mBank S.A.

IFRS Condensed Financial Statements for the first half of 2016

Contents

1. Selected financial data

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

	SELECTED FINANCIAL DATA FOR THE BANK	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	1 659 980	1 607 039	378 948	388 728
II.	Fee and commission income	559 751	531 879	127 782	128 657
III.	Net trading income	143 864	139 203	32 842	33 672
IV.	Operating profit	995 946	841 622	227 359	203 580
V.	Profit before income tax	876 080	822 997	199 995	199 075
VI.	Net profit	698 913	672 288	159 551	162 620
VII.	Net cash flows from operating activities	2 898 362	1 166 405	661 651	282 142
VIII.	Net cash flows from investing activities	217 386	208 603	49 626	50 459
IX.	Net cash flows from financing activities	738 915	(164 274)	168 683	(39 736)
X.	Net increase / decrease in cash and cash equivalents	3 854 663	1 210 734	879 960	292 865
XI.	Basic earnings per share (in PLN/EUR)	16.55	15.93	3.78	3.85
XII.	Diluted earnings per share (in PLN/EUR)	16.52	15.91	3.77	3.85
XIII.	Declared or paid dividend per share (in PLN/EUR)	-	-	-	-

	SELECTED FINANCIAL DATA FOR THE BANK	in PLN'000			in EUR'000		
		As at			As at		
		30.06.2016	31.12.2015	30.06.2015	30.06.2016	31.12.2015	30.06.2015
I.	Total assets	123 336 035	119 115 370	116 761 132	27 869 401	27 951 512	27 837 386
II.	Amounts due to the Central Bank	1	-	2	0	-	0
III.	Amounts due to other banks	12 035 643	12 183 191	15 701 259	2 719 612	2 858 897	3 743 386
IV.	Amounts due to customers	90 418 073	85 924 151	80 194 819	20 431 154	20 162 889	19 119 497
V.	Own equity	12 764 681	12 242 347	11 516 004	2 884 348	2 872 779	2 745 566
VI.	Share capital	168 956	168 956	168 841	38 178	39 647	40 254
VII.	Number of shares	42 238 924	42 238 924	42 210 157	42 238 924	42 238 924	42 210 157
VIII.	Book value per share (in PLN/EUR)	302.20	289.84	272.83	68.29	68.01	65.05
IX.	Total capital ratio	21.82	20.18	18.88	21.82	20.18	18.88

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 = PLN 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 Financial Statements for the first half of 2016 PLN (000’s)

2. Condensed financial data

Condensed income statement

	Note	Period from 01.04.2016 to 30.06.2016	Period from 01.01.2016 to 30.06.2016	Period from 01.04.2016 to 30.06.2015 - restated	Period from 01.01.2015 to 30.06.2015 - restated
Interest income		830 589	1 659 980	778 290	1 607 039
Interest expense		(233 917)	(476 839)	(241 982)	(546 628)
Net interest income		**596 672**	**1 183 141**	**536 308**	**1 060 411**
Fee and commission income		289 304	559 751	263 146	531 879
Fee and commission expense		(138 522)	(264 324)	(116 043)	(221 049)
Net fee and commission income		**150 782**	**295 427**	**147 103**	**310 830**
Dividend income		111 408	133 498	120 929	120 960
Net trading income, including:		58 063	143 864	37 444	139 203
Foreign exchange result		*63 755*	*135 797*	*63 110*	*142 890*
Other net trading income and result on hedge accounting		*(5 692)*	*8 067*	*(25 666)*	*(3 687)*
Gains less losses from investment securities, investments in subsidiaries and associates, including:		244 755	248 357	1 342	165 083
Gains less losses from investment securities		*244 755*	*248 799*	*2 227*	*6 174*
Gains less losses from investments in subsidiaries and associates		-	*(442)*	*(885)*	*158 909*
Other operating income		9 768	35 079	12 362	25 089
Net impairment losses on loans and advances		(104 192)	(167 947)	(76 942)	(174 500)
Overhead costs		(359 861)	(716 193)	(367 176)	(698 564)
Amortisation		(57 274)	(104 608)	(42 301)	(82 528)
Other operating expenses		(34 160)	(54 672)	(10 521)	(24 362)
Operating profit		**615 961**	**995 946**	**358 548**	**841 622**
Taxes on the Bank's balance sheet items		(85 066)	(139 865)	(888)	(1 795)
Share in profits (losses) of entities under the equity method		(32 327)	19 999	(81 402)	(16 830)
Profit before income tax		**498 568**	**876 080**	**276 258**	**822 997**
Income tax expense		(103 146)	(177 167)	(54 279)	(150 709)
Net profit		**395 422**	**698 913**	**221 979**	**672 288**

Net profit			**698 913**		**672 288**
Weighted average number of ordinary shares	5.25		**42 238 924**		**42 210 143**
Earnings per share (in PLN)	5.25		**16.55**		**15.93**
Weighted average number of ordinary shares for diluted earnings	5.25		**42 299 047**		**42 257 173**
Diluted earnings per share (in PLN)	5.25		**16.52**		**15.91**

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

Condensed statement of comprehensive income

	Period from 01.04.2016 to 30.06.2016	Period from 01.01.2016 to 30.06.2016	Period from 01.04.2016 to 30.06.2015 - restated	Period from 01.01.2015 to 30.06.2015 - restated
Net profit	**395 422**	**698 913**	**221 979**	**672 288**
Other comprehensive income net of tax, including:	**(216 159)**	**(182 190)**	**(278 142)**	**(206 583)**
Items that may be reclassified subsequently to the income statement				
Exchange differences on translation of foreign operations (net)	156	84	53	65
Change in valuation of available for sale financial assets (net)	(220 166)	(182 572)	(269 435)	(193 747)
Cash flow hedges (net)	(556)	616	(9 050)	(7 997)
Share in other comprehensive income of entities under the equity method (net)	4 407	(318)	290	(4 904)
Items that will not be reclassified to the income statement				
Actuarial gains and losses relating to post-employment benefits (net)	-	-	-	-
Total comprehensive income net of tax, total	**179 263**	**516 723**	**(56 163)**	**465 705**

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

Condensed 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	6 311 795	5 930 611	3 180 527	3 046 817
Loans and advances to banks	4 785 219	4 981 321	4 392 187	5 648 047
Trading securities	3 345 350	558 590	2 693 856	1 251 064
Derivative financial instruments	2 423 129	3 350 746	3 367 922	4 874 882
Loans and advances to customers	72 677 379	71 284 102	71 356 094	69 529 868
Hedge accounting adjustments related to fair value of hedged items	73	130	256	461
Investment securities	30 784 494	29 982 642	28 924 293	27 246 034
Investments in subsidiaries	1 709 119	1 758 247	1 578 890	1 580 226
Non-current assets held for sale	-	-	-	31 063
Intangible assets	466 209	473 816	427 600	425 078
Tangible assets	453 454	484 867	442 627	468 822
Current income tax assets	-	-	-	60 211
Deferred income tax assets	80 661	31 279	55 996	15 144
Other assets	299 153	279 019	340 884	199 405
Total assets	**123 336 035**	**119 115 370**	**116 761 132**	**114 377 122**

