mBank S.A. Group

IFRS Condensed Consolidated Financial Statements
for the first half of 2018

Contents

Selected financial data

The selected financial data presented below are supplementary information to the condensed consolidated financial statements of mBank S.A. Group for the first half of 2018.

SELECTED FINANCIAL DATA FOR THE GROUP		in PLN'000		in EUR'000	
		1st Half (current year) period from 01.01.2018 to 30.06.2018	1st Half (previous year) period from 01.01.2017 to 30.06.2017	1st Half (current year) period from 01.01.2018 to 30.06.2018	1st Half (previous year) period from 01.01.2017 to 30.06.2017
I.	Interest income	2 156 204	1 972 829	508 599	464 479
II.	Fee and commission income	852 550	822 416	201 097	193 628
III.	Net trading income	169 191	137 965	39 908	32 482
IV.	Operating profit	1 140 268	896 549	268 963	211 082
V.	Profit before income tax	944 106	712 226	222 693	167 685
VI.	Net profit attributable to Owners of mBank S.A.	698 435	488 478	164 745	115 006
VII.	Net profit attributable to non-controlling interests	(23)	3 569	(5)	840
VIII.	Net cash flows from operating activities	961 828	(3 639 758)	226 873	(856 938)
IX.	Net cash flows from investing activities	220 369	(207 028)	51 980	(48 742)
X.	Net cash flows from financing activities	492 230	(1 191 027)	116 106	(280 413)
XI.	Net increase / decrease in cash and cash equivalents	1 674 427	(5 037 813)	394 959	(1 186 093)
XII.	Basic earnings per share (in PLN/EUR)	16.51	11.55	3.89	2.72
XIII.	Diluted earnings per share (in PLN/EUR)	16.50	11.55	3.89	2.72
XIV.	Declared or paid dividend per share (in PLN/EUR)	5.15	-	1.21	-

SELECTED FINANCIAL DATA FOR THE GROUP		in PLN'000			in EUR'000		
		As at			As at		
		30.06.2018	31.12.2017	30.06.2017	30.06.2018	31.12.2017	30.06.2017
I.	Total assets	140 017 793	131 424 019	129 417 491	32 102 392	31 509 751	30 620 488
II.	Amounts due to banks	4 548 768	5 073 351	8 641 320	1 042 913	1 216 368	2 044 557
III.	Amounts due to customers	97 794 387	91 496 027	88 155 911	22 421 677	21 936 759	20 857 899
IV.	Equity attributable to Owners of mBank S.A.	14 518 448	14 289 370	13 654 947	3 328 698	3 425 968	3 230 793
V.	Non-controlling interests	2 166	2 186	25 488	497	524	6 031
VI.	Share capital	169 248	169 248	169 143	38 804	40 578	40 020
VII.	Number of shares	42 312 122	42 312 122	42 285 676	42 312 122	42 312 122	42 285 676
VIII.	Book value per share (in PLN/EUR)	343.13	337.71	322.92	78.67	80.97	76.40
IX.	Total capital ratio	20.06	20.99	21.24	20.06	20.99	21.24

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 2018: EUR 1 = 4.3616, 31 December 2017: EUR 1 = 4.1709, 30 June 2017: EUR 1 = PLN 4.2265.

- 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 2018 and 2017: EUR 1 = PLN 4.2395 and EUR 1 = PLN 4.2474 respectively.

IFRS Condensed Consolidated Financial Statements for the first half of 2018 PLN (000's)

Consolidated income statement

	Note	Period from 01.04.2018 to 30.06.2018	Period from 01.01.2018 to 30.06.2018	Period from 01.04.2017 to 30.06.2017	Period from 01.01.2017 to 30.06.2017
Interest income, including:	5	1 102 561	2 156 204	990 285	1 972 829
Interest income on financial assets at amortised cost		*830 621*	*1 605 932*	*755 194*	*1 477 886*
Interest income on financial assets at fair value through other comprehesive income		*119 690*	*242 003*	*170 180*	*340 974*
Income similar to interest on financial assets at fair value through profit or loss		*152 250*	*308 269*	*64 911*	*153 969*
Interest expenses	5	(248 210)	(485 429)	(225 506)	(459 043)
Net interest income		**854 351**	**1 670 775**	**764 779**	**1 513 786**
Fee and commission income	6	423 052	852 550	415 311	822 416
Fee and commission expenses	6	(174 075)	(334 697)	(162 699)	(320 250)
Net fee and commission income		**248 977**	**517 853**	**252 612**	**502 166**
Dividend income	7	2 936	3 103	2 970	3 124
Net trading income, including:	8	84 698	169 191	61 068	137 965
Foreign exchange result		*79 620*	*151 047*	*57 912*	*134 319*
Gains or losses on financial assets and liabilities held for trading		*7 950*	*23 853*	*9 121*	*10 867*
Gains or losses from hedge accounting		*(2 872)*	*(5 709)*	*(5 965)*	*(7 221)*
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	9	(23 105)	(60 408)	*n/a*	*n/a*
Gains less losses from investment securities, investments in subsidiaries and associates	10	*n/a*	*n/a*	(18 298)	(16 662)
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates, including:	10	1 716	6 020	*n/a*	*n/a*
Gains less losses from debt securities measured at fair value through other comprehensive income		*1 716*	*6 042*	*n/a*	*n/a*
Gains less losses from investments in subsidiaries and associates		-	*(22)*	*n/a*	*n/a*
Other operating income	11	52 874	321 819	102 739	149 048
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	12	(193 960)	(278 431)	(120 399)	(203 320)
Overhead costs	13	(449 991)	(985 152)	(433 494)	(960 103)
Depreciation		(58 663)	(124 495)	(51 596)	(102 678)
Other operating expenses	14	(37 362)	(100 007)	(84 998)	(126 777)
Operating profit		**482 471**	**1 140 268**	**475 383**	**896 549**
Taxes on the Group balance sheet items		(98 287)	(196 750)	(93 018)	(184 323)
Share in profits (losses) of entities under the equity method		299	588	-	-
Profit before income tax		**384 483**	**944 106**	**382 365**	**712 226**
Income tax expense		(97 062)	(245 694)	(109 242)	(220 179)
Net profit		**287 421**	**698 412**	**273 123**	**492 047**
Net profit attributable to:					
- Owners of mBank S.A.		287 435	698 435	269 700	488 478
- Non-controlling interests		(14)	(23)	3 423	3 569

Net profit attributable to Owners of mBank S.A.		**287 435**	**698 435**	**269 700**	**488 478**
Weighted average number of ordinary shares	**15**	**42 312 122**	**42 312 122**	**42 280 676**	**42 280 403**
Earnings per share (in PLN)	**15**	**6.79**	**16.51**	**6.38**	**11.55**
Weighted average number of ordinary shares for diluted earnings	**15**	**42 338 828**	**42 338 828**	**42 306 110**	**42 305 837**
Diluted earnings per share (in PLN)	**15**	**6.79**	**16.50**	**6.37**	**11.55**

IFRS Condensed Consolidated Financial Statements for the first half of 2018 PLN (000's)

Consolidated statement of comprehensive income

	Period from 01.04.2018 to 30.06.2018	Period from 01.01.2018 to 30.06.2018	Period from 01.04.2017 to 30.06.2017	Period from 01.01.2017 to 30.06.2017
Net profit	**287 421**	**698 412**	**273 123**	**492 047**
Other comprehensive income net of tax, including:	**(38 893)**	**34 784**	**71 921**	**137 622**
Items that may be reclassified subsequently to the income statement				
Exchange differences on translation of foreign operations (net)	40	102	331	151
Cash flows hedges (net)	(7 218)	20 236	134	3 108
Change in valuation of available for sale financial assets (net)	*n/a*	*n/a*	71 456	134 357
Debt instruments at fair value through other comprehensive income (net)	(38 950)	5 268	*n/a*	*n/a*
Items that will not be reclassified to the income statement				
Actuarial gains and losses relating to post-employment benefits (net)	-	-	-	6
Fair value changes of equity instruments measured at fair value through other comprehensive income (net)	7 235	9 178	*n/a*	*n/a*
Total comprehensive income (net)	**248 528**	**733 196**	**345 044**	**629 669**
Total comprehensive income (net), attributable to:				
- Owners of mBank S.A.	248 542	733 219	341 621	626 100
- Non-controlling interests	(14)	(23)	3 423	3 569

IFRS Condensed Consolidated Financial Statements for the first half of 2018 PLN (000's)

Consolidated statement of financial position

ASSETS	Note	30.06.2018	31.12.2017	30.06.2017
Cash and balances with the Central Bank		5 514 886	7 384 869	5 855 425
Financial assets held for trading and derivatives held for hedges	16	4 634 873	2 761 685	4 621 730
Loans and advances to banks	19	*n/a*	1 707 722	2 259 136
Non-trading financial assets mandatorily at fair value through profit or loss, including:	17	2 783 950	*n/a*	*n/a*
Equity instruments		*63 128*	*n/a*	*n/a*
Loans and advances to customers		*2 720 822*	*n/a*	*n/a*
Investment securities	18	*n/a*	32 144 699	30 469 641
Financial assets at fair value through other comprehensive income	18	24 010 418	*n/a*	*n/a*
Loans and advances to customers	19	*n/a*	84 475 844	83 377 025
Financial assets at amortised cost, including:	19	99 982 445	*n/a*	*n/a*
Debt securities	19	*9 314 878*	*n/a*	*n/a*
Loans and advances to banks	19	*3 786 979*	*n/a*	*n/a*
Loans and advances to customers	19	*86 880 588*	*n/a*	*n/a*
Investments in associates	20	29 644	28 680	-
Non-current assets and disposal groups classified as held for sale	21	-	42 134	170 772
Intangible assets	22	703 524	710 642	627 900
Tangible assets	23	715 542	758 738	711 925
Current income tax assets		7 412	9 688	5 822
Deferred income tax assets	27	851 398	629 250	518 373
Other assets		783 701	770 068	799 742
Total assets		**140 017 793**	**131 424 019**	**129 417 491**

LIABILITIES AND EQUITY				
Liabilities				
Financial liabilities held for trading and derivatives held for hedges	24	1 110 810	1 095 365	1 114 492
Financial liabilities measured at amortised cost, including:		121 367 599	113 050 373	112 041 757
Amounts due to banks		*4 548 768*	*5 073 351*	*8 641 320*
Amounts due to customers	25	*97 794 387*	*91 496 027*	*88 155 911*
Debt securities issued		*16 817 711*	*14 322 852*	*13 011 687*
Subordinated liabilities		*2 206 733*	*2 158 143*	*2 232 839*
Fair value changes of the hedged items in portfolio hedge of interest rate risk		-	44 854	55 195
Liabilities included in disposal groups classified as held for sale		-	-	61 561
Provisions	26	262 648	190 975	185 503
Current income tax liabilities		219 333	179 685	67 912
Deferred income tax liabilities	27	84	81	1 294
Other liabilities		2 536 705	2 571 130	2 209 342
Total liabilities		**125 497 179**	**117 132 463**	**115 737 056**

Equity				
Equity attributable to Owners of mBank S.A.		**14 518 448**	**14 289 370**	**13 654 947**
Share capital:		**3 564 176**	**3 564 176**	**3 554 016**
Registered share capital		169 248	169 248	169 143
Share premium		3 394 928	3 394 928	3 384 873
Retained earnings:		**10 801 995**	**10 574 294**	**9 977 628**
Profit from the previous years		10 103 560	9 482 764	9 489 150
Profit for the current year		698 435	1 091 530	488 478
Other components of equity		**152 277**	**150 900**	**123 303**
Non-controlling interests		**2 166**	**2 186**	**25 488**
Total equity		**14 520 614**	**14 291 556**	**13 680 435**
Total liabilities and equity		**140 017 793**	**131 424 019**	**129 417 491**

Total capital ratio		**20.06**	**20.99**	**21.24**
Common Equity Tier 1 capital ratio		**17.10**	**18.31**	**18.47**
Book value		**14 518 448**	**14 289 370**	**13 654 947**
Number of shares		**42 312 122**	**42 312 122**	**42 285 676**
Book value per share (in PLN)		**343.13**	**337.71**	**322.92**

IFRS Condensed Consolidated Financial Statements for the first half of 2018 PLN (000's)

