates".

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

In the first half of 2016, events as indicated above did not occur in the Group.

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

In the first half of 2016, mBank Hipoteczny S.A. issued mortgage bonds in the amount of PLN 450 000 thousand and in the amount of EUR 50 000 thousand as well as bonds in the amount of PLN 1 077 300 thousand. In the same time the company redeemed mortgage bonds in the amount of PLN 200 000 thousand and bonds in the amount of 1 003 900 thousand.

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

On 24 March 2016, the 29th Ordinary General Meeting of mBank S.A., adopted the resolution on division of the 2015 net profit which does not provide for the payment of dividend for the year 2015.

8. Significant events after the end of the first half of 2016, which are not reflected in the financial statements

Events as indicated above did not occur in the Group.

9. Effect of changes in the structure of the entity in the first half of 2016, including business combinations, acquisitions or disposal of subsidiaries, long-term investments, restructuring, and discontinuation of business activities

On 20 May 2016 there was a division of Dom Maklerski mBanku S.A. ("mDM") and division of mWealth Management S.A. ("mWM"), which has been described in detail under Note 1 of these condensed consolidated financial statements. The division of mDM and mWM was settled based on the book value had no impact on net income of mBank and mBank Group for the first half of 2016 and net assets of mBank and mBank Group as at 30 June 2016.

Moreover, in the first half of 2016, the Group sold shares of mBank subsidiary, Call Center Poland S.A., for the price of PLN 2 000 thousand.

10. Changes in contingent liabilities and commitments

In the first half of 2016, there were no changes in contingent liabilities and commitments of credit nature, i.e., guarantees, letters of credit or unutilised loan amounts, other than resulting from current operating activities of the Group. There was no single case of granting of guarantees or any other contingent liability of any material value for the Group.

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

In the first half of 2016, events as indicated above did not occur in the Group.

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

In the first half of 2016, the Group has made revaluation write-off of other assets in the amount of PLN 788 thousand and revaluation write-off of fixed assets in the amount of PLN 1 000 thousand.

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

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

14. Reversals of provisions against restructuring costs

In the first half of 2016, events as indicated above did not occur in the Group.

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15. Acquisitions and disposals of tangible fixed asset items

In the first half of 2016, there were no material transactions of acquisition or disposal of any tangible fixed assets, with the exception of typical lease and property development operations that are performed by the companies of the Group.

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

In the first half of 2016, events as indicated above did not occur in the Group.

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

In the first half of 2016, events as indicated above did not occur in the Group.

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

In the first half of 2016, events as indicated above did not occur in the Group.

19. Corrections of errors from previous reporting periods

In the first half of 2016, events as indicated above did not occur in the Group.

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

In the first half of 2016, events as indicated above did not occur in the Group.

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

mBank S.A. did not publish a performance forecast for the year 2016.

22. Registered share capital

The total number of ordinary shares as at 30 June 2016 was 42 238 924 shares (31 December 2015 - 42 238 924 shares, 30 June 2015 - 42 210 157 shares) at PLN 4 nominal value each. All issued shares were fully paid up.

REGISTERED SHARE CAPITAL (THE STRUCTURE) AS AT 30 JUNE 2016						
Share type	Type of privilege	Type of limitation	Number of shares	Series / face value of issue in PLN	Paid up	Registered on
ordinary bearer*	-	-	9 982 500	39 930 000	fully paid in cash	1986
ordinary registered*	-	-	17 500	70 000	fully paid in cash	1986
ordinary bearer	-	-	2 500 000	10 000 000	fully paid in cash	1994
ordinary bearer	-	-	2 000 000	8 000 000	fully paid in cash	1995
ordinary bearer	-	-	4 500 000	18 000 000	fully paid in cash	1997
ordinary bearer	-	-	3 800 000	15 200 000	fully paid in cash	1998
ordinary bearer	-	-	170 500	682 000	fully paid in cash	2000
ordinary bearer	-	-	5 742 625	22 970 500	fully paid in cash	2004
ordinary bearer	-	-	270 847	1 083 388	fully paid in cash	2005
ordinary bearer	-	-	532 063	2 128 252	fully paid in cash	2006
ordinary bearer	-	-	144 633	578 532	fully paid in cash	2007
ordinary bearer	-	-	30 214	120 856	fully paid in cash	2008
ordinary bearer	-	-	12 395 792	49 583 168	fully paid in cash	2010
ordinary bearer	-	-	16 072	64 288	fully paid in cash	2011
ordinary bearer	-	-	36 230	144 920	fully paid in cash	2012
ordinary bearer	-	-	35 037	140 148	fully paid in cash	2013
ordinary bearer	-	-	36 044	144 176	fully paid in cash	2014
ordinary bearer	-	-	28 867	115 468	fully paid in cash	2015
ordinary bearer	-	-	-	-	-	2016
Total number of shares			**42 238 924**			
Total registered share capital				**168 955 696**		
Nominal value per share (PLN)		**4**				