LIABILITIES AND EQUITY				
Liabilities				
Amounts due to the Central Bank	1	-	2	-
Amounts due to other banks	12 035 643	12 183 191	15 701 259	13 384 224
Derivative financial instruments	2 209 098	3 203 918	3 326 380	4 755 856
Amounts due to customers	90 418 073	85 924 151	80 194 819	79 312 266
Hedge accounting adjustments related to fair value of hedged items	159 453	78 568	46 041	77 619
Debt securities in issue	-	-	386 264	386 423
Other liabilities	1 615 844	1 386 264	1 495 644	1 112 805
Current income tax liabilities	46 000	44 190	29 692	-
Provisions for deferred income tax	86	82	81	82
Provisions	176 699	225 344	168 334	176 878
Subordinated liabilities	3 910 457	3 827 315	3 896 612	4 127 724
Total liabilities	**110 571 354**	**106 873 023**	**105 245 128**	**103 333 877**
Equity				
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:	**8 978 171**	**8 273 647**	**7 649 004**	**6 969 694**
- Profit for the previous year	8 279 258	6 972 414	6 976 716	6 969 694
- Net profit for the current year	698 913	1 301 233	672 288	-
Other components of equity	**250 752**	**432 942**	**343 065**	**549 648**
Total equity	**12 764 681**	**12 242 347**	**11 516 004**	**11 043 245**
Total liabilities and equity	**123 336 035**	**119 115 370**	**116 761 132**	**114 377 122**

Total capital ratio	**21.82**	**20.18**	**18.88**	**16.95**
Common Equity Tier 1 capital ratio	**18.62**	**16.70**	**15.37**	**14.06**
Book value	**12 764 681**	**12 242 347**	**11 516 004**	**11 043 245**
Number of shares	**42 238 924**	**42 238 924**	**42 210 157**	**42 210 057**
Book value per share (in PLN)	**302.20**	**289.84**	**272.83**	**261.63**

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

Condensed 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	Actuarial gains and losses relating to post-employment benefits	Actuarial gains (losses) on defined benefit pension plans	Share in profits (losses) of entities under the equity method	Total equity
Restated equity as at 1 January 2016	**168 956**	**3 366 802**	**4 384 011**	**32 976**	**1 065 143**	**2 791 517**	**-**	**(6 290)**	**441 758**	**859**	**(3 850)**	**465**	**12 242 347**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**698 913**	**84**	**(182 572)**	**616**	**-**	**(318)**	**516 723**
Transfer to general banking risk reserve	-	-	-	-	30 000	(30 000)	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	(11)	-	-	-	-	-	-	(11)
Stock option program for employees	-	-	-	5 622	-	-	-	-	-	-	-	-	5 622
- value of services provided by the employees	*-*	*-*	*-*	*5 622*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*5 622*
Equity as at 30 June 2016	**168 956**	**3 366 802**	**4 384 011**	**38 598**	**1 095 143**	**2 761 506**	**698 913**	**(6 206)**	**259 186**	**1 475**	**(3 850)**	**147**	**12 764 681**

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	Actuarial gains and losses relating to post-employment benefits	Actuarial gains (losses) on defined benefit pension plans	Share in profits (losses) of entities under the equity method	Total equity
Equity as at 1 January 2015	**168 840**	**3 355 063**	**3 977 488**	**30 256**	**1 015 143**	**1 174 096**	**-**	**(6 974)**	**553 950**	**4 056**	**(2 332)**	**-**	**10 269 586**
- changes to accounting policies	-	-	-	-	-	772 711	-	-	-	-	-	948	773 659
Restated equity as at 1 January 2015	**168 840**	**3 355 063**	**3 977 488**	**30 256**	**1 015 143**	**1 946 807**	**-**	**(6 974)**	**553 950**	**4 056**	**(2 332)**	**948**	**11 043 245**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**1 301 233**	**684**	**(112 192)**	**(3 197)**	**(1 518)**	**(483)**	**1 184 527**
Transfer to general banking risk reserve	-	-	-	-	50 000	(50 000)	-	-	-	-	-	-	-
Transfer to supplementary capital	-	-	406 523	-	-	(406 523)	-	-	-	-	-	-	-
Issue of shares	116	-	-	-	-	-	-	-	-	-	-	-	116
Stock option program for employees	-	11 739	-	2 720	-	-	-	-	-	-	-	-	14 459
- value of services provided by the employees	*-*	*-*	*-*	*14 459*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*14 459*
- settlement of exercised options	*-*	*11 739*	*-*	*(11 739)*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
Equity as at 31 December 2015 - restated	**168 956**	**3 366 802**	**4 384 011**	**32 976**	**1 065 143**	**1 490 284**	**1 301 233**	**(6 290)**	**441 758**	**859**	**(3 850)**	**465**	**12 242 347**

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	Exchange differences on translation of foreign operations	Valuation of available for sale financial assets	Actuarial gains and losses relating to post-employment benefits	Actuarial gains (losses) on defined benefit pension plans	Share in profits (losses) of entities under the equity method	Total equity
Equity as at 1 January 2015	**168 840**	**3 355 063**	**3 977 488**	**30 256**	**1 015 143**	**1 174 096**	**-**	**(6 974)**	**553 950**	**4 056**	**(2 332)**	**-**	**10 269 586**
- changes to accounting policies	-	-	-	-	-	772 711	-	-	-	-	-	948	773 659
Restated equity as at 1 January 2015	**168 840**	**3 355 063**	**3 977 488**	**30 256**	**1 015 143**	**1 946 807**	**-**	**(6 974)**	**553 950**	**4 056**	**(2 332)**	**948**	**11 043 245**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**672 288**	**65**	**(193 747)**	**(7 997)**	**-**	**(4 904)**	**465 705**
Transfer to general banking risk reserve	-	-	-	-	50 000	(50 000)	-	-	-	-	-	-	-
Transfer to supplementary capital	-	-	406 523	-	-	(406 523)	-	-	-	-	-	-	-
Issue of shares	1	-	-	-	-	-	-	-	-	-	-	-	1
Stock option program for employees	-	31	-	7 022	-	-	-	-	-	-	-	-	7 053
- value of services provided by the employees	*-*	*-*	*-*	*7 053*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*7 053*
- settlement of exercised options	*-*	*31*	*-*	*(31)*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
Equity as at 30 June 2015 - restated	**168 841**	**3 355 094**	**4 384 011**	**37 278**	**1 065 143**	**1 490 284**	**672 288**	**(6 909)**	**360 203**	**(3 941)**	**(2 332)**	**(3 956)**	**11 516 004**