Consolidated statement of changes in equity

Changes in equity from 1 January to 30 June 2018

	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 attributable to Owners of mBank S.A.	Exchange differences on translation of foreign operations	Valuation of financial assets at fair value through other comprehensive income	Cash flows hedges	Actuarial gains and losses relating to post-employment benefits	Equity attributable to Owners of mBank S.A., total	Non-controlling interests	Total equity
Equity as at 1 January 2018	**169 248**	**3 394 928**	**7 727 317**	**93 634**	**1 153 753**	**1 599 590**	**-**	**(5 527)**	**168 393**	**(5 198)**	**(6 768)**	**14 289 370**	**2 186**	**14 291 556**
Effects of IFRS 9 implementation	-	-	-	-	-	(260 179)	-	-	(33 407)	-	-	(293 586)	-	(293 586)
Restated equity as at 1 January 2018	**169 248**	**3 394 928**	**7 727 317**	**93 634**	**1 153 753**	**1 339 411**	**-**	**(5 527)**	**134 986**	**(5 198)**	**(6 768)**	**13 995 784**	**2 186**	**13 997 970**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**698 435**	**102**	**14 446**	**20 236**	**-**	**733 219**	**(23)**	**733 196**
Dividends	-	-	-	-	-	(217 907)	-	-	-	-	-	(217 907)	-	(217 907)
Transfer to supplementary capital	-	-	2 098 965	-	-	(2 098 965)	-	-	-	-	-	-	-	-
Other increase or decrease in equity	-	-	-	-	-	(11)	-	-	-	-	-	(11)	3	(8)
Stock option program for employees	**-**	**-**	**-**	**7 363**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**7 363**		**7 363**
- value of services provided by the employees	-	-	-	*7 363*	-	-	-	-	-	-	-	*7 363*	-	*7 363*
Equity as at 30 June 2018	**169 248**	**3 394 928**	**9 826 282**	**100 997**	**1 153 753**	**(977 472)**	**698 435**	**(5 425)**	**149 432**	**15 038**	**(6 768)**	**14 518 448**	**2 166**	**14 520 614**

Changes in equity from 1 January to 31 December 2017

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

IFRS Condensed Consolidated Financial Statements for the first half of 2018 PLN (000's)

Changes in equity from 1 January to 30 June 2017

	Share capital		Retained earnings					Other components of equity						
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year attributable to Owners of mBank S.A.	Exchange differences on translation of foreign operations	Valuation of financial assets at fair value through other comprehensive income	Cash flows hedges	Actuarial gains and losses relating to post-employment benefits	Equity attributable to Owners of mBank S.A., total	Non-controlling interests	Total equity
Equity as at 1 January 2017	**169 121**	**3 381 975**	**4 944 689**	**97 887**	**1 131 453**	**3 312 950**	**-**	**(6 004)**	**(3 068)**	**(1 545)**	**(3 702)**	**13 023 756**	**27 405**	**13 051 161**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**488 478**	**151**	**134 357**	**3 108**	**6**	**626 100**	**3 569**	**629 669**
Issuance of ordinary shares	22	-	-	-	-	-	-	-	-	-	-	22	-	22
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	(5 486)	(5 486)
Transfer to supplementary capital	-	-	2 782 628	-	-	(2 782 628)	-	-	-	-	-	-	-	-
Transfer to General Risk Fund	-	-	-	-	22 300	(22 300)	-	-	-	-	-	-	-	-
Stock option program for employees	**-**	**2 898**	**-**	**2 171**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5 069**		**5 069**
- value of services provided by the employees	-	-	-	*5 069*	-	-	-	-	-	-	-	*5 069*	-	*5 069*
- settlement of exercised options	-	*2 898*	-	*(2 898)*	-	-	-	-	-	-	-	-	-	-
Equity as at 30 June 2017	**169 143**	**3 384 873**	**7 727 317**	**100 058**	**1 153 753**	**508 022**	**488 478**	**(5 853)**	**131 289**	**1 563**	**(3 696)**	**13 654 947**	**25 488**	**13 680 435**

IFRS Condensed Consolidated Financial Statements for the first half of 2018 PLN (000's)

Consolidated statement of cash flows

	Period from 01.01.2018 to 30.06.2018	Period from 01.01.2017 to 30.06.2017
A. Cash flows from operating activities	**961 828**	**(3 639 758)**
Profit before income tax	**944 106**	**712 226**
Adjustments:	***17 722***	***(4 351 984)***
Income taxes paid	(357 115)	(262 621)
Amortisation, including amortisation of fixed assets provided under operating lease	146 717	126 592
Foreign exchange (gains) losses related to financing activities	419 068	(725 853)
(Gains) losses on investing activities	(245 215)	(3 482)
Impairment of financial assets	-	20 004
Dividends received	(3 103)	(3 124)
Interest income (income statement)	(2 156 204)	(1 972 829)
Interest expense (income statement)	485 429	459 043
Interest received	2 024 852	2 079 159
Interest paid	(441 315)	(344 857)
Changes in loans and advances to banks	(349 289)	(449 762)
Changes in financial assets and liabilities held for trading and derivatives held for hedges	114 867	118 988
Changes in loans and advances to customers	(5 439 709)	(1 755 788)
Changes in investment securities	n/a	1 095 676
Changes in financial assets at fair value through other comprehensive income	(450 365)	n/a
Changes in securities at amortised cost	(892 857)	n/a
Changes of non-trading equity securities mandatorily at fair value through profit or loss	(21 555)	n/a
Changes in other assets	(12 587)	57 431
Changes in amounts due to other banks	419 180	560 599
Changes in amounts due to customers	6 635 594	(3 047 739)
Changes in debt securities in issue	352 238	(343 751)
Changes in provisions	27 349	2 749
Changes in other liabilities	(238 258)	37 581
Net cash generated from/(used in) operating activities	**961 828**	**(3 639 758)**
B.Cash flows from investing activities	**220 369**	**(207 028)**
Investing activity inflows	**439 726**	**26 567**
Disposal of shares in subsidiaries, net of cash disposed	100	-
Disposal of intangible assets and tangible fixed assets	19 983	23 443
Dividends received	3 103	3 124
Other investing inflows	416 540	-
Investing activity outflows	**219 357**	**233 595**
Acquisition of shares in subsidiaries	-	2 622
Purchase of intangible assets and tangible fixed assets	219 357	230 973
Net cash generated from/(used in) investing activities	**220 369**	**(207 028)**
C. Cash flows from financing activities	**492 230**	**(1 191 027)**
Financing activity inflows	**2 417 590**	**899 362**
Proceeds from loans and advances from other banks	187 200	-
Issue of debt securities	2 230 390	899 340
Issue of ordinary shares	-	22
Financing activity outflows	**1 925 360**	**2 090 389**
Repayments of loans and advances from other banks	1 423 990	-
Repayments of other loans and advances	-	6 754
Redemption of debt securities	231 148	400 000
Repurchase of subordinated liabilities	-	1 611 840
Payments of financial lease liabilities	254	729
Dividends and other payments to shareholders	217 907	5 486
Interest paid from loans and advances received from other banks and from subordinated liabilities	52 061	65 580
Net cash generated from/(used in) financing activities	**492 230**	**(1 191 027)**
Net increase / decrease in cash and cash equivalents (A+B+C)	**1 674 427**	**(5 037 813)**
Effects of exchange rate changes on cash and cash equivalents	67 809	14 992
Cash and cash equivalents at the beginning of the reporting period	9 824 260	15 000 049
Cash and cash equivalents at the end of the reporting period	**11 566 496**	**9 977 228**

Explanatory notes to the consolidated financial statements

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

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

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

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

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

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

As at 30 June 2018, mBank S.A. Group covered by the condensed consolidated financial statements comprised the following companies:

mBank S.A., the parent entity

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

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

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

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

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

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

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

As at 30 June 2018 the headcount of mBank S.A. amounted to 5 682 FTEs (Full Time Equivalents) and of the Group to 6 358 FTEs (30 June 2017: Bank 5 363 FTEs, Group 6 514 FTEs).

As at 30 June 2018 the employment in mBank S.A. was 6 647 persons and in the Group 8 482 persons (30 June 2017: Bank 6 339 persons, Group 8 489 persons).

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

Corporates and Financial Markets Segment, including:

Corporate and Investment Banking

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

Financial Markets

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

Retail Banking Segment (including Private Banking)

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

Other

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

Other information concerning companies of the Group

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

2. Description of relevant accounting policies

The most important accounting policies applied to the drafting of these consolidated financial statements are presented below. The accounting principles adopted by the Group were applied on an ongoing basis for all periods presented in the financial statements, except for the accounting principles applied in connection with the implementation of IFRS 9 as of 1 January 2018, as described in detail under Note 2.31. Comparative data.

2.1. Accounting basis

The Consolidated Financial Statements of mBank S.A. Group have been prepared for the 6-month period ended 30 June 2018.

The Consolidated Financial Statements of mBank S.A. Group have been prepared in compliance with the International Financial Reporting Standards (IFRS) as adopted for use in the European Union, according to the historical cost method, except for derivative contracts and financial assets held for trading, financial assets that do not meet SPPI criteria, financial assets assigned to business models whose objective is not to hold financial assets in order to collect contractual cash flows, equity instruments and liabilities related to cash-settled share-based payment transactions measured at fair value as well as financial assets measured at fair value through other comprehensive income and equity instruments for which it was irrevocable election has been made to present changes in fair value in other coprehensive income.

Non-current assets held for sale or group of these assets classified as held for sale are stated at the lower of the carrying value and fair value less costs to sell.

The comparative data has been prepared according to the historical cost method, as modified by the revaluation of available for sale financial assets, financial assets and financial liabilities measured at fair value through profit or loss, all derivative contracts, liabilities related to cash-settled share-based payment transactions measured at fair value.

The data for the year 2017 presented in these mBank S.A. Group condensed consolidated financial statements was audited by the auditor, while the data for the first half of 2017 years was reviewed by an auditor.

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

Financial statements are prepared in compliance with materiality principle. Material omissions or misstatements of positions of financial statements are material if they could, individually or collectively, influence the economic decisions that users make on the basis of Group's financial statements. Materiality depends on the size and nature of the omission or misstatement of the position of financial statements or a combination of both. The Group presents separately each material class of similar positions. The Group presents separately positions of dissimilar nature or function unless they are immaterial.

These consolidated financial statements were prepared under the assumption that the Group continues as a going concern in the foreseeable future, i.e. in the period of at least 12 months following the reporting date. As of the date of approving these statements, the Bank Management Board has not identified any events that could indicate that the continuation of the operations by the Group is endangered.

2.2. Consolidation

Subsidiaries

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

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

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

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

IFRS Condensed Consolidated Financial Statements for the first half of 2018 PLN (000's)

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

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

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

	30.06.2018		31.12.2017		30.06.2017	
Company	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method
BDH Development Sp. z o.o.	100%	full	100%	full	100%	full
Garbary Sp. z o.o.	100%	full	100%	full	100%	full
mBank Hipoteczny S.A.	100%	full	100%	full	100%	full
mCentrum Operacji Sp. z o.o.	100%	full	100%	full	100%	full
mFaktoring S.A.	100%	full	100%	full	100%	full
mFinanse S.A.	100%	full	100%	full	100%	full
mLeasing Sp. z o.o.	100%	full	100%	full	100%	full
Tele-Tech Investment Sp. z o.o.	100%	full	100%	full	100%	full
Future Tech Fundusz Inwestycyjny Zamknięty	98.04%	full	98.04%	full	100%	full
mFinance France S.A.	99.998%	full	99.998%	full	99.998%	full
Archicom Polska S.A. (previously mLocum S.A.)	28.99%	-	28.99%	-	79.99%	full

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

Beginning from June 2017, the Group started to consolidate the Fund Future Tech Fundusz Inwestycyjny Zamknięty.

2.3. Associates and joint ventures

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

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

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

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

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

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

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

2.4. Interest income and expenses

All interest income on financial instruments carried at amortised cost using the effective interest rate method is recognized in the income statement as well as interest income from financial assets measured at fair value through profit or loss and measured at fair value through other comprehensive income.

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 that exactly discounts estimated future cash payments or receipts through the expected life of the financial assets or financial liability to the gross carrying amount of a financial asset or to the amortized cost of a financial liability. When calculating the effective interest rate, the Bank estimates the expected cash flows taking into account all the contractual terms of the financial instrument, but without taking into account the expected credit losses. This calculation takes into account all the fees and points 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.

The Group calculates interest income using the effective interest rate to the gross carrying amount of the financial asset except for the financial assets which subsequently have become credit-impaired. In case of reclassification to the stage 3 of 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.

2.5. Fee and commission income

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

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

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

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

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

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

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

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

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

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

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

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

2.7. Segment reporting

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

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

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

2.8. Financial assets

The Group classifies its financial assets to the following categories: financial assets valued at fair value through profit or loss, financial assets valued at fair value through other comprehensive income for which gains or losses may be reclassified subsequently to the income statement, financial assets valued at fair value through other comprehensive income for which gains or losses will not be reclassified subsequently to the income statement at derecognition and financial assets valued at amortized cost. Classification of the debt financial asset to the one of the above categories takes place at its initial recognition based on business model for managing financial assets and contractual cash flow characteristics. An equity instrument is classified as a financial asset at fair value through profit or loss unless at the time of initial recognition the group made an irrevocable election of specific equity investments to present subsequent fair value changes in other comprehensive income.

Standardised purchases and sales of financial assets at fair value through profit or loss and measured at fair value through other comprehensive income 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 Group loses control over any contractual rights attached to that asset, which usually takes place if the financial instrument is disposed of or if all cash flows attached to the instrument are transferred to an independent third party.

<u>Financial instruments valued at fair value through profit or loss</u>

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortized cost or at fair value through other comprehensive income..

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

The Group may, at the initial recognition, irrevocably designate a the financial assets/financial liabilities at fair value through profit or loss 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.

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

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 measured at fair value through profit or loss (Note 2.4), except for derivatives the recognition of which is discussed in Note 2.14, is recognized in net interest income. The valuation and result on disposal of financial assets/financial liabilities measured at fair value through profit or loss is recognized in trading income for finacial assets/liabilities held for trading or in item Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss.