* As at the end of the reporting period

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In connection with registration on 20 July 2016 by the National Depository of Securities (KDPW) of 15 007 shares of mBank S.A., the share capital of mBank S.A. increased by PLN 60 028 with the effect from 20 July 2016. The shares were issued as part of the conditional increase in the share capital of the Bank by issuance of shares with no subscription rights for the existing shareholders in order to enable beneficiaries of the incentive programmes to take up shares in mBank S.A. As at the date of publication of these condensed financial statements the share capital of mBank S.A. amounted to PLN 169 015 724 and was divided into 42 253 931 shares.

23. Material share packages

In the first half of 2016, there were no changes in the holding of material share packages of the Bank.

Commerzbank AG is a shareholder holding over 5% of the share capital and votes at the General Meeting and as at 30 June 2016 it held 69.49% of the share capital and votes at the General Meeting of mBank S.A.

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

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

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

	Number of rights to shares held as at the date of publishing the report for Q1 2016	Number of rights to shares acquired from the date of publishing the report for Q1 2016 to the date of publishing the report for H1 2016	Number of rights to shares realised from the date of publishing the report for Q1 2016 to the date of publishing the report for H1 2016	Number of rights to shares held as at the date of publishing the report for H1 2016
Management Board				
1. Cezary Stypułkowski	-	3 273	3 273	-
2. Lidia Jabłonowska-Luba	-	498	498	-
3. Przemysław Gdański	-	1 851	1 851	-
4. Joerg Hessenmueller	-	1 589	1 589	-
5. Hans-Dieter Kemler	-	1 446	1 446	-
6. Cezary Kocik	-	1 745	1 745	-
7. Jarosław Mastalerz	-	1 890	1 890	-

	Number of shares held as at the date of publishing the report for Q1 2016	Number of shares acquired from the date of publishing the report for Q1 2016 to the date of publishing the report for H1 2016	Number of shares sold from the date of publishing the report for Q1 2016 to the date of publishing the report for H1 2016	Number of shares held as at the date of publishing the report for H1 2016
Management Board				
1. Cezary Stypułkowski	6 784	3 273	-	10 057
2. Lidia Jabłonowska-Luba	818	498	-	1 316
3. Przemysław Gdański	4 689	1 851	-	6 540
4. Joerg Hessenmueller	1 254	1 589	-	2 843
5. Hans-Dieter Kemler	-	1 446	-	1 446
6. Cezary Kocik	-	1 745	-	1 745
7. Jarosław Mastalerz	818	1 890	-	2 708

As at the date of publishing the report for the first quarter of 2016 and as at the date of publishing the report for the first half of 2016, the Members of the Management Board had no and they have no rights to Bank's shares.

As at the date of publishing the report for the first half 2016, Mr. Wiesław Thor had 1 690 shares of mBank. As at the date of publishing the report for the first quarter of 2016, Mr. Wiesław Thor had no Bank shares.

As at the date of publishing the report for the first quarter of 2015 and as at the date of publishing the report for the first half of 2016, the other Members of the Supervisory Board of mBank S.A. had neither Bank shares nor rights to Bank shares.