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

Condensed statement of cash flows

	Period from 01.01.2016 to 30.06.2016	Period from 01.01.2015 to 30.06.2015 - restated
A. Cash flows from operating activities	**2 898 362**	**1 166 405**
Profit before income tax	**876 080**	**822 997**
Adjustments:	***2 022 282***	***343 408***
Income taxes paid	(187 765)	(9 484)
Amortisation	104 608	82 528
Foreign exchange (gains) losses related to financing activities	493 553	1 922 398
(Gains) losses on investing activities	(273 428)	(153 754)
Impairment of investments in subsidiaries	8 119	5 455
Dividends received	(133 498)	(120 960)
Interest income (income statement)	(1 659 980)	(1 607 039)
Interest expense (income statement)	476 839	546 628
Interest received	1 568 207	1 454 648
Interest paid	(446 653)	(535 843)
Changes in loans and advances to banks	1 000 372	812 145
Changes in trading securities	(110 492)	55 302
Changes in assets and liabilities on derivative financial instruments	(1 752)	102 638
Changes in loans and advances to customers	(1 356 243)	(1 758 914)
Changes in investment securities	(721 738)	(1 835 100)
Changes in other assets	(17 222)	(136 953)
Changes in amounts due to other banks	(966 948)	503 893
Changes in amounts due to customers	4 036 910	593 184
Changes in debt securities in issue	-	6 814
Changes in provisions	(48 645)	(8 544)
Changes in other liabilities	258 038	424 366
Net cash generated from/(used in) operating activities	**2 898 362**	**1 166 405**
B.Cash flows from investing activities	**217 386**	**208 603**
Investing activity inflows	**334 636**	**331 467**
Disposal of shares in subsidiaries, net of cash disposed	2 000	27 929
Disposal of intangible assets and tangible fixed assets	106	78
Dividends received	133 498	120 960
Other investing inflows	199 032	182 500
Investing activity outflows	**117 250**	**122 864**
Purchase of intangible assets and tangible fixed assets	117 250	113 503
Other investing outflows	-	9 361
Net cash generated from/(used in) investing activities	**217 386**	**208 603**
C. Cash flows from financing activities	**738 915**	**(164 274)**
Financing activity inflows	**1 009 635**	**595 896**
Proceeds from loans and advances from other banks	570 635	180 475
Proceeds from other loans and advances	439 000	415 420
Issue of ordinary shares	-	1
Financing activity outflows	**270 720**	**760 170**
Repayments of loans and advances from other banks	89 670	-
Repayments of other loans and advances	6 422	6 523
Acquisition of shares in subsidiaries - increase of involvement	100 000	-
Decrease of subordinated liabilities	-	637 738
Payments of financial lease liabilities	4 497	4 542
Interest paid from loans and advances received from other banks, subordinated liabilities and long term issue	70 131	111 367
Net cash generated from/(used in) financing activities	**738 915**	**(164 274)**
Net increase / decrease in cash and cash equivalents (A+B+C)	**3 854 663**	**1 210 734**
Effects of exchange rate changes on cash and cash equivalents	40 695	6 723
Cash and cash equivalents at the beginning of the reporting period	6 892 431	4 762 605
Cash and cash equivalents at the end of the reporting period	**10 787 789**	**5 980 062**

3. Description of the relevant accounting policies

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

In the first quarter of 2016, the Bank changed its accounting policy concerning the valuation of subsidiaries, associates and joint ventures in the stand-alone financial statements. Starting from 1 January 2016, in connection with the entry into force of amendments of IAS 27, S*eparate financial statements*, the Bank changed the method of valuation of the above assets from the at cost method to the equity method. Stand-alone comparative data included in these financial statements has been accordingly restated. The impact of the above-mentioned changes in the accounting policies on the stand-alone comparative data has been presented under Note 3.27 "Comparative data".

3.1. Accounting basis

The condensed financial statements of mBank S.A. ("Bank") have been prepared for the 6-month period ended 30 June 2016.

The presented condensed 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 presented condensed financial statements for the first half of 2016 should be read in conjunction with the mBank S.A. 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 3.26.

The data presented in the mBank S.A. condensed financial statements for the 2015 year end data was audited by the auditor. The comparative date 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 4.

These condensed 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.

3.2. Interest income and expenses

All interest income on financial instruments carried at amortised cost using the effective interest rate method is recognized 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 Bank 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 recognized 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 recognized in the calculation of the effective interest rate.

Interest income, including interest on loans, is recognized 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.

3.3. Fee and commission income

Income on account of fees and commissions is recognized 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 recognized as adjustments of the effective interest rate charge on the loan. Fees on account of syndicated loans are recognized as income at the time of closing of the process of organisation of the respective syndicate, if the Bank 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 recognized 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 Bank 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 Bank on account of cash management operations, keeping of customer accounts, money transfers and brokerage business activities are recognized directly in the income statement.

The Bank'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.

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

The Bank treats insurance products sold before 31 March 2015 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 recognized over time as part of effective interest rate calculation for the bundled loan. The remuneration included in fee and commission income is recognized 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 recognized 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 recognized in fee and commission expenses as upfront cost or as cost accrued over time.

The Bank 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 recognized.

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.

3.5. Financial assets

The Bank 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.

Shares in subsidiaries, associates and joint ventures are valued the equity method.

Standardised purchases and sales of financial assets at fair value through the income statement, held to maturity and available for sale are recognized on the settlement date – the date on which the Bank 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 recognized in profit or loss or in other components of equity. Loans are recognized when cash is advanced to the borrowers. Derivative financial instruments are recognized beginning from the date of transaction.

A financial asset is de-recognized if Bank 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.

Financial assets valued at fair value through the income statement

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 Bank. 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 Bank 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 Bank 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 Bank 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 3.2), except for derivatives the recognition of which is discussed in Note 3.11, is recognized in net interest income. The valuation and result on disposal of financial assets/financial liabilities designated at fair value is recognized in trading income.

As presented in this financial statements reporting periods, the Bank 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 Bank supplies monetary assets, goods or services directly to the debtor without any intention of trading the receivable.

Investments 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 Bank intends and is capable of holding until their maturity.

In the case of sale by the Bank 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 Bank.

Financial assets available for sale

Available for sale investments consist of investments which the Bank 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 recognized 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 recognized 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 recognized in other comprehensive income is now recognized in the income statement. However, interest calculated using the effective interest rate is recognized in the income statement. Dividends on available for sale equity instruments are recognized 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 Bank 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.

3.6. 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 recognized 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.

3.7. Impairment of financial assets

Assets carried at amortised cost

At the end of the reporting period, the Bank 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 Bank 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 to 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 Bank 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 Bank 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 recognized 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 recognized 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.

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 recognized.

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 Bank 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 recognized (e.g., improvement of the debtor's credit rating), then the previously recognized 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 Bank 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 recognized in the income statement. The above indicated difference should be reduced by the impairment concerning the given asset which was previously recognized 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 under the item "Net impairment losses on loans and advances".

Renegotiated agreements

The Bank 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 Bank makes an assessment whether the impairment should be recognised on either individual or group basis.

3.8. 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 recognized 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 recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18 "*Revenue*".

3.9. 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.

3.10. 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 recognized 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 recognized 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 recognized as loans and advances to other banks or other customers, depending on their nature.

When concluding a repo or reverse repo transaction, mBank 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 Bank are not recognized 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 recognized as financial assets.