<u>Financial assets measured at at amortized cost</u>

Financial assets measured at amortized cost are assets that meet both of the following conditions, unless the Bank designated them to fair value through profit or loss: the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flow characteristics and contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets at amortized cost are entered into books on the transaction date. At initial recognition financial assets classified to this category are valued at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

<u>Financial assets measured at fair value through other comprehensive income</u>

Financial assets measured at fair value through other comprehensive income are assets that meet both of the following conditions, unless the Bank designated them to fair value through profit or loss: the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Interest income and expense from financial assets measured at fair value through other comprehensive income are presented in net interest income. Gains and losses from sale of available for sale investments are presented in gains less losses from financial assets and liabilities not measured at fair value through profit or loss.

Financial assets measured at fair value through other comprehensive income and financial assets measured at fair value through profit or loss are valued at the end of the reporting period according to their fair value. Financial assets measured at amortized cost, 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 profit or loss" are recognized in the income statement in the period in which they arise.

Gains and losses arising from changes in the fair value of debt financial assets measured at fair value through other comprehensive income 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.

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.

<u>Equity instruments</u>

Investments in equity instruments are measured at fair value through profit or loss. Upon initial recognition, the Bank may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value (the option of measurement at fair value through other comprehensive income) of an investment in an equity instrument that is not held for trading and does not constitute a contingent payment recognized by the Bank as part of a business combination in accordance with IFRS 3.

In case of the financial instruments for which the option of measurement at fair value through other comprehensive income was used, the requirements regarding impairment are not applied. All gains and losses related to change in fair value, including foreign exchange differences, are recognized in other comprehensive income. There is no possibility to reclassify them to profit and loss even if the instrument is derecognized. Only dividends received related to these instruments are recognized in profitand loss when the entity's right to receive payment is established. Taking above into account equity instruments for which fair value through other comprehensive income option was used are out of scope impairment requirements.

<u>Modification of contractual terms for financial assets</u>

The Bank settles previously recognized financial assets and re-recognizes the financial assets in accordance with the requirements for initial recognition in case of substantial modification of contractual terms of financial assets. As substantial modification the Bank defines such a modification that meets one of the following criteria:

- Substantial increase of the credit amount of more than 10%
- Substantial prolongation of the contractual maturity of more than 12 months
- Change of currency no provided in the terms of the contract. Change of the currency provided in the terms of the agreement is such a change that defines both the rate at which it would have place and the interest rate of the loan after the change of the currency.
- Change of the borrower – only if the current borrower is exempted from the debt
- Change of the cash flow criterion from 'SPPI compliance' of a financial assets to 'SPPI non-compliance' and vice versa
- Change of the financed asset in case of object finance or project finance.

In the event of substantial modification the deferred income and expense related to this assets is recognized in the income statement and the provision is released. At the same time there is re-recognition of financial assets in accordance with the requirements for initial recognition. Any other modifications of contractual terms that do not cause derecognition of financial assets are treated as not substantial modifications and the gain or loss on modification is recognized. The effect of all identified not substantial modifications of cash flows are treated as not related to credit risk. The result on modification is the difference between present value of the modified cash flows discounted using the old effective interest rate and the effective loan exposure. Commissions received related to minor modification are settled over time using effective interest rate. All identified substantial modifications of cash flows are treated as related to credit risk. In case of substantial modification in stage 2, for which as a consequence, the exposure was moved to stage 1, the adjustment to fair value of the exposure at the initial recognition, adjusts the interest result in the subsequent periods.

<u>Purchased or originated credit impaired financial assets (POCI assets)</u>

POCI are financial assets measured at amortized cost that at initial recognition are credit impaired. POCI are also financial assets that are credit impaired at the moment of substantial modification. At the initial recognition POCI assets are recognized at fair value. The fair value of POCI assets at the initial recognition is calculated as present value of estimated future cash flows including credit risk discounted for the risk free rate. After the initial recognition POCI assets are measured at amortized cost. With respect to these financial assets the Bank uses credit adjusted effective interest rate in order to determine the amortized cost of financial asset and the interest income generated by these assets – CEIR. In case of POCI exposures the change of the expected credit losses relative to the estimated credit losses at the date of their initial recognition is recognized as an impairment loss. Its value can both reduce the gross value of POCI exposure and increase it in the event of a decrease of expected losses relative to its value at the date of initial recognition.

<u>Reclassification of financial assets</u>

Debt financial assets are reclassified when, and only when, the Bank changes its business model for managing financial assets. In such a case the assets affected by the change of business model are subject to reclassification.

Finnacial liabilities are not subject to reclassification by the Group.

The accounting principles applied by the Group until 31 December 2017 in the scope of classification and measurement of financial instruments are described in Note 2 of the IFRS Consolidated Financial Statements of the mBank S.A. Group for 2017, published on 28 February 2018.

2.9. Offsetting financial instruments

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

2.10. Impairment of financial assets

Financial instruments subject to estimation of allowance and provision are: financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income, loan commitments if not measured at fair value through profit or loss, financial guarantee contracts if not measured at fair value through profit or loss, leases under IAS 17, contract assets under IFRS 15, as well as trading receivables.

<u>How exposures are classified to stages</u>

The transfer logic is an algorithm used to classify exposures to one of the four Stages: 1, 2, 3, POCI. Stage 1 includes exposures for which provisions/write-downs are calculated on a 12-month basis. Stage 2 contains exposures for which, as at the reporting date, a significant deterioration in credit quality was identified compared to the date of their initial recognition – provisions/write-downs are calculated on a lifetime period. Stage 3 contains exposures identified as credit-impaired, while Stage POCI contains assets identified as credit-impaired at initial recognition. Once the quantitative or qualitative criteria that were used to classify the exposure in Stage 2 at the reporting date are no longer met, (the client and the exposure assigned to him or her no longer meet any of the Transfer Logic qualitative criteria or quantitative criteria), the exposure will be moved from Stage 2 to Stage 1. The exposure may also be transferred from Stage 3 to Stage 2 and from Stage 3 to Stage 1 (when no longer credit-impaired).

In case of non-financial guarantees, the Bank applied a simplified approach that the write-offs and provisions are always included in the amount Lt ECL (Stage 2).

Impairment corporate portfolio

Corporate exposures are deemed to be credit-impaired where the results of an impairment test demonstrate the need to establish valuation allowances/provisions. A client is reclassified as in default when one or more of the following criteria are met:

- any of the exposures representing the client's loan commitment to the Bank, its parent company or subsidiary is more than 90 days past due (for exposures payable to banks – more than 14 days). In the case of committed lines, the exposure is deemed to be past due on the date a specified limit is exceeded, a new limit – lower than the loan amount used – is introduced or when a loan amount is used without the consent of the Bank. No reclassification to default category is needed for customer with past due loan exposure not exceeding PLN 500 for Private Banking clients and PLN 3 000 for corporate portfolio clients, where risk increase related to commitment of a given customer is not directly impacted and no other criteria for customer default are present at the. same time.
- The Bank considers the client as unlikely to fully meet its loan commitments to the Bank, its parent company or subsidiary, demonstrating the need for corrective or restructuring measures or the exercise of collateral rights on the part of the Bank.

Impairment retail portfolio

In case of retail exposures, the identification of impaired exposure reflects the separation of exposure in the Bank's loan portfolio, for which at least one impairment trigger is active and the write-down value is different than zero. The impairment trigger for the retail exposure is:

- a discrete event or an ongoing situation based on which, taking into account all information possessed, the Bank acknowledges that without realizing the collaterals the debtor will not fully repay the Bank's receivables due to this exposure or
- the situation where, in accordance with loan agreement relating to this exposure, the collateral has been realized fully or partially, (cash flows have occurred), however the Bank's receivable related to this exposure has not been fully repaid.
- default event.

The events/situations determined by the Bank take place after the initial recognition of balance sheet loan exposure in Bank's books and affect the expected future cash flows due to the above exposure and it is possible to reliably estimate the impact.

Retail exposures are considered to be in default, if the following criterion is met:

- where at least one loan commitment of the debtor is past due for more than 90 days and total amount of past due credit exposures of the debtor (more than 31 days past due) exceed PLN 500,
- Bank accepts forced restructuring of an exposure, if as a result of it, loan exposures decrease due to the significant cancellation or extension of principal, interest or (if applicable) fees or commissions,
- Bank sells loan exposure with significant economic credit loss,
- an application has been filed to initiate bankruptcy proceedings against the debtor or the debtor has been put into bankruptcy, which may result in the termination or delay in repayment of the credit exposure towards the Bank.

In the case of retail exposures of mBank's foreign branches, the following must be taken into account:

- the main criterion for recognition as credit-impaired,
- additional criteria for recognition as credit-impaired.

The main criterion for recognizing a retail exposure as credit-impaired is deemed to be met when the exposure is more than 90 days past due, with the overdue amount exceeding the materiality threshold specified for each country on a separate basis (CZK 3000 and EUR 120).

Significant deterrioration

A significant deterioration in credit quality is recognised for the asset concerned on the basis of quantitative and qualitative criteria, with the asset being transferred to Stage 2 once at least one of such qualitative or quantitative criteria is met.

Qualitative criteria

Qualitative criteria are:

- Where an amount is more than 30 days past due (days past due, with an activation threshold) – the number of days for which the longest overdue amount of the exposure concerned is greater than or equal to 31 days).

- Occurrence of the Forborne flag (the client status shows that he or she is experiencing difficulties in repaying the loan commitment, as defined by the Bank).
- Occurrence of the Watch flag (the Bank's internal process designed to identify corporate clients who are subject to increased monitoring in terms of changes in credit quality, in accordance with the Watch List classification rules adopted by the Bank).

<u>Quantitative criteria</u>

The quantitative criterion of the Transfer Logic is based on a significant deterioration in credit quality, which is assessed on the basis of a relative long-term change in Probability of Default (PD), specified for the exposure at the reporting date, relative to the long-term PD specified on initial recognition. This factor is determined separately for the retail and corporate portfolio within the homogeneous segments in terms of probability of default events. Where a relative change in long-term PD exceeds "the transition threshold", the exposure is moved to Stage 2. An important issue in the process of calculating the credit quality deterioration is initial date recognition consistent in the entire Bank, against which the deterioration of credit quality is examined. Initial date re-recognition is determined for the exposures for which substantial modification of contractual terms took place. Each change of initial recognition date results in recalculation taking into account the new exposure characteristics, initial PD parameter at the new initial recognition date, against which the credit quality deterioration is examined.

<u>Low credit risk</u>

For exposures whose characteristics are indicative of low credit risks (LCR), expected credit losses are always determined on a 12-month basis. Exposures designated as LCR may not be transferred from Stage 1 to Stage 2, although they can be moved from Stage 1 to Stage 3 upon being recognized as credit-impaired. At the moment of implementing the IFRS 9, the Bank applies the LCR criterion to clients from the K1 segment with a PD rating grade greater than or equal to class 2.8. The LCR criterion is also applied to clients from segments such as: Governments and Banks, Local Government Units and NBFI (Non-Banking Financial Institution).

<u>Rebuttable presumption</u>

The Bank's approach that involves rejection of the presumption that a significant deterioration in credit quality occurs where DPD>= 31 days (rebuttable presumption) involves introducing a threshold of materiality (threshold of activation) for any outstanding amount payable to the Bank. The DPD >=31 days criterion (one of the qualitative criteria of the Transfer Logic) is not taken into account in the following cases:

1. for retail exposures - in the case of credit exposures, the sum of payable and non-payable capital does not exceed PLN 500 or an off-balance-sheet commitment of the exposure does not exceed PLN 500 (at the reporting date),
2. for corporate exposures - the sum of payable and non-payable capital at the reporting date does not exceed PLN 3 000 or an off-balance-sheet commitment of the exposure does not exceed PLN 3 000.

<u>Estimating expected credit losses (ECL)</u>

Valuation allowances and provisions are measured at the level of a single contract or exposure (agreement) by measuring expected credit losses (ECL). In the portfolio approach, expected credit losses are the multiplication of individual for each exposure estimated value of PD, LGD and EAD and the final value of expected credit losses is the sum of expected credit losses in particular periods discounted with the effective interest rate. If on the reporting date the exposure credit risk did not increase significantly since the initial recognition, the Bank calculates impairment provisions in the amount equal to 12-month expected credit losses (12m ECL). If the exposure credit risk increased significantly since the initial recognition (exposure is in the stage 2), the Bank calculates impairment provisions in the amount equal to life-time expected credit losses (Lt ECL). An expected loss is measured for non-zero exposures that are active at the reporting date (balance sheet and off-balance sheet). An expected credit loss is estimated separately for the balance- and off-balance-sheet part of the exposure. The parameters used to calculate an expected credit loss in Stage 1 are identical to those used to calculate a long-term credit loss in Stage 2 for t=1, where 't' stands for the first year of the forecast.

In the individual approach (all balance sheet and off-balance sheet credit exposures with an impairment in the corporate loan portfolio are treated as individually significant), the expected credit losses are calculated as a difference between the gross carrying amount of the asset and the present value of the estimated future cash flows discounted with the effective interest rate. The method of calculating the expected recoveries takes place in scenarios and depends on the Bank's chosen strategy for the client. In case of restructuring strategy, the scenarios considered assume a significant share of recoveries from the customer's own payments. In case of vindication strategy, the scenarios are based on collateral recoveries.