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

As at 30 June 2016, the Bank was not involved in any proceedings before a court, arbitration body, or public administration authority concerning liabilities of the Bank or its subsidiaries, which represent at least 10% of the Bank's equity. Moreover, the total value of claims concerning liabilities of the Bank or its subsidiary in all proceedings before a court, an arbitration body or a public administration authority as at 30 June 2016 was also not higher than 10% of the Bank's equity.

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

Report on major proceedings brought against the Bank

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

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

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

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

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

3. Claims of clients of Interbrok

   170 entities who were clients of Interbrok Investment E. Dróżdż i Spółka Spółka jawna (hereinafter referred to as Interbrok) called the Bank for amicable settlement in the total amount of PLN 385 520 thousand and via the District Court in Warsaw. In addition, 9 legal compensation suits have been delivered to the Bank. Eight of the nine suits where placed by former clients of Interbrok for the total amount of PLN 800 thousand with the reservation that the claims may be extended up to the total amount of PLN 5 950 thousand. The Plaintiffs alleged that the Bank aided and abetted Interbrok's illegal activities, which caused damage to the Plaintiffs. Seven of the suits against mBank were dismissed on substantive grounds and thus ended with a valid court order. As regards the 8th

case, the Plaintiff withdrew the action and the waiver of claims and the Regional Court discontinued the proceedings. In the 9th case the value of the subject of litigation amounts to PLN 275 423 thousand together with statutory interest and legal costs. The amount set forth in the petition is to cover the receivables, acquired by the Plaintiff by way of assignment, due to parties aggrieved by Interbrok on account of the reduction (as a result of Interbrok's bankruptcy) of the receivables by a return of the deposits paid by the aggrieved for making investments on the forex market. The Plaintiff claims the Bank's liability on the grounds of the Bank's aiding to commit the illicit act of Interbrok involving the pursuit of brokerage activity without a permit. At present, the case is being heard by the court of first instance.

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

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

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

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

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

On 4 April 2016, the Municipal Ombudsman representing a group of 390 individuals, retail banking clients of mBank, who concluded agreements on CHF-indexed mortgage loans with mBank, filed a class action with the Regional Court in Łódź against mBank. In a letter of 23 May 2016 the claimant added another 144 persons to the list of the group members. The statement of claim included alternative claims for declaring invalidity of the loan agreements in part i.e. in the scope of the provisions related to indexation, or declaring that the agreements in question are invalid in whole, or finding that the provisions of the agreement related to indexation are invalid in the scope where indexation of over 20% and below 20% of the value of the CHF exchange rate from the table of exchange rates of mBank S.A. from the date of conclusion of each of the loan agreements was permitted. The statement of claim in question was served on mBank on 13 June 2016, the time limit for filing a response expires on 13 August 2016. The date of the first court hearing was set by the Regional Court for 31 August 2016.

As at 30 June 2016, the Bank was not involved in any proceedings before a court, arbitration body, or public administration authority concerning receivables of the Bank or its subsidiaries, which represent at least 10% of the Bank's equity. The total value of claims concerning receivables of the Bank or its subsidiaries in all proceedings before a court, an arbitration body or a public administration authority underway at 30 June 2016 was also not higher than 10% of the Bank's equity.

Information regarding tax audits

On 13 June 2016, the French Tax Authority (Direction Generale des Finances Publiques Direction des verifications nationales et internationales) initiated tax audit in the company mFinance France in terms of the regularity of tax settlements (including CIT and VAT) for the period from 1 January 2013 to 31 December 2015. The enquiry is in progress.

Within the period from 12 April 2016 to 17 June 2016, the First Mazovian Treasury Office in Warsaw (Pierwszy Mazowiecki Urząd Skarbowy w Warszawie) carried out control in terms of the legitimacy of tax on goods and services refund in mLeasing Sp. z o. o. for the fourth quarter of 2015. The audit did not identify any relevant irregularities.

On 29 January 2016 mLeasing received a notification of the intention to open an enquiry and an authorisation for the Head of the Treasury Control Office in Warsaw to conduct an enquiry into the reliability of the declared tax bases and the correctness of the calculation and payment of tax on goods and services for Q2 2014. The enquiry aims at determining whether the Company is an obligated institution under the Act of 16 November 2000 on Counteracting Money Laundering and Terrorism Financing; if mLeasing is given the status of an obligated institution, the enquiry will also cover its compliance with the obligations arising from the aforesaid act. The enquiry is in progress.