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

3.11. Derivative financial instruments and hedge accounting

Derivative financial instruments are recognized 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 recognized 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 Bank recognises the respective gains or losses from the first day in accordance with the principles described under Note 3.12.

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 recognized 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 financial statements, if 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 financial statements of the Bank; (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 Bank designates some derivative instruments either as (1) fair value hedges against a recognized 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 recognized asset or liability, or a forecasted transaction (cash flow hedge). Derivative instruments designated as hedges against positions maintained by the Bank 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 Bank 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 Bank 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 Bank applies a different approach to the presentation of interest income/expense for each of these groups of derivatives that is described in Note 3.2 "Interest income and expenses". The remaining result from fair value measurement of derivatives is recognized in Net trading income.

Fair value hedges

Changes in the fair value of derivative instruments designated and qualifying as fair value hedges are recognized 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 recognized in other comprehensive income. The gain or loss concerning the ineffective part is recognized in the income statement of the current period.

The amounts recognized in other comprehensive income are transferred to the income statement and recognized 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 recognized 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 recognized in the income statement of the current period.

The Bank 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.

3.12. 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 Bank 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 recognized immediately in the income statement without reversal of deferred day one profits and losses.

3.13. Borrowings and deposits taken

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

3.14. Intangible assets

The Bank measures intangible assets initially at cost. After initaial recognition, intangible assets are recognized 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.

<u>Computer software</u>

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 Bank, which are likely to generate economic benefits in excess of such costs expected to be gained over a period exceeding one year, are recognized 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 recognized as "Tangible fixed assets".

<u>Development costs</u>

The Bank 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 Bank 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 Bank 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.

3.15. 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 recognized as a separate asset, as appropriate, only where it is probable that future economic benefits associated with the item will flow to the Bank 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 accordingly as the need arises prospectively.

Bank 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 Bank 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 Bank shall determine the recoverable amount of the cash-generating unit to which the asset belongs (cash-generating unit of the asset).

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 recognized in the income statement.

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

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

The Bank 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 Bank ceases to classify the assets as held for sale and reclassifies them into appropriate category of assets. The Bank 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 recognized 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 Bank 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.

3.17. Deferred income tax

The Bank 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 recognized in liabilities as "Provisions for deferred income tax". A deductible net difference is recognized 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 recognized 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 recognized 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 Bank reviews the carrying amount of a deferred tax assets at the end of each reporting period. The Bank 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 recognized 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 recognized to the respective amount, accordingly. The above described principle also applies to tax losses recorded as part of the deferred tax asset.

The Bank presents the deferred income tax assets and liabilities netted against each other for each country separately where the Bank conducts its business and are obliged to settle corporate income tax. Such assets and provisions may be netted against each other if the Bank possesses the legal rights allowing it to simultaneously account for them when calculating the amount of the tax liability.

The Bank 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 recognized 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 Bank 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 Bank 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.

3.18. Assets repossessed for debt

Repossessed collateral represents financial and non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognized at fair value when acquired and included in premises and equipment, financial assets or other assets depending on their nature and the Bank'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.

3.19. 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 Bank 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".

3.20. Leasing

mBank S.A. as a Lessee

The leases entered into by the Bank 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.

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 Bank 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.

3.21. 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 recognized when the Bank 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.

3.22. Post-employment employee benefits and other employee benefits

Post-employment employee benefits

The Bank 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 Bank 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 Bank 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 Bank 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 recognized in profit or loss for the period.

3.23. Equity

Equity consists of capital and own funds 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 recognized 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 recognized 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".

Other components of equity

Other components of equity result from:

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

3.24. Valuation of items denominated in foreign currencies

Functional currency and presentation currency

The items contained in financial reports of particular entities of the Bank, 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 functional currency of the Bank.

Transactions and balances

Transactions denominated in foreign currencies are converted to the functional currency at the exchange rate in force at the transaction date. Foreign exchange gains and losses on such transactions as well as balance sheet revaluation of monetary assets and liabilities denominated in foreign currency are recognized 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 recognized under gains or losses arising in connection with changes of fair value. Foreign exchange differences on account of such non-monetary assets as equity instruments classified as available for sale financial assets are recognized 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 recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. Coversely, when a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized 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 recognized 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 recognized in other comprehensive income.

3.25. 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.

3.26. 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.

<u>Published Standards and Interpretations which have been issued and binding for the Bank for annual periods starting on 1 January 2016</u>

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 2.27 "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 Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank as lessee.

- 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 Bank 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.

3.27. Comparative data

In connection with 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 Bank reclassified the amounts of PLN 1 795 thousand and PLN 888 thousand respectively of tax paid by the mBank's branch in Slovakia from the total amount of liabilities from overhead costs (from "Taxes and fees") to the new position "Taxes on the Bank's balance sheet items". This change had no impact on the net income and equity of the Bank.

Due to the change in accounting policy regarding to the valuation method of investments in subsidiaries, associates and joint ventures, the Bank made restatement of the stand-alone comparative data as of 30 June 2015 as well as on 1 January 2015 and on 31 December 2015. Until 31 December 2015, shares in subsidiaries, associates and joint ventures were recognised at cost method. Starting from 1 January 2016 to the valuation of these assets, the Bank applies the equity method in connection with the entry into force of amendments of IAS 27, Separate financial statements, enabling the use of such a valuation method (IAS 27.10 (c)).

The impact of changes in the accounting policies on the stand-alone comparative data of mBank S.A. presented in these condensed consolidated financial statements are shown in the following tables.

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

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

ASSETS	30.06.2015 before restatement	Restatement	30.06.2015 after restatement
Investments in subsidiaries	802 939	775 951	1 578 890
Other items of assets	115 182 242	-	115 182 242
Total assets	**115 985 181**	**775 951**	**116 761 132**
LIABILITIES AND EQUITY			
Liabilities			
Other liabilities	1 471 618	24 026	1 495 644
Other items of liabilities	103 749 484	-	103 749 484
Total liabilities	**105 221 102**	**24 026**	**105 245 128**
Equity			
Share capital	**3 523 935**	**-**	**3 523 935**
Retained earnings:	**6 893 123**	**755 881**	**7 649 004**
- Profit for the previous year	6 204 005	772 711	6 976 716
- Net profit for the current year	689 118	(16 830)	672 288
Other components of equity	**347 021**	**(3 956)**	**343 065**
Total equity	**10 764 079**	**751 925**	**11 516 004**
Total liabilities and equity	**115 985 181**	**775 951**	**116 761 132**