Use of macroeconomics scenarios in ECL estimation

The Bank is required to set an expected credit loss in a way which meets the expectations for various forward-looking macroeconomic scenarios in case of portfolio estimation of ECL. Therefore, the non-linearity factor (NLF) is set in order to adjust the value of an expected credit loss (calculated every month). The NLF factor is determined separately for retail and corporate segments at least once a year. NLFs are used as scaling factors for individual ECLs (both 12-month and lifetime) that are determined at the level of individual exposures in each segment. NLFs are calculated based on results from 3 simulation calculations at the same reporting date, which result from relevant macroeconomic scenarios.

In particular, NLF for a given segment is calculated as:

1. the probability-weighted average of the expected loss from 3 macroeconomic scenarios ('average estimation') comprising:
   a) baseline scenario
   b) optimistic scenario
   c) pessimistic scenario

2. divided by the expected loss determined under baseline scenario (reference estimate).

Simulation calculations, whose results are used to calculate NLF, are carried out on the basis of the same input data on exposure characteristics, but involve different risk parameter vectors, if the macroeconomic expectations defined in the scenarios are such as to affect the value of these parameters.

In case of individual estimation of ECL, the assumed recovery scenarios take into account various modeling of macroeconomic environment.

Loan receivable write-off

Loan receivable write-off can be partial or total.

The accounting principles applied by the Group until 31 December 2017 regarding the impairment of financial assets are described under Note 2 of the IFRS Consolidated Financial Statements of the mBank S.A. Group for 2017, published on 28 February 2018.

2.11. Financial guarantee contracts

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

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

- the amount initially recognised less cumulated amount of income,
- losses arising from these contracts; the amount of loss is determined in accordance with expected credit loss approach.

2.12. Cash and cash equivalents

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

2.13. Sale and repurchase agreements

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

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

When concluding a repo/sell-buy-back or reverse repo/buy-sell-back 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 measured at fair value through profit or loss or at fair value through other comprehensive income, and also as liabilities in the case of repo/sell-buy-back transactions and as receivables in the case of reverse repo/buy-sell-back transactions measured at amortised cost.

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

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

2.14. Derivative financial instruments and hedge accounting

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

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

Derivative instrument embedded in the hybrid contract, the host of which is a financial asset within the scope of IFRS 9, is not separated and the hybrid contract is recognised in accordance with the requirements for classification of the financial assets.

Derivative instrument embedded in the hybrid contract, the host of which is not a financial asset within the scope of IFRS 9, is assessed for the need to separate it.

Derivative instruments, which are designated and constitute effective hedging instruments, are not classified under any of the categories specified above and are subject to the principles of hedge accounting.

In accordance with IFRS 9: (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 host debt instrument in accordance with IAS 32.

The method of recognising the resulting fair value gain or loss depends on whether the given derivative instrument is designated as a hedging instrument, and if it is, it also depends on the nature of the hedged item. The Group designates some derivative instruments either as (1) fair value hedges against a recognised asset or liability or against a binding contractual obligation (fair value hedge), or as (2) hedges against highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge).

The Group decided that it would continue to apply the hedge accounting requirements in accordance with IAS 39, instead of the requirements set forth in IFRS 9.

Derivative instruments designated as hedges against positions maintained by the Group are recorded by means of hedge accounting, subject to the fulfilment of the criteria specified in IAS 39:

- at the inception of the hedge there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instruments effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk;

- the hedge is expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship;
- for cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss;
- the effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured;
- the hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

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

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

Fair value hedges

Changes in the fair value of derivative instruments designated and qualifying as fair value hedges are recognised in the income statement together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Starting from the financial statements for the first half of 2018, hedging gain or loss on the hedged item adjusts the carrying amount of the hedged item.

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

Cash flow hedges

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

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

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

Derivative instruments not fulfilling the criteria of hedge accounting

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

The Group holds the following derivative instruments in its portfolio:

Market risk instruments:

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

Interest rate risk instruments:

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

- Interest Rate Options

Foreign exchange risk instruments:

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

2.15. Gains and losses on initial recognition

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

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

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

2.16. Financial liabilities measured at amortised cost

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

2.17. Intangible assets

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

<u>Goodwill</u>

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

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

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

<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 Group, which are likely to generate economic benefits in excess of such costs expected to be gained over a period exceeding one year, are recognised as intangible assets. Direct costs comprise personnel expenses directly related to the software.

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

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

Development costs

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

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

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

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

2.18. Tangible fixed assets

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

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

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

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

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

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

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

The carrying amount of tangible fixed assets is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from from the derecognition of tangible fixed assets are included in profit or loss when the item is derecognised.

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

2.19. Inventories

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

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

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

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

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

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

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

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

2.21. Deferred income tax

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

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

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

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

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

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

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

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

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

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

2.22. Assets repossessed for debt

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

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

2.23. Prepayments, accruals and deferred income

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

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

2.24. Leasing

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

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

mBank S.A. Group as a lessor

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

Revenue from leasing agreements is recognized as follows:

- Interests on finance lease

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

- Net revenue from operating lease

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

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

mBank S.A. Group as a lessee

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

2.25. Provisions

Loan committments and financial guarantee contracts are subject to loan loss provisions requirements according to IFRS 9 Financial Instruments.

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

2.26. Post-employment employee benefits and other employee benefits

Post-employment employee benefits

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

Equity-settled share-based payment transactions

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

Cash-settled share-based payment transactions

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

Other employee benefits

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

2.27. Equity

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

Registered share capital

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

- Own shares

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

Share premium

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

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

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

Retained earnings

Retained earnings include:

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

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

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

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

Other components of equity

Other components of equity result from:

- valuation of financial assets at fair value through other comprehensive income,
- exchange differences on translation of foreign operations,
- actuarial gains and losses relating to post-employment benefits,
- valuation of derivative financial instruments held for cash flow hedging in relation to the effective portion of the hedge.

2.28. Valuation of items denominated in foreign currencies

Functional currency and presentation currency

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

Transactions and balances

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

Foreign exchange differences arising on account of such monetary items as financial assets measured at fair value through profit or loss are recognised under gains or losses arising in connection with changes of fair value.

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

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

Changes in fair value of monetary items valued through other comprehensive income cover foreign exchange differences arising from valuation at amortised cost, which are recognised in the income statement.

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

Companies belonging to the Group

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

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

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

Leasing business

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

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

2.29. Trust and fiduciary activities

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

The Bank provides custody, trustee, corporate administration, investment management and advisory services to third parties. In connection with these, the Bank makes decisions concerning the allocation, purchase and sale of a wide variety of financial instruments. Assets held in a fiduciary capacity are not included in these financial statements. The assets concerned are not shown in these financial statements as they do not belong to the Group.

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

2.30. New standards, interpretations and amendments to published standards

These financial statements include the requirements of all the International Accounting Standards and the International Financial Reporting Standards endorsed by the European Union, and the related with them interpretations which have been endorsed and binding for annual periods starting on 1 January 2018.

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

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

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

Standards and interpretations approved by the European Union:

- IFRS 16, *Leases*, published by the International Accounting Standards Board on 13 January 2016, approved by European Union on 31 October 2017, binding for annual periods starting on or after 1 January 2019.

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

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

  The Group is of the opinion that the application of a new standard will have an impact on the recognition, presentation, measurement and disclosure of operating lease assets and corresponding liability in the financial statements of the Group as lessor.

- Amendments to IFRS 9, *Prepayment Features with Negative Compensation*, published by the International Accounting Standards Board on 12 October 2017, approved by European Union on 22 March 2018, binding for annual periods starting on or after 1 January 2019.

  Amendments to IFRS 9 introduce the statements with reference to contractual prepayment feature, when the lender could be forced to accept the prepayment amount that is substantially less than unpaid amounts of principal and interest. Such a prepayment amount would be a payment to the borrower from the lender, instead of compensation from the borrower to the lender. Such a financial asset would be eligible to be measured at amortized cost or fair value through other comprehensive income (subject to an assessment of the business model in which they are held), however, the negative compensation must be reasonable compensation for early termination of the contract.

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

Standards and interpretations not yet approved by the European Union:

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

  IFRIC Interpretation 23 addresses, in particular, when there is uncertainty over income tax treatments, whether an entity considers uncertain tax treatments separately, what assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, tax rates and how an entity considers changes in facts and circumstances.

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

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

  Amendments to IAS 28 clarify that an entity applies IFRS 9 'Financial Instruments' to other financial instruments in an associate or joint venture to which the equity method is not applied. These instruments include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. In amendments to IAS 28 it has been clarified that the requirements of IFRS 9 apply to long-term interests before an entity applies share of losses requirements from IAS28 and in applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28.

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

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

  IFRS 17 defines a new approach to the recognition, valuation, presentation and disclosure of insurance contracts. The main purpose of IFRS 17 is to guarantee the transparency and comparability of insurers' financial statements. In order to meet this requirement the entity will disclose a lot of quantitative and qualitative information enabling the users of financial statements to assess the effect that insurance contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of the entity. IFRS 17 introduces a number of significant changes in relation to the existing requirements of IFRS 4. They concern, among others: aggregation levels at which the calculations are made, methods for the valuation of insurance liabilities, recognition a profit or loss over the period the entity provides insurance coverage, reassurance recognition, separation of the investment component and presentation of particular items of the balance sheet and profit and loss account of reporting units including the separate presentation of insurance revenues, insurance service expenses and insurance finance income or expenses.

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

- Annual Improvements to IFRS Standards 2015-2017 Cycle, published by the International Accounting Standards Board on 12 December 2017, binding for annual periods starting on or after 1 January 2019.

  The improvements to the following standards were implemented during the cycle: IFRS 3 in terms of clarifying that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business, IFRS 11 in terms of clarifying that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business, IAS 12 in terms of clarifying that all income tax consequences of dividends (i.e. distribution of profits) should be recognized in profit or loss, regardless of how the tax arises, IAS 23 in terms of clarifying that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

  The Group is of the opinion that the application of the amendments to the above standards will have no significant impact on the financial statements in the period of their initial application.

- Amendments to IAS 19, *Plan Amendment, Curtailment or Settlement*, published by the International Accounting Standards Board on 7 February 2018, binding for annual periods starting on or after 1 January 2019.

Amendments to IAS 19 specifies how an entity determines pension expenses when changes to a defined benefit pension plan occur. IAS 19 'Employee Benefits' specifies how an entity accounts for a defined benefit plan. When a change to a plan – an amendment, curtailment or settlement- takes place, IAS 19 requires an entity to remeasure its net defined benefit liability or asset. The amendments require an entity to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements.

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

- Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018) effective for financial years beginning on or after 1 January 2020.

2.31. Comparative data

On 24 July 2014 the International Accounting Standards Board (IASB) issued a new International Financial Reporting Standard – IFRS 9, Financial instruments effective for annual periods beginning on or after 1 January 2018, which replaces the existing International Accounting Standard 39 „Financial instruments: recognition and measurement". The European Commission adopted IFRS 9 as published by the IASB on 24 July 2014 in the Resolution No. 2016/2067 issued on 22 November 2016.

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

The Group decided to use the provisions of IFRS 9 allowing exemption from the obligation to transform comparative data for prior periods in relation to changes resulting from classification and measurement and impairment. At the same time the Group introduced changes to the financial statements to adjust the presentation of financial data to the new categories introduced by IFRS 9.

As at 1 January 2018, differences in the carrying amount of financial assets and liabilities resulting from the application of IFRS 9 were recognized as a part of undistributed financial result from previous years and other components of equity in the Group's equity.

Impact of IFRS 9 on the Group's financial situation and own funds

Quantitative impact of IFRS 9 on the Group's financial situation and own funds

In the tables below has been presented the impact resulting from changes in the classification and measurement of financial assets in connection with the implementation of IFRS9 as at 1 January 2018.

IFRS Condensed Consolidated Financial Statements for the first half of 2018 PLN (000's)

Restatement of consolidated statement of financial position of mBank S.A. Group as at 31 December 2017 in connection with the implementation of IFRS 9.