Within the period from 4 to 25 January 2016, Director of the Social Insurance Institution (Zakład Ubezpieczeń Społecznych) conducted an inspection in mLocum S.A. concerning, i.a. the correctness and accuracy of calculating the social security contributions, reporting to the social insurance and health insurance for the years 2012, 2013 and 2014. The audit did not identify any relevant irregularities.

From 1 December 2015 to 11 January 2016, the First Tax Office in Gdynia conducted a tax inspection in Apartamenty Molo Rybackie Sp. z o.o. (joint venture of mLocum S.A. and Dalmor) of the accuracy of settlement of tax on goods and services in October 2015 in connection with the declared VAT refund. The audit did not identify any irregularities.

Within the period from 9 June 2015 to 13 August 2015, the President of the capital city of Warsaw carried out tax audit in mLeasing Sp. z o.o. concerning real property tax in the scope of determining ownership, assets and the basis for collecting taxes on land, buildings and building structures located in the capital city of Warsaw. The audit covered the period from 1 January 2010 to 30 April 2015. The audit did not identify any relevant irregularities.

Within the period from 9 December 2014 to 2 April 2015, Director of the Treasury Control Office in Łódź (Urząd Kontroli Skarbowej w Łodzi) carried out audit proceedings in Aspiro S.A. concerning correctness of the settlement of value added tax for the year 2012. The audit did not identify any relevant irregularities.

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

26. Off-balance sheet liabilities

Off-balance sheet liabilities as at 30 June 2016, 31 December 2015 and 30 June 2015 were as follows:

	30.06.2016	31.12.2015	30.06.2015
1. 1. Contingent liabilities granted and received	**29 443 205**	**27 926 983**	**26 732 643**
Commitments granted	**27 549 856**	**26 180 428**	**24 999 624**
- financing	22 424 673	21 098 198	20 448 304
- guarantees and other financial facilities	5 124 853	5 081 900	4 550 990
- other commitments	330	330	330
Commitments received	**1 893 349**	**1 746 555**	**1 733 019**
- financial commitments	51 627	-	72 000
- guarantees	1 841 722	1 746 555	1 661 019
2. 2. Derivative financial instruments (nominal value of contracts)	**432 902 195**	**579 188 355**	**639 716 020**
Interest rate derivatives	334 119 854	494 009 390	540 145 504
Currency derivatives	92 301 141	81 124 026	98 043 405
Market risk derivatives	6 481 200	4 054 939	1 527 111
Total off-balance sheet items	**462 345 400**	**607 115 338**	**666 448 663**

27. Transactions with related entities

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

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

The amounts of transactions with related entities, i.e., balances of receivables and liabilities and related costs and income as at 30 June 2016, 31 December 2015 and 30 June 2015 were as follows.

PLN (000's)	mBank S.A. subsidiaries not consolidated by the acquisition method			Commerzbank AG Group		
As at the end of the period	**30.06.2016**	**31.12.2015**	**30.06.2015**	**30.06.2016**	**31.12.2015**	**30.06.2015**
Statement of Financial Position						
Assets	-	13 153	113 048	562 833	613 844	453 624
Liabilities	748	1 248	1 133	14 143 857	13 478 374	17 446 938
Income Statement						
Interest income	-	32	4 364	67 044	175 657	90 797
Interest expense	(3)	(4)	(2)	(76 082)	(230 191)	(136 506)
Fee and commission income	10	44	30	-	-	-
Other operating income	33	72	34	11	20	7
Overhead costs, amortisation and other operating expenses	(1)	(1)	(1)	(4 518)	(9 285)	(4 866)
Contingent liabilities granted and received						
Contingent liabilities granted	1 525	1 514	1 520	1 314 898	1 379 203	1 270 234
Contingent liabilities received	-	-	-	864 918	618 758	773 238

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

As at 30 June 2016, the Bank's exposure under guarantees granted in excess of 10% of own funds related to the guarantee payment of all amounts to be paid in respect of debt securities issued by mFinance France S.A. (mFF), a subsidiary of the mBank S.A.