Restatement of the mBank S.A. 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	1 607 039	-	1 607 039
Interest expense	(546 628)	-	(546 628)
Net interest income	**1 060 411**	**-**	**1 060 411**
Fee and commission income	531 879	-	531 879
Fee and commission expense	(221 049)	-	(221 049)
Net fee and commission income	**310 830**	**-**	**310 830**
Dividend income	120 960	-	120 960
Net trading income, including:	139 203	-	139 203
Foreign exchange result	*142 890*	-	*142 890*
Other net trading income and result on hedge accounting	*(3 687)*	-	*(3 687)*
Gains less losses from investment securities, investments in subsidiaries and associates, including:	165 083	-	165 083
Gains less losses from investment securities	*6 174*	-	*6 174*
Gains less losses from investments in subsidiaries and associates	*158 909*	-	*158 909*
Other operating income	25 089	-	25 089
Net impairment losses on loans and advances	(174 500)	-	(174 500)
Overhead costs	(700 359)	1 795	(698 564)
Amortisation	(82 528)	-	(82 528)
Other operating expenses	(24 362)	-	(24 362)
Operating profit	**839 827**	**1 795**	**841 622**
Taxes on the Bank's balance sheet items	-	(1 795)	(1 795)
Share in profits (losses) of entities under the equity method	-	(16 830)	(16 830)
Profit before income tax	**839 827**	**(16 830)**	**822 997**
Income tax expense	(150 709)	-	(150 709)
Net profit	**689 118**	**(16 830)**	**672 288**
Earnings per share (in PLN)	**16.33**		**15.93**
Diluted earnings per share (in PLN)	**16.31**		**15.91**

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

Restatement of the mBank S.A. statement of comprehensive income 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
Net profit	**689 118**	**(16 830)**	**672 288**
Other comprehensive income net of tax, including:	**(201 679)**	**(4 904)**	**(206 583)**
Items that may be reclassified subsequently to the income statement			
Exchange differences on translation of foreign operations (net)	65	-	65
Change in valuation of available for sale financial assets (net)	(193 747)	-	(193 747)
Cash flow hedges (net)	(7 997)	-	(7 997)
Share in other comprehensive income of entities under the equity method	-	(4 904)	(4 904)
Items that will not be reclassified to the income statement			
Actuarial gains and losses relating to post-employment benefits (net)	-	-	-
Total comprehensive income net of tax, total	**487 439**	**(21 734)**	**465 705**

Restatement of the mBank S.A. statement of cash flows 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
A. Cash flows from operating activities	**1 166 405**	**-**	**1 166 405**
Profit before income tax	**839 827**	**(16 830)**	***822 997***
Adjustments:	***326 578***	***16 830***	***343 408***
Income taxes paid	(9 484)	-	(9 484)
Amortisation	82 528	-	82 528
Foreign exchange (gains) losses related to financing activities	1 922 398	-	1 922 398
(Gains) losses on investing activities	(170 584)	16 830	(153 754)
Impairment of investments in subsidiaries	5 455	-	5 455
Dividends received	(120 960)	-	(120 960)
Interest income (income statement)	(1 607 039)	-	(1 607 039)
Interest expense (income statement)	546 628	-	546 628
Interest received	1 454 648	-	1 454 648
Interest paid	(535 843)	-	(535 843)
Changes in loans and advances to banks	812 145	-	812 145
Changes in trading securities	55 302	-	55 302
Changes in assets and liabilities on derivative financial instruments	102 638	-	102 638
Changes in loans and advances to customers	(1 758 914)	-	(1 758 914)
Changes in investment securities	(1 835 100)	-	(1 835 100)
Changes in other assets	(136 953)	-	(136 953)
Changes in amounts due to other banks	503 893	-	503 893
Changes in amounts due to customers	593 184	-	593 184
Changes in debt securities in issue	6 814	-	6 814
Changes in provisions	(8 544)	-	(8 544)
Changes in other liabilities	424 366	-	424 366
Net cash generated from/(used in) operating activities	**1 166 405**	**-**	**1 166 405**
B.Cash flows from investing activities	**208 603**	**-**	**208 603**
C. Cash flows from financing activities	**(164 274)**	**-**	**(164 274)**
Net increase / decrease in cash and cash equivalents (A+B+C)	**1 210 734**	**-**	**1 210 734**
Effects of exchange rate changes on cash and cash equivalents	6 723	-	6 723
Cash and cash equivalents at the beginning of the reporting period	4 762 605	-	4 762 605
Cash and cash equivalents at the end of the reporting period	**5 980 062**	**-**	**5 980 062**

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

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

ASSETS	31.12.2015 before restatement	Restatement	31.12.2015 after restatement
Investments in subsidiaries	1 438 183	320 064	1 758 247
Other items of assets	117 357 123	-	117 357 123
Total assets	**118 795 306**	**320 064**	**119 115 370**
LIABILITIES AND EQUITY			
Liabilities			
Other liabilities	1 363 428	22 836	1 386 264
Other items of liabilities	105 486 759	-	105 486 759
Total liabilities	**106 850 187**	**22 836**	**106 873 023**
Equity			
Share capital	**3 535 758**	**-**	**3 535 758**
Retained earnings:	**7 976 884**	**296 763**	**8 273 647**
- Profit for the previous year	6 705 435	266 979	6 972 414
- Net profit for the current year	1 271 449	29 784	1 301 233
Other components of equity	**432 477**	**465**	**432 942**
Total equity	**11 945 119**	**297 228**	**12 242 347**
Total liabilities and equity	**118 795 306**	**320 064**	**119 115 370**

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

ASSETS	01.01.2015 before restatement	Restatement	01.01.2015 after restatement
Investments in subsidiaries	806 567	773 659	1 580 226
Other items of assets	112 796 896	-	112 796 896
Total assets	**113 603 463**	**773 659**	**114 377 122**
LIABILITIES AND EQUITY			
Liabilities			
Total liabilities	**103 333 877**	**-**	**103 333 877**
Equity			
Share capital	**3 523 903**	**-**	**3 523 903**
Retained earnings:	**6 196 983**	**772 711**	**6 969 694**
- Profit for the previous year	6 196 983	772 711	6 969 694
- Net profit for the current year	-	-	-
Other components of equity	**548 700**	**948**	**549 648**
Total equity	**10 269 586**	**773 659**	**11 043 245**
Total liabilities and equity	**113 603 463**	**773 659**	**114 377 122**

3.28. Business segments

Data concerning business segments was presented in the Condensed Consolidated Financial Statements of mBank S.A. Group for the first half of 2016, prepared in compliance with the International Financial Reporting Standards.

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

The Bank 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 Bank reviews its loan portfolio in terms of possible impairments at least once per quarter. In order to determine whether any impairment loss should be recognized in the income statement, the Bank 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 3.7.

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 5.30.

Impairment of available for sale investments

The Bank 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 Bank 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 Bank 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 recognized 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 recognized, 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 recognized partly as upfront income and partly including deferring over time based on the analysis of the stage of completion of the service.

Now, the Bank 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 recognized 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 Bank 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 Bank's forbearance policy presented under Note 3.4.7, the Bank classifies exposure/ customers which are subject to the forbearance policy on the basis of professional judgment.

5. Selected explanatory information

5.1. Compliance with international financial reporting standards

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

5.2. 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 Bank is presented under items 3 and 4 of these condensed financial statements. The accounting policies were applied consistently over all periods presented in the condensed financial statements.

In addition, selected explanatory information contain additional information in accordance with the Regulation of the Minister of Finance dated on 19 February 2009 regarding the current and periodic information published by the issuers of securities and the conditions for recognising information required by laws of a non-member state (Journal of Laws No. 33, item 259 with further amendments) as the equivalent.