ASSETS	31.12.2017 IAS 39 carrying amount	ASSETS	Reclassification	IFRS 9 implementation	01.01.2018 IFRS 9 carrying amount
Cash and balances with the Central Bank	7 384 869	Cash and balances with the Central Bank	7 384 869	-	7 384 869
Loans and advances to banks (amortised cost)	1 707 722	Financial assets at amortised cost - loans and advances to banks	1 707 722	(499)	1 707 223
Trading securities (fair value though profit or loss)	1 525 382	Financial assets held for trading and derivatives held for hedges	1 525 382	-	1 525 382
Derivative financial instruments (fair value though profit or loss)	1 236 303	Financial assets held for trading and derivatives held for hedges	1 236 303	-	1 236 303
Loans and advances to customers (amortised cost)	84 475 844	Financial assets at amortised cost - loans and advances to customers	81 256 696	(238 725)	81 017 971
		Non-trading financial assets mandatorily at fair value through profit or loss -loans and advances to customers	3 219 148	(31 921)	3 187 227
Investment securities (fair value through other comprehensive income)	32 144 699	Non-trading financial assets mandatorily at fair value through profit or loss - equity instruments	41 087	-	41 087
		Financial assets at amortised cost - debt securities	8 566 042	(45 870)	8 520 172
		Financial assets at fair value through other comprehensive income	23 537 570	-	23 537 570
Investments in associates	28 680	Investments in associates	28 680	-	28 680
Non-current assets and disposal groups classified as held for sale	42 134	Non-current assets and disposal groups classified as held for sale	42 134	-	42 134
Intangible assets	710 642	Intangible assets	710 642	-	710 642
Tangible assets	758 738	Tangible assets	758 738	-	758 738
Current income tax assets	9 688	Current income tax assets	9 688	-	9 688
Deferred income tax assets	629 250	Deferred income tax assets	629 250	69 389	698 639
Other assets	770 068	Other assets	770 068	945	771 013
Total assets	**131 424 019**	**Total assets**	**131 424 019**	**(246 681)**	**131 177 338**

LIABILITIES AND EQUITY					
Liabilities					
Amounts due to the other banks (amortised cost)	5 073 351	Financial liabilities measured at amortised cost - Amounts due to banks	5 073 351	-	5 073 351
Derivative financial instruments (fair value though profit or loss)	1 095 365	Financial liabilities held for trading and derivatives held for hedges	1 095 365	-	1 095 365
Amounts due to customers (amortised cost)	91 496 027	Financial liabilities measured at amortised cost - amounts due to customers	91 496 027	-	91 496 027
Debt securities in issue (amortised cost)	14 322 852	Financial liabilities measured at amortised cost - debt securities in issue	14 322 852	-	14 322 852
Fair value changes of the hedged items in portfolio hedge of interest rate risk	44 854	Fair value changes of the hedged items in portfolio hedge of interest rate risk	44 854	-	44 854
Other liabilities	2 571 130	Other liabilities	2 571 130	2 581	2 573 711
Current income tax liabilities	179 685	Current income tax liabilities	179 685	-	179 685
Deferred income tax liabilities	81	Deferred income tax liabilities	81	-	81
Provisions	190 975	Provisions	190 975	44 324	235 299
Subordinated liabilities (amortised cost)	2 158 143	Financial liabilities measured at amortised cost - subordinated liabilities	2 158 143	-	2 158 143
Total liabilities	**117 132 463**	**Total liabilities**	**117 132 463**	**46 905**	**117 179 368**

Equity					
Equity attributable to Owners of mBank S.A.	**14 289 370**	**Equity attributable to Owners of mBank S.A.**	**14 289 370**	**(293 586)**	**13 995 784**
Share capital	**3 564 176**	**Share capital**	**3 564 176**	**-**	**3 564 176**
Registered share capital	169 248	Registered share capital	169 248	-	169 248
Share premium	3 394 928	Share premium	3 394 928	-	3 394 928
Retained earnings:	**10 574 294**	**Retained earnings:**	**10 574 294**	**(260 179)**	**10 314 115**
- Profit from the previous years	9 482 764	- Profit from the previous years	9 482 764	(260 179)	9 222 585
- Profit for the current year	1 091 530	- Profit for the current year	1 091 530	-	1 091 530
Other components of equity	**150 900**	**Other components of equity**	**150 900**	**(33 407)**	**117 493**
Non-controlling interests	**2 186**	**Non-controlling interests**	**2 186**	**-**	**2 186**
Total equity	**14 291 556**	**Total equity**	**14 291 556**	**(293 586)**	**13 997 970**
TOTAL LIABILITIES AND EQUITY	**131 424 019**	**TOTAL LIABILITIES AND EQUITY**	**131 424 019**	**(246 681)**	**131 177 338**

IFRS Condensed Consolidated Financial Statements for the first half of 2018 PLN (000's)

Restatement of consolidated statement of financial position of mBank S.A. Group as at 31 December 2017 in connection with the implementation of IFRS 9.

ASSETS	01.01.2018	31.12.2017	Change
Cash and balances with the Central Bank	7 384 869	7 384 869	-
Financial assets held for trading and derivatives held for hedges	2 761 685	2 761 685	-
Loans and advances to banks	*n/a*	1 707 722	(1 707 722)
Non-trading financial assets mandatorily at fair value through profit or loss, including:	3 228 314	*n/a*	3 228 314
Equity instruments	*41 087*	*n/a*	*41 087*
Loans and advances to customers	*3 187 227*	*n/a*	*3 187 227*
Investment securities	*n/a*	32 144 699	(32 144 699)
Financial assets at fair value through other comprehensive income	23 537 570	*n/a*	23 537 570
Financial assets at amortised cost, including:	91 245 366	*n/a*	91 245 366
Debt securities	*8 520 172*	*n/a*	*8 520 172*
Loans and advances to banks	*1 707 223*	*n/a*	*1 707 223*
Loans and advances to customers	*81 017 971*	*n/a*	*81 017 971*
Loans and advances to customers	*n/a*	84 475 844	(84 475 844)
Investments in associates	28 680	28 680	-
Non-current assets and disposal groups classified as held for sale	42 134	42 134	-
Intangible assets	710 642	710 642	-
Tangible assets	758 738	758 738	-
Current income tax assets	9 688	9 688	-
Deferred income tax assets	698 639	629 250	69 389
Other assets	771 013	770 068	945
Total assets	**131 177 338**	**131 424 019**	**(246 681)**

LIABILITIES AND EQUITY			
Liabilities			
Financial liabilities held for trading and derivatives held for hedges	1 095 365	1 095 365	-
Financial liabilities measured at amortised cost, including:	113 050 373	*n/a*	113 050 373
Amounts due to banks	*5 073 351*	*n/a*	*5 073 351*
Amounts due to customers	*91 496 027*	*n/a*	*91 496 027*
Debt securities issued	*14 322 852*	*n/a*	*14 322 852*
Subordinated liabilities	*2 158 143*	*n/a*	*2 158 143*
Amounts due to the other banks	*n/a*	5 073 351	(5 073 351)
Amounts due to customers	*n/a*	91 496 027	(91 496 027)
Debt securities in issue	*n/a*	14 322 852	(14 322 852)
Subordinated liabilities	*n/a*	2 158 143	(2 158 143)
Fair value changes of the hedged items in portfolio hedge of interest rate risk	*44 854*	44 854	-
Provisions	235 299	190 975	44 324
Current income tax liabilities	179 685	179 685	-
Deferred income tax liabilities	81	81	-
Other liabilities	2 573 711	2 571 130	2 581
Total liabilities	**117 179 368**	**117 132 463**	**46 905**
Equity			
Equity attributable to Owners of mBank S.A.	**13 995 784**	**14 289 370**	**(293 586)**
Share capital	**3 564 176**	**3 564 176**	**-**
Registered share capital	169 248	169 248	-
Share premium	3 394 928	3 394 928	-
Retained earnings:	**10 314 115**	**10 574 294**	**(260 179)**
- Profit from the previous years	9 222 585	9 482 764	(260 179)
- Profit for the current year	1 091 530	1 091 530	-
Other components of equity	**117 493**	**150 900**	**(33 407)**
Non-controlling interests	**2 186**	**2 186**	**-**
Total equity	**13 997 970**	**14 291 556**	**(293 586)**
TOTAL LIABILITIES AND EQUITY	**131 177 338**	**131 424 019**	**(246 681)**

Financial assets

As at 1 January 2018, the Group changed the classification of the certain part of retail portfolio (cash loans, renewable loans and credit cards) and small number of corporate loans (single investment loans) measured at amortised cost under IAS 39, which according to IFRS9 have to be measured at fair value through profit or loss due to the failure of the SPPI test.

The Group changed also the classification of part of corporate loans (part of syndicated loans portfolio) measured at amortised cost under IAS 39, which as a result of implementation of IFRS 9 are measured at fair value through profit and loss due to a business model which objective is not achieved by collecting contractual cash flows.

The impact of the valuation method change of the above loans from amortized cost to the fair value was negative and amounted to PLN 31 921 thousand excluding deferred tax effect.

Moreover, due to the methodology and approach to fair value through profit or loss of a part of the retail loan portfolio and a small number of corporate loans, in connection with the implementation of IFRS 9, which were measured at amortized cost in accordance with IAS 39, the value of Group's other assets increased as at 1 January 2018. The impact of this change amounted to PLN 945 thousand excluding the deferred tax effect.

In addition, for the certain part of the debt securities portfolio classified as "Available-for-Sale" under IAS 39 the Bank decided to apply the "Held-to-Collect" business model, which objective is to hold financial assets to collect contractual cash flows, which resulted in the reclassification of these securities from the fair value through other comprehensive income into amortised cost measurement category. The impact of the change in the method of valuation of the these debt securities was negative and amounted to PLN 45 870 thousand excluding deferred tax effect. As at 30 June 2018, the fair value of securities reclassified on 1 January 2018 from measured at fair value through equity to those measured at amortized cost amounted to PLN 8 597 005 thousand. If these securities had not been reclassified, the Group would have recognized in other comprehensive income a gain of PLN 46 532 thousand excluding deferred tax effect thousand in the first half of 2018.

As at 31 December 2017 the Group held equity instruments (stocks and shares) which, in accordance with IAS 39, are categorized as financial assets "available for sale". In accordance with IFRS 9, in the case of stocks and shares other than stocks and shares in subsidiaries, associates and joint ventures, the Group at the initial application made an irrevocable choice to measure one of the equity instrument at fair value through other comprehensive income. The rest of the equity instruments Group measures at fair value through profit and loss in accordance with IFRS 9. If the Group chose to measure the equity instruments at fair value through other comprehensive income, the fair value gains and losses would be reported in other comprehensive income, no impairment losses would be recognised in profit or loss and no gains or losses would be reclassified to profit or loss on disposal.

As at 1 January 2018 Group did not identify financial assets which were designated as measured at fair value through profit or loss in order to eliminate "accounting mismatch".

Financial liabilities

As a result of implementing IFRS 9, the Group did not change the classification of financial liabilities in comparison to the requirements in IAS 39, which could have a significant impact on the financial position and profit or loss of the Group.

The Group did not elect an option to measure financial liabilities at fair value.

As of 1 January 2018 the value of the Group's financial liabilities changed due to the methodology and approach to fair value measurement through profit and loss for the part of retail loan portfolio and a small number of corporate loans as a result of the implementation of IFRS 9, which under IAS 39 were measured at amortised cost. The impact of this change amounted to PLN 2 581 thousand deferred tax effect.

Impairment

The implementation of the new impairment model based on the concept of ECL resulted in the moderate increase of the Group's loss allowance, particularly with regard to exposures allocated to Stage 2 and 3. Contrary to IAS 39, IFRS 9 does not require the entities to identify the impairment trigger in order to estimate lifetime credit losses in Stage 2. Instead, the Group is obliged to constantly estimate the level of credit losses since the initial recognition of a given asset until its derecognition. In the event of significant increase in credit risk since the initial recognition of the asset, the Group will be obliged to calculate lifetime expected credit losses – Stage 2. Such an approach resulted in the earlier recognition of credit losses which causes an increase in loss allowance. Increase in loss allowance in stage 3 is mainly driven by a change in "cure" definition, so it is in line with "default" definition and takes into account life-time losses for re-defaulting assets evaluated on portfolio basis, as well as implementation of scenario approach for individually assessed borrowers. With regard to retail exposures classified to Stage 1 the Group identified only minor change in the level of impairment allowances. In the corporate segment the Group identified the increase of impairment allowances due to the cease of application of LIP parameter.

The total effect of the above changes on the category "Financial assets at amortized cost" was negative and amounted to PLN 239 224 thousand, of which PLN 238 725 thousand relates to loans and advances to clients, while PLN 499 thousand to receivables from banks. In addition, these changes also influenced the increase in provisions for off-balance sheet liabilities presented in the category "Provisions" in the amount of PLN 44 324 thousand.

As a result, the total negative impact of the implementation of IFRS 9 in the amount of PLN 362 975 thousand PLN and the tax effect resulting from the implementation of IFRS 9 in the form of an increase in net deferred tax asset in the amount of PLN 69 389 thousand caused a decrease in the retained earnings and other items of the Group's equity by PLN 293 586 thousand.

Impact of IFRS 9 on capital adequacy

The total impact of applying IFRS 9, calculated as at 1 January 2018, in relation to the total capital ratio (TCR) and the Tier1 ratio of the Group is immaterial and amounts to no more than 5 bps.

The Group decided, for the purpose of capital adequacy calculation, including calculation of own funds, based on the Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December 2017 (Regulation) amending Regulation (EU) No 575/2013 in light of Article 1 paragraph 9 of the Regulation, not to apply the transitional arrangements that would mitigate the impact on capital resulting from the introduction of IFRS9.

The consolidated data as at 31 December 2017 and 30 June 2017 is comparable with the current accounting period and therefore has not been adjusted.

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

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

Impairment of loans and advances

The Group reviews its loan portfolio in terms of possible impairments at least once per quarter. In order to determine whether any impairment loss should be recognised in the income statement, the Group assesses whether any evidence exists that would indicate some measurable reduction of estimated future cash flows attached to the loan portfolio. The methodology and the assumptions (on the basis of which the estimated cash flow amounts and their anticipated timing are determined) are regularly verified. If the current value of estimated cash flows for portfolio of loans and advances and contingent liabilities which are impaired, change by +/-10%, the estimated loans and advances and contingent liabilities impairment would either decrease by PLN 45.5 million or increase by PLN 56.7 million as at 30 June 2018, respectively. This estimation was performed for portfolio of loans and advances and contingent liabilities individually assessed for impairment on the basis of future cash flows due to repayments and recovery from collateral - Stage 3. The rules of determining write-downs and provisions for impairment of credit exposures have been described under Note 2.10.