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

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

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

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

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

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

On 12 April 2016, mBank S.A. received from Mr. Joerg Hessenmueller information about his resignation from the post of the Vice President of the Management Board, Chief Financial Officer taking effect as of 30 June 2016. The reason for the resignation of Mr. Hessenmueller is taking up new responsibilities within the Commerzbank Group.

On 10 June 2016, the Supervisory Board of mBank S.A. adopted a resolution appointing Mr. Christoph Heins as a Vice President of the Management Board, Chief Financial Officer with the effect as of 1 July 2016, until the end of current term of the Management Board.

- Changes in the Supervisory Board of mBank S.A.

On 16 March 2016 the Bank received a letter from Mr. Martin Blessing, Member of the Bank's Supervisory Board and Member of the Executive Committee with a resignation from the aforementioned positions. The resignation took effect on 30 April 2016.

On 24 March 2016, the Supervisory Board of mBank S.A. adopted a resolution appointing Mr. Michael Mandel as a member of the Supervisory Board with effect as of 1 May 2016. He replaced Mr. Martin Blessing until the end of a current term of the Management Board (i.e. the date of the General Meeting of the Bank approving the financial statements of the Bank for the year 2016).

30. Factors affecting the results in the coming quarter

Entering into force on 1 February 2016 of the "Act on tax on certain financial institutions", specified in the item 29 above will have a significant negative impact on the financial results of the Bank and the Group in following quarters.

31. Other information

- Proposals concerning foreign currency mortgage loans restructuring

Some proposals of restructuring of foreign currency mortgage loans for individuals have been discussed recently, including the solutions presented by the Chancellery of the President of the Republic of Poland. The solutions proposed so far are under discussion and their final form is not known yet. Therefore, at the moment, the Bank is not able to estimate reliably either the implementation probability of the discussed solutions or the potential impact of the final solutions on the consolidated financial statements of the Group.

- Recommendations of the Polish Financial Supervision Authority (KNF) regarding additional capital requirements and retaining the entire profit earned by the Bank during the period from 1 January to 31 December 2015 in the Bank's own funds

On 16 March 2016, mBank S.A. received a letter from the KNF with information regarding review of the additional capital requirement associated with the risk of the foreign currency mortgage loan portfolio for households at the consolidated level, respectively: for the Common Equity Tier 1 capital ratio reduction from 3.29 p.p. to 2.79 p.p. and for the total capital ratio decrease from 4.39 p.p. to 3.72 p.p. Therefore, at the end of 2015 the Bank's capital ratios on a consolidated level should be at least: the Common Equity Tier 1 capital ratio 11.79% and total capital ratio 15.72%. Beginning 1 January 2016 the Bank's capital ratios on a consolidated level should be at least: the Common Equity Tier 1 capital ratio 13.04% and the total capital ratio 16.97%. Capital ratios at the stand-alone level for the above mentioned periods remain unchanged and should be at least: at the end of 2015 the Common Equity Tier 1 capital ratio 12.29%, the total capital ratio 16.39% and from 1 January 2016 the Common Equity Tier 1 capital ratio 13.54% and the total capital ratio 17.64%. The above-described reduction of capital requirements on a consolidated level results from taking into account lower share of the foreign currency mortgage loan portfolio for households in the mBank Group balance sheet compared with the stand-alone balance sheet of the Bank and it is not the result of the change in the KNF's assessment of the risks associated with the foreign currency mortgage loans portfolio for households. As at 30 June 2016 the Bank meets the requirements of the KNF at both stand-alone and consolidated basis.

Additionally KNF has recommended an increase of the Bank's own funds by retaining the entire profit earned by the Bank during the period from 1 January to 31 December 2015. On 24 March 2016 the Ordinary General Meeting of mBank S.A. adopted a resolution in which it was decided that the Bank's net profit for the year 2015 in the amount of PLN 1 271 449 406.95 will be allocated in the amount of PLN 30 000 000.00 to the general banking risk reserve of mBank, while the amount of PLN 1 241 449 406.95 will remain undivided.