In the first quarter of 2016, the Bank changed its accounting policy concerning the valuation of subsidiaries, associates and joint ventures in the stand-alone financial statements. Starting from 1 January 2016, in connection with the entry into force of amendments of IAS 27, S*eparate financial statements*, the Bank changed the method of valuation of the above assets from the valuation at the purchase price to the equity method. Stand-alone comparative data included in these financial statements has been accordingly restated. The impact of the above-mentioned changes in the accounting policies on the comparative data has been presented under Note 3.27 "Comparative data".

5.3. Seasonal or cyclical nature of the business

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

5.4. 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 Bank, 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 Bank, above the amount of PLN 4 billion, reduced by the value of own funds and treasury securities. The tax rate introduced by the Act is 0.0366% of the tax base per month. The cost of tax on certain financial institutions included in the results and equity of the Bank for the six months of 2016 amounted to PLN 137 917 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".

5.5. 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 Bank.

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

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

5.7. 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.

5.8. Income and profit by business segment

Income and profit by business segment within the Bank are presented on the consolidated level under Note 4 of the condensed consolidated financial statements for the first half of 2016.

5.9. 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 Bank.

5.10. 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 mWealth Management S.A. ("mWM").

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;

- off 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.

The division of mDM and mWM described above was settled based on the book value and had no impact on net income of mBank for the first half of 2016 and net assets of mBank as at 30 June 2016. This approach has been applied prospectively – income statement and balance sheet of mDM and of mWM were included in the financial data of mBank from the date of the division, while the comparative data has not been restated.

Moreover, in the first half of 2016, the Bank sold shares of the mBank's subsidiary Call Center Poland S.A. in the amount of PLN 2 000 thousand.

5.11. 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 Bank. There was no single case of granting of guarantees or any other contingent liability of any material value for the Bank.

5.12. 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 Bank.

5.13. 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, events as indicated above did not occur in the Bank.

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

	Period from 01.01.2016 to 30.06.2016	Period from 01.01.2015 to 31.12.2015	Period from 01.01.2015 to 30.06.2015
Provisions for losses on investments in subsidiaries	**(442)**	**(20 026)**	**(5 454)**
Impairment of available for sale equity securities	**(7 677)**	**-**	**-**
Net impairment losses on loans and advances, including:	**(167 947)**	**(325 325)**	**(174 500)**
Net impairment losses on amounts due from other banks	629	(212)	(19)
Net impairment losses on loans and advances to customers	(170 978)	(329 199)	(178 080)
Net impairment losses on off-balance sheet contingent liabilities due to customers	2 402	4 086	3 599
Total impairment of financial assets	**(176 066)**	**(345 351)**	**(179 954)**

5.15. Reversals of provisions against restructuring costs

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

5.16. 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.

5.17. 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 Bank.

5.18. 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 Bank.

5.19. 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 Bank.

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5.20. Corrections of errors from previous reporting periods

In the first half of 2016, there were no corrections of errors from previous reporting periods.

5.21. 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 Bank.

5.22. 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.

5.23. 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 preference**	**Type of restrictions**	**Number of shares**	**Series / issue value**	**Paid up**	**Year of registration**
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		**4**				

* As at the end of the reporting period

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.

5.24. Material share packages

In the first half of 2016, there were 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.

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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.

5.25. Earnings per share

the period	from 01.01.2016 to 30.06.2016	from 01.01.2015 to 30.06.2015
Basic:		
Net profit	698 913	672 288
Weighted average number of ordinary shares	42 238 924	42 210 143
Net basic profit per share (in PLN per share)	**16.55**	**15.93**
Diluted:		
Net profit applied for calculation of diluted earnings per share	698 913	672 288
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)	**16.52**	**15.91**

5.26. 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.

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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

Within the period from 1 January 2015 to 30 June 2016 there were no tax audit conducted in mBank.

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.

5.27. 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. Contingent liabilities granted and received	**32 932 860**	**31 424 087**	**32 129 337**
Commitments granted	**31 081 083**	**29 687 445**	**30 499 050**
- financing	20 633 633	19 479 561	18 774 051
- guarantees and other financial facilities	10 447 450	10 207 884	11 724 999
Commitments received	**1 851 777**	**1 736 642**	**1 630 287**
- financial commitments received	11 626	-	72 000
- guarantees received	1 840 151	1 736 642	1 558 287
2. Derivative financial instruments (nominal value of contracts)	**435 898 177**	**581 022 593**	**643 194 936**
Interest rate derivatives	335 544 606	494 681 050	542 217 677
Currency derivatives	93 872 371	82 286 604	99 450 687
Market risk derivatives	6 481 200	4 054 939	1 526 572
Total off-balance sheet items	**468 831 037**	**612 446 680**	**675 324 273**

5.28. 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 subsidiaries			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	12 066 544	11 058 645	10 352 261	555 465	581 445	426 945
Liabilities	5 615 611	6 249 037	8 360 334	12 547 359	12 220 081	16 077 882
Income Statement						
Interest income	86 510	172 096	84 423	67 044	175 657	90 797
Interest expense	(64 655)	(177 416)	(92 496)	(65 579)	(209 492)	(125 301)
Fee and commission income	7 002	35 651	25 877	-	-	-
Fee and commission expense	(55 289)	(120 337)	(59 517)	-	-	-
Other operating income	5 282	12 405	6 587	11	20	7
Overhead costs, amortisation and other operating expenses	(9 564)	(9 702)	(3 236)	(4 518)	(9 285)	(4 866)
Contingent liabilities granted and received						
Contingent liabilities granted	6 482 801	5 959 926	7 660 453	1 314 898	1 379 203	1 270 234
Contingent liabilities received	-	-	-	864 918	618 758	773 238

5.29. 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 equity 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 next 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.

5.30. 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 Bank.

Following market practices the Bank 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 Bank. 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 Bank 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 Bank 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 Bank at their fair values.