Fair value of derivatives and other financial instruments

The fair value of financial instruments not listed on active markets is determined by applying valuation techniques. All the models are approved prior to being applied and they are also calibrated in order to assure that the obtained results indeed reflect the actual data and comparable market prices. As far as possible, observable market data originating from an active market are used in the models. Methods for determining the fair value of financial instruments are described in Note 2.8.

Deferred tax assets

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

Revenue and expenses from sale of insurance products bundled with loans

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

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

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

Liabilities due to post-employment employee benefits

The costs of post-employment employee benefits are determined using an actuarial valuation method. 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 programmes, such estimates are subject to significant uncertainty.

Leasing classification

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

4. Business segments

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

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

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

- The Retail Banking segment, which divides its customers into mBank customers and Private Banking customers and which offers a full range of the Bank's banking products and services as well as specialized products offered by a number of subsidiaries belonging to the Retail Banking segment. The key products in this segment include current and savings accounts (including accounts in foreign currencies), term deposits, lending products (retail mortgage loans and non-mortgage loans such as cash loans, car loans, overdrafts, credit cards and other loan products), debit cards, insurance products, investment products, brokerage and leasing services offered to both individual customers and to micro-businesses. The results of the Retail Banking segment include the results of foreign branches of mBank in the Czech Republic and Slovakia. The Retail Banking segment also includes the results of mFinanse S.A., as well as the results of retail segments of mLeasing Sp. z o.o. and mBank Hipoteczny S.A.

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

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

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

  - Operations which are not included in the Retail Banking segment and the Corporates and Financial Markets segment are reported under "Other". This segment includes the results of mCentrum Operacji Sp. z o.o., BDH Development Sp. z o.o., Future Tech Fundusz Inwestycyjny Zamknięty and results of mLocum S.A. until the date of sale of the majority stake of the company on 31 July 2017.

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

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

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

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

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

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

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

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

In connection with the change the cost allocation key for Bank Guarantee Fund since the beginning of 2018, the comparative data for 2017 and the first half of 2017 regarding overhead costs by business segment activities of mBank S.A. Group have been changed accordingly.

Business segment reporting on the activities of mBank S.A. Group
for the period from 1 January to 30 June 2018
(PLN'000)

	Corporates & Financial Markets		Retail Banking (including Private Banking)	Other	Total figure for the Group	Statement of financial position reconciliation/ income statement reconciliation
	Corporate and Investment Banking	Financial Markets				
Net interest income	**440 107**	**125 155**	**1 101 384**	**4 129**	**1 670 775**	**1 670 775**
- sales to external clients	450 922	319 060	897 199	3 594	1 670 775	
- sales to other segments	(10 815)	(193 905)	204 185	535	-	
Net fee and commission income	**231 521**	**(4 368)**	**291 356**	**(656)**	**517 853**	**517 853**
Dividend income	**-**	**-**	**-**	**3 103**	**3 103**	**3 103**
Trading income	**125 463**	**(16 205)**	**61 328**	**(1 395)**	**169 191**	**169 191**
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	**(6 029)**	**-**	**(54 160)**	**(219)**	**(60 408)**	**(60 408)**
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates	**182**	**5 998**	**-**	**(160)**	**6 020**	**6 020**
Other operating income	**46 969**	**905**	**268 743**	**5 202**	**321 819**	**321 819**
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	**(118 391)**	**(159)**	**(159 885)**	**4**	**(278 431)**	**(278 431)**
Overhead costs	**(351 930)**	**(51 453)**	**(571 942)**	**(9 827)**	**(985 152)**	**(985 152)**
Amortisation	**(39 895)**	**(5 652)**	**(78 340)**	**(608)**	**(124 495)**	**(124 495)**
Other operating expenses	**(22 505)**	**(1 890)**	**(67 452)**	**(8 160)**	**(100 007)**	**(100 007)**
Operating profit	**305 492**	**52 331**	**791 032**	**(8 587)**	**1 140 268**	**1 140 268**
Taxes on Group balance sheet items	**(75 275)**	**(18 048)**	**(100 358)**	**(3 069)**	**(196 750)**	**(196 750)**
Share in profits (losses) of entities under the equity method	-	-	-	588	**588**	**588**
Gross profit of the segment	**230 217**	**34 283**	**690 674**	**(11 068)**	**944 106**	**944 106**
Income tax					(245 694)	(245 694)
Net profit attributable to Owners of mBank S.A.					698 435	698 435
Net profit attributable to non-controlling interests					(23)	(23)
Assets of the segment	**39 396 048**	**44 988 027**	**53 924 197**	**1 709 521**	**140 017 793**	**140 017 793**
Liabilities of the segment	**32 730 890**	**30 162 747**	**61 060 348**	**1 543 194**	**125 497 179**	**125 497 179**
Expenditures incurred on fixed assets and intangible assets	61 510	2 042	55 663	106	119 321	

Business segment reporting on the activities of mBank S.A. Group
for the period from 1 January to 31 December 2017
(PLN'000)

	Corporates & Financial Markets		Retail Banking (including Private Banking)	Other	Total figure for the Group	Statement of financial position reconciliation/ income statement reconciliation
	Corporate and Investment Banking	Financial Markets				
Net interest income	**832 749**	**282 176**	**2 013 103**	**7 632**	**3 135 660**	**3 135 660**
- sales to external clients	897 740	595 308	1 638 103	4 509	3 135 660	
- sales to other segments	(64 991)	(313 132)	375 000	3 123	-	
Net fee and commission income	**406 289**	**(7 602)**	**582 321**	**11 150**	**992 158**	**992 158**
Dividend income	**-**	**11**	**-**	**3 417**	**3 428**	**3 428**
Trading income	**246 341**	**(64 902)**	**114 184**	**(1 560)**	**294 063**	**294 063**
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates	**(6 050)**	**20 783**	**-**	**(18 670)**	**(3 937)**	**(3 937)**
Other operating income	**58 067**	**877**	**55 871**	**127 545**	**242 360**	**242 360**
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	**(168 099)**	**2 119**	**(342 625)**	**884**	**(507 721)**	**(507 721)**
Overhead costs	**(639 970)**	**(93 360)**	**(1 059 197)**	**(26 422)**	**(1 818 949)**	**(1 818 949)**
Amortisation	**(74 088)**	**(9 849)**	**(137 278)**	**(3 004)**	**(224 219)**	**(224 219)**
Other operating expenses	**(40 138)**	**(1 147)**	**(89 603)**	**(79 283)**	**(210 171)**	**(210 171)**
Operating profit	**615 101**	**129 106**	**1 136 776**	**21 689**	**1 902 672**	**1 902 672**
Taxes on Group balance sheet items	**(141 748)**	**(32 264)**	**(195 832)**	**(5 412)**	**(375 256)**	**(375 256)**
Share in profits (losses) of entities under the equity method	-	-	-	486	**486**	**486**
Gross profit of the segment	**473 353**	**96 842**	**940 944**	**16 763**	**1 527 902**	**1 527 902**
Income tax					(432 832)	(432 832)
Net profit attributable to Owners of mBank S.A.					1 091 530	1 091 530
Net profit attributable to non-controlling interests					3 540	3 540
Assets of the segment	**37 438 110**	**41 469 251**	**50 963 246**	**1 553 412**	**131 424 019**	**131 424 019**
Liabilities of the segment	**31 408 233**	**27 320 647**	**57 764 732**	**638 851**	**117 132 463**	**117 132 463**
Expenditures incurred on fixed assets and intangible assets	199 415	19 834	260 484	25 084	504 817	

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

	Corporates & Financial Markets		Retail Banking (including Private Banking)	Other	Total figure for the Group	Statement of financial position reconciliation/ income statement reconciliation
	Corporate and Investment Banking	Financial Markets				
Net interest income	**391 704**	**147 338**	**971 091**	**3 653**	**1 513 786**	**1 513 786**
- sales to external clients	427 784	307 819	776 440	1 743	1 513 786	
- sales to other segments	(36 080)	(160 481)	194 651	1 910	-	
Net fee and commission income	**200 067**	**(3 604)**	**298 938**	**6 765**	**502 166**	**502 166**
Dividend income	**-**	**8**	**-**	**3 116**	**3 124**	**3 124**
Trading income	**118 611**	**(34 483)**	**54 455**	**(618)**	**137 965**	**137 965**
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates	**(6 982)**	**2 814**	**-**	**(12 494)**	**(16 662)**	**(16 662)**
Other operating income	**32 891**	**164**	**16 837**	**99 156**	**149 048**	**149 048**
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	**(47 827)**	**2 062**	**(158 418)**	**863**	**(203 320)**	**(203 320)**
Overhead costs	**(351 700)**	**(52 468)**	**(538 405)**	**(17 530)**	**(960 103)**	**(960 103)**
Amortisation	**(35 022)**	**(4 812)**	**(61 151)**	**(1 693)**	**(102 678)**	**(102 678)**
Other operating expenses	**(22 002)**	**(1 738)**	**(33 295)**	**(69 742)**	**(126 777)**	**(126 777)**
Operating profit	**279 740**	**55 281**	**550 052**	**11 476**	**896 549**	**896 549**
Taxes on Group balance sheet items	**(68 584)**	**(14 459)**	**(98 308)**	**(2 972)**	**(184 323)**	**(184 323)**
Gross profit of the segment	**211 156**	**40 822**	**451 744**	**8 504**	**712 226**	**712 226**
Income tax					(220 179)	(220 179)
Net profit attributable to Owners of mBank S.A.					488 478	488 478
Net profit attributable to non-controlling interests					3 569	3 569
Assets of the segment	**35 837 907**	**40 928 514**	**51 166 616**	**1 484 454**	**129 417 491**	**129 417 491**
Liabilities of the segment	**29 317 788**	**30 079 428**	**55 692 967**	**646 873**	**115 737 056**	**115 737 056**
Expenditures incurred on fixed assets and intangible assets	77 363	3 983	72 350	858	154 554	

IFRS Condensed Consolidated Financial Statements for the first half of 2018 PLN (000's)

Information about geographical areas on the activities of mBank S.A. Group for the period	from 1 January to 30 June 2018		
	Poland	Foreign Countries	Total
Net interest income	1 582 736	88 039	**1 670 775**
Net fee and commission income	509 820	8 033	**517 853**
Dividend income	3 103	-	**3 103**
Trading income	164 794	4 397	**169 191**
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	(60 408)	-	**(60 408)**
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates	6 020	-	**6 020**
Other operating income	321 048	771	**321 819**
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(267 605)	(10 826)	**(278 431)**
Overhead costs	(923 893)	(61 259)	**(985 152)**
Amortisation	(122 365)	(2 130)	**(124 495)**
Other operating expenses	(98 502)	(1 505)	**(100 007)**
Operating profit	1 114 748	25 520	**1 140 268**
Taxes on Group balance sheet items	(185 123)	(11 627)	**(196 750)**
Share in profits (losses) of entities under the equity method	588	-	**588**
Gross profit of the segment	**930 213**	**13 893**	**944 106**
Income tax			(245 694)
Net profit attributable to Owners of mBank S.A.			698 435
Net profit attributable to non-controlling interests			(23)
Assets of the segment, including:	134 896 365	5 121 428	**140 017 793**
- tangible assets	1 407 499	11 567	1 419 066
- deferred income tax assets	849 223	2 175	851 398
Liabilities of the segment	115 599 376	9 897 803	**125 497 179**

IFRS Condensed Consolidated Financial Statements for the first half of 2018 PLN (000's)

Information about geographical areas on the activities of mBank S.A. Group for the period	from 1 January to 31 December 2017			from 1 January to 30 June 2017		
	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total
Net interest income	2 980 836	154 824	**3 135 660**	1 439 400	74 386	**1 513 786**
Net fee and commission income	985 828	6 330	**992 158**	500 505	1 661	**502 166**
Dividend income	3 428	-	**3 428**	3 124	-	**3 124**
Trading income	286 125	7 938	**294 063**	134 572	3 393	**137 965**
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates	(3 937)	-	**(3 937)**	(16 662)	-	**(16 662)**
Other operating income	239 157	3 203	**242 360**	147 949	1 099	**149 048**
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(497 246)	(10 475)	**(507 721)**	(200 650)	(2 670)	**(203 320)**
Overhead costs	(1 689 882)	(129 067)	**(1 818 949)**	(895 624)	(64 479)	**(960 103)**
Amortisation	(219 946)	(4 273)	**(224 219)**	(100 611)	(2 067)	**(102 678)**
Other operating expenses	(207 598)	(2 573)	**(210 171)**	(125 714)	(1 063)	**(126 777)**
Operating profit	1 876 765	25 907	**1 902 672**	886 289	10 260	**896 549**
Taxes on Group balance sheet items	(352 524)	(22 732)	**(375 256)**	(172 876)	(11 447)	**(184 323)**
Share in profits (losses) of entities under the equity method	486	-	**486**	-	-	**-**
Gross profit of the segment	**1 524 727**	**3 175**	**1 527 902**	**713 413**	**(1 187)**	**712 226**
Income tax			(432 832)			(220 179)
Net profit attributable to Owners of mBank S.A.			1 091 530			488 478
Net profit attributable to non-controlling interests			3 540			3 569
Assets of the segment, including:	125 313 613	6 110 406	**131 424 019**	124 043 077	5 374 414	**129 417 491**
- tangible assets	1 458 141	11 239	1 469 380	1 328 536	11 289	1 339 825
- deferred income tax assets	626 903	2 347	629 250	515 890	2 483	518 373
Liabilities of the segment	108 200 503	8 931 960	**117 132 463**	107 181 727	8 555 329	**115 737 056**