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

	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	**4 785 219**	**4 786 057**	**4 981 321**	**4 979 660**	**4 392 187**	**4 403 209**
Loans and advances to customers	**72 677 379**	**73 021 998**	**71 284 102**	**71 966 423**	**71 356 094**	**71 838 026**
Loans and advances to individuals	**43 367 721**	**43 841 591**	**42 267 085**	**43 122 732**	**42 153 673**	**42 785 039**
current accounts	5 584 612	5 613 759	5 214 087	5 283 678	5 121 211	5 133 293
term loans including:	37 783 109	38 227 832	37 052 998	37 839 054	37 032 462	37 651 746
- housing and mortgage loans	31 223 708	31 509 169	31 068 708	31 735 223	31 263 368	31 780 738
Loans and advances to corporate entities	**27 811 208**	**27 690 121**	**27 460 318**	**27 301 254**	**26 657 615**	**26 522 670**
current accounts	4 718 424	4 688 055	3 883 744	3 859 771	3 993 605	3 968 759
term loans	22 799 893	22 709 175	22 513 237	22 378 146	21 801 120	21 691 021
- corporate & institutional enterprises	12 560 421	12 523 237	12 507 545	12 458 501	12 132 599	12 101 691
- medium & small enterprises	10 239 472	10 185 938	10 005 692	9 919 645	9 668 521	9 589 330
reverse repo / buy sell back transactions	131 734	131 734	1 031 029	1 031 029	842 093	842 093
other	161 157	161 157	32 308	32 308	20 797	20 797
Loans and advances to public sector	**1 202 412**	**1 194 248**	**1 373 344**	**1 359 082**	**1 500 926**	**1 486 437**
Other receivables	**296 038**	**296 038**	**183 355**	**183 355**	**1 043 880**	**1 043 880**
Financial liabilities						
Amounts due to other banks	**12 035 643**	**11 910 532**	**12 183 191**	**11 980 394**	**15 701 259**	**15 503 419**
Amounts due to customers	**90 418 073**	**90 541 511**	**85 924 151**	**86 013 567**	**80 194 819**	**80 316 927**
Debt securities in issue	**-**	**-**	**-**	**-**	**386 264**	**387 787**
Subordinated liabilities	**3 910 457**	**3 831 183**	**3 827 315**	**3 919 644**	**3 896 612**	**3 887 433**

The following sections present the key assumptions and methods used by the Bank 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 Bank. To reflect the fact that the majority of the Bank's exposures is collateralised whereas the median of market quotation is centred around unsecured issues, the Bank applied appropriate adjustments.

Available for sale financial assets. Listed available for sale financial instruments held by the Bank 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.

Financial liabilities. Financial instruments representing liabilities for the Bank 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 cash flows discounted using interest rates. For loans received from Commerzbank in CHF, the Bank 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 Bank used the EBI yield curve.

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 Bank used curves based on cross-currency basis swap levels taking into account the original spread on subordinated liabilities and their maturities.

The Bank assumed that the fair values of these instrumets 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 Bank at their fair values.

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

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
RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS				
TRADING SECURITIES	**3 345 350**	**2 964 701**	**-**	**380 649**
Debt securities	**3 339 387**	**2 958 738**	**-**	**380 649**
- government bonds	2 954 760	2 954 760	-	-
- deposit certificates	1 009	-	-	1 009
- mortgage bonds	88 670	-	-	88 670
- banks bonds	184 243	1 056	-	183 187
- corporate bonds	110 705	2 922	-	107 783
Equity securities	**5 963**	**5 963**	**-**	**-**
- listed	5 963	5 963	-	-
DERIVATIVE FINANCIAL INSTRUMENTS	**2 423 129**	**-**	**2 423 129**	**-**
Derivative financial instruments held for trading	**2 174 922**	**-**	**2 174 922**	**-**
- interest rate derivatives	1 746 924	-	1 746 924	-
- foreign exchange derivatives	406 935	-	406 935	-
- market risks derivatives	21 063	-	21 063	-
Derivative financial instruments held for hedging	**248 207**	**-**	**248 207**	**-**
- derivatives designated as fair value hedges	212 961	-	212 961	-
- derivatives designated as cash flow hedges	35 246	-	35 246	-
INVESTMENT SECURITIES	**30 784 494**	**28 074 127**	**1 349 957**	**1 360 410**
Debt securities	**30 739 597**	**28 073 434**	**1 349 957**	**1 316 206**
- government bonds	28 032 443	28 032 443	-	-
- money bills	1 349 957	-	1 349 957	-
- mortgage bonds	224 297	-	-	224 297
- banks bonds	184 487	-	-	184 487
- corporate bonds	907 422	-	-	907 422
- communal bonds	40 991	40 991	-	-
Equity securities	**44 897**	**693**	**-**	**44 204**
- unlisted	44 897	693	-	44 204
TOTAL FINANCIAL ASSETS	**36 552 973**	**31 038 828**	**3 773 086**	**1 741 059**

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	**2 209 098**	**-**	**2 209 098**	**-**
Derivative financial instruments held for trading	**2 209 044**	**-**	**2 209 044**	**-**
- interest rate derivatives	1 717 252	-	1 717 252	-
- foreign exchange derivatives	473 776	-	473 776	-
- 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	**2 209 098**	**-**	**2 209 098**	**-**
TOTAL RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS	**36 552 973**	**31 038 828**	**3 773 086**	**1 741 059**
FINANCIAL LIABILITIES	**2 209 098**	**-**	**2 209 098**	**-**

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

Assets Measured at Fair Value Based on Level 3 - changes in the period from 1 January to 30 June of 2016	Debt trading securities	Debt investment securities	Equity investment securities
As at the beginning of the period	**377 310**	**827 986**	**181 449**
Gains and losses for the period:	(2 139)	(17 073)	81 489
Recognised in profit or loss:	(2 139)	-	250 176
Net trading income	*(2 139)*	-	*6 120*
Gains less losses from investment securities, investments in subsidiaries and associates	-	-	*244 056*
Recognised in other comprehensive income:	-	*(17 073)*	*(168 687)*
Available for sale financial assets	-	*(17 073)*	*(168 687)*
Purchases	1 571 500	1 175 836	2 878
Redemptions	(105 234)	(54 250)	-
Sales	(5 281 959)	(848 493)	(221 612)
Issues	3 821 171	232 200	-
As at the end of the period	**380 649**	**1 316 206**	**44 204**

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.

31.12.2015	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	**558 590**	**181 280**	**-**	**377 310**
Debt securities	**556 776**	**179 466**	**-**	**377 310**
- government bonds	178 492	178 492	-	-
- deposit certificates	73 124	-	-	73 124
- mortgage bonds	6 081	-	-	6 081
- banks bonds	248 156	974	-	247 182
- corporate bonds	50 923	-	-	50 923
Equity securities	**1 814**	**1 814**	**-**	**-**
- listed	1 814	1 814	-	-
DERIVATIVE FINANCIAL INSTRUMENTS	**3 350 746**	**-**	**3 350 746**	**-**
Derivative financial instruments held for trading	**3 183 026**	**-**	**3 183 026**	**-**
- interest rate derivatives	2 814 961	-	2 814 961	-
- foreign exchange derivatives	348 317	-	348 317	-
- market risks derivatives	19 748	-	19 748	-
Derivative financial instruments held for hedging	**167 720**	**-**	**167 720**	**-**
- derivatives designated as fair value hedges	116 959	-	116 959	-
- derivatives designated as cash flow hedges	50 761	-	50 761	-
INVESTMENT SECURITIES	**29 982 642**	**22 000 686**	**6 972 521**	**1 009 435**
Debt securities	**29 800 438**	**21 999 931**	**6 972 521**	**827 986**
- government bonds	21 959 984	21 959 984	-	-
- money bills	6 972 521	-	6 972 521	-
- mortgage bonds	11 372	-	-	11 372
- banks bonds	233 158	-	-	233 158
- corporate bonds	583 456	-	-	583 456
- communal bonds	39 947	39 947	-	-
Equity securities	**182 204**	**755**	**-**	**181 449**
- unlisted	182 204	755	-	181 449
TOTAL FINANCIAL ASSETS	**33 891 978**	**22 181 966**	**10 323 267**	**1 386 745**

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

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	**3 203 918**	**-**	**3 203 918**	**-**
Derivative financial instruments held for trading	**3 203 714**	**-**	**3 203 714**	**-**
- interest rate derivatives	2 842 768	-	2 842 768	-
- foreign exchange derivatives	343 222	-	343 222	-
- market risks derivatives	17 724	-	17 724	-
Derivative financial instruments held for hedging	**204**	**-**	**204**	**-**
- derivatives designated as fair value hedges	204	-	204	-
Total financial liabilities	**3 203 918**	**-**	**3 203 918**	**-**
TOTAL RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS	**33 891 978**	**22 181 966**	**10 323 267**	**1 386 745**
FINANCIAL LIABILITIES	**3 203 918**	**-**	**3 203 918**	**-**

Assets Measured at Fair Value Based on Level 3 - changes in 2015	Debt trading securities	Equity trading securities	Derivative financial instruments	Debt investment securities	Equity investment securities
As at the beginning of the period	**626 687**	**22**	**469**	**635 432**	**7 665**
Gains and losses for the period:	(1 870)	(18)	(469)	7 183	169 681
Recognised in profit or loss:	(1 870)	(18)	(469)	4 049	2 438
Net trading income	*(1 870)*	*(18)*	*(469)*	*-*	*99*
Gains less losses from investment securities, investments in subsidiaries and associates	-	-	-	*4 049*	*2 339*
Recognised in other comprehensive income:	-	-	-	*3 134*	*167 243*
Available for sale financial assets	-	-	-	*3 134*	*167 243*
Purchases	2 246 493	-	-	815 904	6 840
Redemptions	(281 307)	-	-	(137 219)	-
Sales	(9 526 873)	-	-	(1 796 381)	(2 737)
Issues	7 314 180	-	-	1 303 067	-
Transfers out of Level 3	-	(4)	-	-	-
As at the end of the period	**377 310**	**-**	**-**	**827 986**	**181 449**

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**	**-**	**-**	**-**
Equity securities	4	-	-	-

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 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	**2 693 856**	**2 122 855**	**-**	**571 001**
Debt securities	**2 687 978**	**2 116 994**	**-**	**570 984**
- government bonds	2 116 000	2 116 000	-	-
- deposit certificates	15 102	-	-	15 102
- mortgage bonds	88 880	-	-	88 880
- banks bonds	357 367	994	-	356 373
- corporate bonds	110 629	-	-	110 629
Equity securities	**5 878**	**5 861**	**-**	**17**
- listed	5 861	5 861	-	-
- unlisted	17	-	-	17
DERIVATIVE FINANCIAL INSTRUMENTS	**3 367 922**	**-**	**3 367 266**	**656**
Derivative financial instruments held for trading	**3 205 483**	**-**	**3 204 827**	**656**
- interest rate derivatives	2 805 721	**-**	2 805 721	-
- foreign exchange derivatives	389 754	**-**	389 754	-
- market risks derivatives	10 008	-	9 352	656
Derivative financial instruments held for hedging	**162 439**	**-**	**162 439**	**-**
- derivatives designated as fair value hedges	121 725	-	121 725	-
- derivatives designated as cash flow hedges	40 714	-	40 714	-
INVESTMENT SECURITIES	**28 924 293**	**24 469 564**	**3 664 453**	**790 276**
Debt securities	**28 705 091**	**24 263 853**	**3 664 453**	**776 785**
- government bonds	24 222 213	24 222 213	-	-
- treasury bills	3 664 453	-	3 664 453	-
- mortgage bonds	302 044	-	-	302 044
- banks bonds	68 602	-	-	68 602
- corporate bonds	406 139	-	-	406 139
- communal bonds	41 640	41 640	-	-
Equity securities	**219 202**	**205 711**	**-**	**13 491**
- listed	204 717	204 717	-	-
- unlisted	14 485	994	-	13 491
TOTAL FINANCIAL ASSETS	**34 986 071**	**26 592 419**	**7 031 719**	**1 361 933**

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

30.06.2015	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	**3 326 380**	**-**	**3 326 380**	**-**
Derivative financial instruments held for trading	**3 310 400**	**-**	**3 310 400**	**-**
- interest rate derivatives	2 887 369	-	2 887 369	-
- foreign exchange derivatives	413 008	-	413 008	-
- market risks derivatives	10 023	-	10 023	-
Derivative financial instruments held for hedging	**15 980**	**-**	**15 980**	**-**
- derivatives designated as fair value hedges	13 231	-	13 231	-
- derivatives designated as cash flow hedges	2 749	-	2 749	-
Total financial liabilities	**3 326 380**	**-**	**3 326 380**	**-**
TOTAL RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS	**34 986 071**	**26 592 419**	**7 031 719**	**1 361 933**
FINANCIAL LIABILITIES	**3 326 380**	**-**	**3 326 380**	**-**

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	**626 687**	**22**	**469**	**635 432**	**7 665**
Gains and losses for the period:	1 349	(5)	187	1 623	2 423
Recognised in profit or loss:	1 349	(5)	187	1 531	2 339
Net trading income	*1 349*	*(5)*	*187*	-	-
Gains less losses from investment securities, investments in subsidiaries and associates	-	-	-	*1 531*	*2 339*
Recognised in other comprehensive income:	-	-	-	*92*	*84*
Available for sale financial assets	-	-	-	*92*	*84*
Purchases	1 030 893	-	-	374 153	6 140
Redemptions	(103 316)	-	-	(71 369)	-
Sales	(5 861 459)	-	-	(466 750)	(2 737)
Issues	4 876 830	-	-	303 696	-
As at the end of the period	**570 984**	**17**	**656**	**776 785**	**13 491**

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 Bank has presented the fair value of held for trading government bonds in the amount of PLN 2 954 760 thousand and the fair value of investment government bonds and treasury bills in the amount of PLN 28 032 443 thousand (31 December 2015 respectively: PLN 178 492 thousand and 21 959 984 thousand, 30 June 2015 respectively: PLN 2 116 000 thousand and PLN 24 222 213 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 6 656 thousand (31 December 2015: PLN 1 814 thousand, 30 June 2015: PLN 211 572 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 1 349 957 thousand (31 December 2015: PLN 6 972 521 thousand, 30 June 2015: PLN 3 664 453 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 1 696 855 thousand (31 December 2015: PLN 1 205 296 thousand, 30 June 2015: PLN 1 347 769 thousand).

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

Moreover, level 3 covers mainly the fair value of equity securities amounting to PLN 44 204 thousand (31 December 2015: PLN 181 449 thousand, 30 June 2015: PLN 13 508 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.

5.31. 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).

5.32. Other information

- Fees payable to the Bank Guarantee Fund

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 Bank 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 Bank's net profit for the first half of 2015 and equity as at 30 June 2015 presented in these financial statements would have been lower by PLN 39 777 thousand.

- 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 financial statements of the Bank.

- 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.