IFRS Condensed Consolidated Financial Statements for the first half of 2018 PLN (000's)

5. Net interest income

the period	from 01.01.2018 to 30.06.2018	from 01.01.2017 to 30.06.2017
Interest income		
Interest income of financial assets at amortised cost, including:	**1 605 932**	**1 477 886**
- Loans and advances	*1 482 382*	*1 445 462*
- Debt securities	*95 495*	*n/a*
- Cash and short-term placements	*25 654*	*30 031*
- Other	*2 401*	*2 393*
Interest income on financial assets at fair value through other comprehensive income	**242 003**	**340 974**
- Debt securities	*242 003*	*n/a*
Investment securities	n/a	340 974
Income sililar to interest on financial assets at fair value through profit or loss, including:	**308 269**	**153 969**
Financial assets held for trading	32 351	42 268
- Debt securities	*32 351*	*42 268*
Non-trading financial assets mandatorily at fair value through profit or loss, including:	134 249	*n/a*
- Loans and advances	*134 249*	*n/a*
Interest income on derivatives classified into banking book	87 897	73 073
Interest income on derivatives concluded under the fair value hedge	37 969	31 539
Interest income on derivatives concluded under the cash flow hedge	15 803	7 089
Total interest income	**2 156 204**	**1 972 829**

the period	from 01.01.2018 to 30.06.2018	from 01.01.2017 to 30.06.2017
Interest expenses		
Arising from amounts due to banks	(28 997)	(30 595)
Arising from amounts due to customers	(266 141)	(248 546)
Arising from issue of debt securities	(150 121)	(134 717)
Arising from subordinated liabilities	(35 053)	(35 216)
Other	(5 117)	(9 969)
Total interest expense	**(485 429)**	**(459 043)**

6. Net fee and commission income

the period	from 01.01.2018 to 30.06.2018	from 01.01.2017 to 30.06.2017
Fee and commission income		
Payment cards-related fees	206 094	182 038
Credit-related fees and commissions	188 771	159 836
Commissions for agency service regarding sale of insurance products of external financial entities	64 225	93 932
Fees from brokerage activity and debt securities issue	54 443	68 406
Commissions from bank accounts	103 634	91 801
Commissions from money transfers	64 000	57 576
Commissions due to guarantees granted and trade finance commissions	42 600	34 136
Commissions for agency service regarding sale of other products of external financial entities	57 320	71 626
Commissions on trust and fiduciary activities	13 353	13 085
Fees from portfolio management services and other management-related fees	6 610	7 467
Fees from cash services	27 709	26 088
Other	23 791	16 425
Fee and commission income	**852 550**	**822 416**

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the period	from 01.01.2018 to 30.06.2018	from 01.01.2017 to 30.06.2017
Fee and commission expense		
Payment cards-related fees	(118 386)	(113 141)
Commissions paid to external entities for sale of the Bank's products	(62 106)	(65 090)
Commissions paid for agency service regarding sale of insurance products of external financial entities	(4 057)	(1 239)
Discharged brokerage fees	(12 706)	(14 849)
Cash services	(24 083)	(24 603)
Fees to NBP and KIR	(5 572)	(5 225)
Other discharged fees	(107 787)	(96 103)
Total fee and commision expense	**(334 697)**	**(320 250)**

7. Dividend income

the period	from 01.01.2018 to 30.06.2018	from 01.01.2017 to 30.06.2017
Trading securities	*n/a*	8
Available for sale securities	*n/a*	3 116
Financial assets at fair value through other comprehensive income	347	*n/a*
Financial assets at fair value through profit or loss	2 756	*n/a*
Total dividend income	**3 103**	**3 124**

8. Net trading income

the period	from 01.01.2018 to 30.06.2018	from 01.01.2017 to 30.06.2017
Foreign exchange result	**151 047**	**134 319**
Net exchange differences on translation	198 114	98 874
Net transaction gains/(losses)	(47 067)	35 445
Gains or losses on financial assets and liabilities held for trading	**23 853**	**10 867**
Derivatives, including:	22 045	4 037
- Interest-bearing instruments	*18 027*	*225*
- Market risk instruments	*4 018*	*3 812*
Equity instruments	(735)	436
Debt securities	2 543	6 394
Gains or losses from hedge accounting	**(5 709)**	**(7 221)**
Net profit on hedged items	(26 868)	61 676
Net profit on fair value hedging instruments	20 053	(64 629)
Ineffective portion of cash flow hedge	1 106	(4 268)
Net trading income	**169 191**	**137 965**

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

The Group applies fair value hedge accounting and cash flow hedge accounting. Detailed information on hedge accounting are included in Note 16 " Financial assets held for trading and derivatives held for hedges".

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9. Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss

the period	from 01.01.2018 to 30.06.2018	from 01.01.2017 to 30.06.2017
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss		
Equity instruments	(218)	*n/a*
Loans and advances	(60 190)	*n/a*
Total gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	**(60 408)**	***n/a***

10. Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates

the period	from 01.01.2018 to 30.06.2018
Gains less losses related to sale of debt securities measured at fair value through other comprehensive income	6 042
Gains less losses related to sale of investments in subsidiaries and associates	(22)
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates	**6 020**

the period	from 01.01.2017 to 30.06.2017
Sale/redemption of financial assets available for sale	3 342
Impairment of available for sale equity securities	(4 751)
Impairment of available for sale debt securities	(7 511)
Impairment of investments in subsidiaries	(7 742)
Total gains less losses from investment securities and investments in subsidiaries and associates	**(16 662)**

11. Other operating income

the period	from 01.01.2018 to 30.06.2018	from 01.01.2017 to 30.06.2017
Income from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories	41 125	115 253
Income from services provided	13 387	11 829
Net income from operating lease	3 745	3 564
Income due to release of provisions for future commitments	1 899	1 243
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	82	986
Income from compensations, penalties and fines received	82	304
Net revenues from the sale of an organised part of the company mFinanse S.A.	238 832	-
Other	22 667	15 869
Total other operating income	**321 819**	**149 048**

Net revenues from the sale of an organised part of the company mFinanse S.A. refer to the transaction described under point 9 of selected explanatory information of these condensed consolidated financial statements.

In H1 2017 income from sale or liquidation of tangible fixed assets, intangible assets as well as assets held for disposal comprises primarily income of the company mLocum S.A. from developer activity.

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

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

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Net income from operating lease for the first half of 2018 and the first half of 2017 is presented below.

the period	from 01.01.2018 to 30.06.2018	from 01.01.2017 to 30.06.2017
Net income from operating lease, including:		
- Income from operating lease	25 967	27 478
- Depreciation cost of fixed assets provided under operating lease	(22 222)	(23 914)
Total net income from operating lease	**3 745**	**3 564**

12. Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss

the period	from 01.01.2018 to 30.06.2018	from 01.01.2017 to 30.06.2017
Financial assets at amortised cost, including:	**(278 000)**	**(209 536)**
- Debt securities	6	-
Stage 1	6	n/a
- Loans and advances	(278 006)	(209 536)
Stage 1	(69 471)	n/a
Stage 2	(25 200)	n/a
Stage 3	(185 240)	n/a
POCI	1 905	n/a
Financial assets at fair value through other comprehensive income	**(216)**	n/a
- Debt securities	(216)	n/a
Stage 1	(102)	n/a
Stage 2	(114)	n/a
Commitments and guarantees given	**(215)**	**6 216**
Stage 1	307	n/a
Stage 2	1 572	n/a
Stage 3	(3 086)	n/a
POCI	992	n/a
Net impairment losses on financial assets not measured at fair value through profit or loss	**(278 431)**	**(203 320)**

13. Overhead costs

the period	from 01.01.2018 to 30.06.2018	from 01.01.2017 to 30.06.2017
Staff-related expenses	(466 418)	(447 180)
Material costs, including:	(365 576)	(349 491)
- costs of administration and real estate services	(182 225)	(178 985)
- IT costs	(85 722)	(81 286)
- marketing costs	(59 988)	(52 775)
- consulting costs	(31 401)	(30 579)
- other material costs	(6 240)	(5 866)
Taxes and fees	(11 055)	(10 669)
Contributions and transfers to the Bank Guarantee Fund	(138 070)	(149 096)
Contributions to the Social Benefits Fund	(4 033)	(3 667)
Total overhead costs	**(985 152)**	**(960 103)**

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Staff-related expenses for the first half of 2018 and the first half of 2017 are presented below.

the period	from 01.01.2018 to 30.06.2018	from 01.01.2017 to 30.06.2017
Wages and salaries	(375 969)	(361 919)
Social security expenses	(66 961)	(62 597)
Employee contributions related to post-employment benefits	-	(50)
Remuneration concerning share-based payments, including:	(7 645)	(6 136)
- share-based payments settled in mBank S.A. shares	(7 363)	(5 069)
- cash-settled share-based payments	(282)	(1 067)
Other staff expenses	(15 843)	(16 478)
Staff-related expenses, total	**(466 418)**	**(447 180)**

14. Other operating expenses

the period	from 01.01.2018 to 30.06.2018	from 01.01.2017 to 30.06.2017
Costs arising from sale or liquidation of fixed assets, intangible assets, assets held for resale and inventories	(18 220)	(81 876)
Provisions for future commitments	(28 398)	(15 108)
Costs arising from provisions created for other receivables (excluding loans and advances)	(637)	(1 040)
Donations made	(10 030)	(2 555)
Costs of sale of services	(152)	(1 179)
Compensation, penalties and fines paid	(1 124)	(645)
Costs arising from receivables and liabilities recognised as prescribed, remitted and uncollectible	(18)	(3)
Other operating costs	(41 428)	(24 371)
Total other operating expenses	**(100 007)**	**(126 777)**

In H1 2017 costs arising from sale or liquidation of fixed assets, intangible assets, assets held for resale and inventories comprise primarily the expenses incurred by mLocum in connection with its developer activity.

Other operating costs include debt collection expenses in the amount of PLN 16 552 thousand (30 June 2017: PLN 9 778 thousand).

Costs of services provided concern non-banking services.

15. Earnings per share

Earnings per share for 6 months

the period	from 01.01.2018 to 30.06.2018	from 01.01.2017 to 30.06.2017
Basic:		
Net profit attributable to Owners of mBank S.A.	698 435	488 478
Weighted average number of ordinary shares	42 312 122	42 280 403
Net basic profit per share (in PLN per share)	**16.51**	**11.55**
Diluted:		
Net profit attributable to Owners of mBank S.A., applied for calculation of diluted earnings per share	698 435	488 478
Weighted average number of ordinary shares	42 312 122	42 280 403
Adjustments for:		
- share options	26 706	25 434
Weighted average number of ordinary shares for calculation of diluted earnings per share	42 338 828	42 305 837
Diluted earnings per share (in PLN per share)	**16.50**	**11.55**

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16. Financial assets held for trading and derivatives held for hedges

	30.06.2018	31.12.2017	30.06.2017
Derivatives, including:	**1 189 919**	**1 236 303**	**1 325 089**
- Held for trading derivative financial instruments classified into banking book	110 953	220 694	225 039
- Held for trading derivative financial instruments classified into trading book	1 042 691	1 003 020	1 107 282
- Derivative financial instruments held for fair value hedging	144 630	93 752	146 645
- Derivative financial instruments held for cash flow hedging	86 336	30 312	25 290
- Offsetting effect	(194 691)	(111 475)	(179 167)
Equity instruments	**851**	**1 474**	**4 784**
- Credit institutions	38	-	-
- Other financial corporations	238	160	663
- Non-financial corporations	575	1 314	4 121
Debt securities	**3 444 103**	**1 523 908**	**3 291 857**
- General governments	3 108 752	1 232 515	3 068 664
pledged securities	*1 658 010*	*25 837*	*608 568*
- Credit institutions	171 352	112 697	76 011
- Other financial corporations	71 259	80 260	79 320
- Non-financial corporations	92 740	98 436	67 862
Total financial assets held for trading	**4 634 873**	**2 761 685**	**4 621 730**

The above note includes government bonds and treasury bills subject to pledge in sell buy back transactions.

Derivative financial instruments

The Group has the following types of derivative instruments:

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

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

The Group applies fair value hedge accounting for fixed interest rate Eurobonds issued by mFinance France S.A, subsidiary of mBank, fixed interest rate mortgage bonds issued by mBank Hipoteczny a subsidiary of mBank, fixed interest rate loans received by mBank from European Investment Bank as well as cash flow hedge accounting of variable rate loans indexed to market rates, granted by the Bank. Hedging instrument in both types of hedge accounting are fix to float Interest Rate Swap.

Detailed information on hedge accounting are presented in these Note below.

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

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

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

Hedge accounting

In accordance with the IFRS9 provisions, only on the day of initial application the Group had the opportunity to choose as its accounting policy element to continue to apply the IAS 39 hedge accounting requirements instead of the IFRS 9 requirements.

IFRS 9 requires the Group to ensure that its hedging relationships are compliant with the risk management strategy applied by the Group and its objectives. IFRS 9 introduces new requirements with regard to the assessment of hedge effectiveness, rebalancing of the hedge relationship as well as it prohibits voluntary discontinuation of hedge accounting (i.e. in the absence of the conditions to stop the application of hedge accounting, as defined in the standard).

The Group decided to continue from 1 January 2018, to apply the hedge accounting requirements in accordance with IAS 39.

Fair value hedge accounting

The Group applies fair value hedge accounting, under which the only kind of hedged risk is the risk of changes in interest rates.

At the end of each month, the Group evaluates effectiveness of the applied hedging by carrying out analysis of changes in fair value of the hedged and hedging instruments in respect of the hedged risk in order to confirm that hedging relationships are effective in accordance with the accounting policy described in Note 2.14.

Description of the hedging relation

The Group hedges against the risk of change in fair value:

- fixed interest rate Eurobonds issued by mFinance France S.A. (mFF), subsidiary of mBank. The hedged risk results from changes in interest rates.
- mortgage bonds issued by mBank Hipoteczny (mBH), a subsidiary of mBank. The hedged risk results from changes in interest rates.
- loans received by mBank from European Investment Bank. The hedged risk results from changes in interest rates,
- fixed interest rate bonds issued by mBank S.A. The hedged risk results from changes in interest rates.

Hedged items

The hedged items are:

- three tranches of fixed interest rate Eurobonds issued by mFF with a total nominal value of EUR 1 500 000 thousand,
- two tranches of fixed interest rate Eurobonds issued by mFF with a total nominal value of CHF 400 000 thousand,
- fixed interest rate Eurobonds issued by mFF with a nominal value of CZK 500 000 thousand,
- fixed interest rate mortgage bonds issued by mBH with a nominal value of EUR 596 900 thousand,
- fixed interest rate loans received by mBank from European Investment Bank with a nominal value of respectively EUR 100 000 thousand and CHF 113 110 thousand,
- fixed rate bonds issued by mBank S.A. with a nominal value of CHF 180 000 thousand.

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Hedging instruments

IRS is the hedging instrument swapping the fixed interest rate for a variable interest rate.

Presentation of the result from hedged and hedging transactions

Fair value adjustment of the hedged assets and liabilities as well as valuation of the hedging instruments are recognised in the income statement as trading income.

The total results of fair value hedge accounting recognised in the income statement

the period	from 01.01.2018 to 30.06.2018	from 01.01.2017 to 30.06.2017
Interest income on derivatives concluded under the fair value hedge accounting (Note 5)	37 969	31 539
Net profit on hedged items (Note 8)	(26 868)	61 676
Net profit on fair value hedging instruments (Note 8)	20 053	(64 629)
The total results of fair value hedge accounting recognised in the income statement	**31 154**	**28 586**

Cash flow hedge accounting

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

The period from July 2018 to May 2023 is the period in which the cash flows are expected, and when they are expected to have an impact on the result.

The following note presents other comprehensive income due to cash flow hedges as at 30 June 2018 and 30 June 2017.

the period	from 01.01.2018 to 30.06.2018	from 01.01.2017 to 30.06.2017
Other gross comprehensive income from cash flow hedge at the beginning of the period	**(6 418)**	**(1 907)**
- Unrealised gains/losses included in other gross comprehensive income during the reporting period	24 983	3 836
Accumulated other gross comprehensive income at the end of the reporting period	**18 565**	**1 929**
Deferred income tax on accumulated other comprehensive income at the end of the reporting period	(3 527)	(366)
Accumulated net other comprehensive income at the end of the reporting period	**15 038**	**1 563**
Impact on other comprehensive income in the reporting period (gross)	24 983	3 836
Deferred tax on cash flow hedges	(4 747)	(728)
Impact on other comprehensive income in the reporting period (net)	**20 236**	**3 108**

the period	from 01.01.2018 to 30.06.2018	from 01.01.2017 to 30.06.2017
Gains/losses rocognised in comprehensive income (gross) during the reporting period, including:		
- Unrealised gains/losses included in other comprehensive income (gross)	24 983	3 836
- Amount included as interest income in income statement recognised during the reporting period	15 803	7 089
- Ineffective portion of hedge recognised in net trading income	1 106	(4 268)
Impact on other comprehensive income in the reporting period (gross)	**41 892**	**6 657**

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Total results of cash flow hedge accounting recognised in the income statement

the period	from 01.01.2018 to 30.06.2018	from 01.01.2017 to 30.06.2017
Interest income on derivatives concluded under the cash flow hedge (Note 5)	15 803	7 089
Ineffective portion of cash flow hedge accounting (Note 8)	1 106	(4 268)
The total results of cash flow hedge accounting recognised in the income statement	**16 909**	**2 821**

17. Non-trading financial assets mandatorily at fair value through profit or loss

	30.06.2018	31.12.2017	30.06.2017
Equity instruments	**63 128**	*n/a*	*n/a*
- Other financial corporations	16 652	*n/a*	*n/a*
- Non-financial corporations	46 476	*n/a*	*n/a*
Loans and advances	**2 720 822**	*n/a*	*n/a*
- Individual customers	2 338 119	*n/a*	*n/a*
- Corporate customers	366 745	*n/a*	*n/a*
- Public sector customers	15 958	*n/a*	*n/a*
Total non-trading financial assets mandatorily at fair value through profit or loss	**2 783 950**	*n/a*	*n/a*

18. Financial assets at fair value through other comprehensive income

30.06.2018	Carrying amount	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Equity instruments	**58 119**								
- Credit institutions	-								
- Other financial corporations	58 119								
- Non-financial corporations	-								
Debt securities	**23 952 299**	**23 943 370**	**13 791**	**-**	**-**	**(4 677)**	**(185)**	**-**	**-**
- Central banks	2 201 349	2 201 349	-	-	-	-	-	-	-
- General governments, including:	19 575 092	19 575 254	-	-	-	(162)	-	-	-
pledged securities	*1 751 101*	*1 751 101*	-	-	-	-	-	-	-
- Credit institutions	393 450	395 282	-	-	-	(1 832)	-	-	-
- Other financial corporations	1 163 973	1 164 756	-	-	-	(783)	-	-	-
- Non-financial corporations	618 435	606 729	13 791	-	-	(1 900)	(185)	-	-
Total financial assets at fair value through other comprehensive income	**24 010 418**								

The above note includes government bonds pledged under the Bank Guarantee Fund and government bonds pledged as collateral for the loans received from the European Investment Bank.

The note below presents the carrying amount of investment securities in accordance with IAS 39 as at 31 December 2017 and as at 30 June 2017.

Investment securities according to IAS 39	31.12.2017	30.06.2017
Equity securities	**87 625**	**63 055**
- Other financial corporations	83 122	58 555
- Non-financial corporations	4 503	4 500
Debt securities	**32 057 074**	**30 406 586**
- Central banks	2 322 914	99 971
- General governments, including:	27 619 604	28 580 826
pledged securities	*6 299 892*	*6 336 805*
- Credit institutions	426 136	356 385
- Other financial corporations	1 103 781	868 127
- Non-financial corporations	584 639	501 277
Total investment securities according to IAS 39	**32 144 699**	**30 469 641**

The above note includes government bonds pledged under the Bank Guarantee Fund, government bonds and treasury bills pledged as sell-buy-back transactions and government bonds pledged as collateral for the loans received from the European Investment Bank.

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19. Financial assets at amortised cost

30.06.2018	Carrying amount	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Debt securities	**9 314 878**	**9 314 908**	**-**	**-**	**-**	**(30)**	**-**	**-**	**-**
- General governments, including:	8 397 515	8 397 515	-	-	-	-	-	-	-
pledged securities	*3 903 677*	*3 903 677*	-	-	-	-	-	-	-
- Other financial corporations	917 363	917 393	-	-	-	(30)	-	-	-
Loans and advances to banks	**3 786 979**	**3 788 995**	**-**	**238**	**-**	**(2 016)**	**-**	**(238)**	**-**
Loans and advances to customers	**86 880 588**	**77 337 044**	**8 274 946**	**4 107 108**	**240 214**	**(200 759)**	**(208 827)**	**(2 674 030)**	**4 892**
Individual customers	47 041 729	40 814 207	5 511 650	2 353 482	116 117	(100 467)	(163 781)	(1 489 366)	(113)
Corporate customers	39 065 363	35 753 333	2 759 481	1 752 645	124 097	(99 553)	(45 036)	(1 184 609)	5 005
Public sector customers	773 496	769 504	3 815	981	-	(739)	(10)	(55)	-
Total financial assets at amortised cost	**99 982 445**	**90 440 947**	**8 274 946**	**4 107 346**	**240 214**	**(202 805)**	**(208 827)**	**(2 674 268)**	**4 892**

The above note includes government bonds pledged under the Bank Guarantee Fund, government bonds pledged as sell-buy-back transactions, government bonds pledged as collateral for the loans received from the European Investment Bank.

Loans and advances to customers 30.06.2018	Gross carrying amount	Gross carrying amount		
		Individual customers	Corporate customers	Public sector customers
Current accounts	11 786 887	6 587 808	5 192 844	6 235
Term loans, including:	65 791 297	42 008 608	23 014 624	768 065
- housing and mortgage loans to individual customers	33 963 379	33 963 379	-	-
Reverse repo / buy-sell-back	29 025	-	29 025	-
Finance leases	9 836 152	-	9 836 152	-
Other loans and advances	2 377 853	199 040	2 178 813	-
Other receivables	138 098	-	138 098	-
Total gross carring amount	**89 959 312**	**48 795 456**	**40 389 556**	**774 300**

Loans and advances to customers 30.06.2018	Accumulated impairment	Accumulated impairment		
		Individual customers	Corporate customers	Public sector customers
Current accounts	(1 013 211)	(759 159)	(254 052)	-
Term loans, including:	(1 801 788)	(994 568)	(806 416)	(804)
- housing and mortgage loans to individual customers	(439 463)	(439 463)	-	-
Finance leases	(237 120)	-	(237 120)	-
Other loans and advances	(26 602)	-	(26 602)	-
Other receivables	(3)	-	(3)	-
Total accumulated impairment	**(3 078 724)**	**(1 753 727)**	**(1 324 193)**	**(804)**
Total gross carring amount	**89 959 312**	**48 795 456**	**40 389 556**	**774 300**
Total accumulated impairment	(3 078 724)	(1 753 727)	(1 324 193)	(804)
Total nett carring amount	**86 880 588**	**47 041 729**	**39 065 363**	**773 496**

Short-term (up to 1 year)	**28 980 698**
Long-term (over 1 year)	**60 978 614**

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The following note presents loans and advances to banks as well as loans and advances to customers according to IAS 39, as at 31 December 2017 and as at 30 June 2017.

	31.12.2017	30.06.2017
Loans and advances to individuals:	**48 142 786**	**48 757 793**
- current receivables	7 324 329	7 039 110
- term loans, including:	40 818 457	41 718 683
- housing and mortgage loans	32 593 180	34 005 417
Loans and advances to corporate entities:	**37 941 722**	**36 142 978**
- current receivables	5 187 588	5 126 975
- term loans:	30 599 981	29 077 561
- corporate & institutional enterprises	5 030 702	4 840 701
- medium & small enterprises	25 569 279	24 236 860
- reverse repo / buy-sell-back transactions	57 119	93 825
- other loans and advances	2 097 034	1 844 617
Loans and advances to public sector	**995 570**	**1 081 106**
Other receivables	**307 627**	**239 484**
Total (gross) loans and advances to banks and customers	**87 387 705**	**86 221 361**
Provisions for loans and advances to customers (negative amount)	(2 911 861)	(2 844 336)
Total (net) loans and advances to customers	**84 475 844**	**83 377 025**
Short-term (up to 1 year)	**29 191 490**	**27 827 783**
Long-term (over 1 year)	**55 284 354**	**55 549 242**

In the item loans and advances granted to corporate clients were also included loans granted to microenterprises serviced by mBank S.A. Retail Banking. Loans to microenterprises in the presented reporting periods amounted to respectively: 30 June 2018: PLN 6 092 484 thousand, 31 December 2017: PLN 5 756 476 thousand, 30 June 2017 – PLN 5 676 382 thousand.

Provisions for loans and advances to customers

	31.12.2017	30.06.2017
Incurred but not identified losses		
Gross balance sheet exposure	82 883 395	81 653 575
Impairment provisions for exposures analysed according to portfolio approach	(243 810)	(232 926)
Net balance sheet exposure	**82 639 585**	**81 420 649**
Receivables with impairment		
Gross balance sheet exposure	4 504 310	4 567 786
Provisions for receivables with impairment	(2 668 051)	(2 611 410)
Net balance sheet exposure	**1 836 259**	**1 956 376**

Loans and advances to banks

	31.12.2017	30.06.2017
Loans and advances to banks (gross)	**1 708 749**	**2 260 552**
Provisions for loans and advances to banks (negative amount)	(1 027)	(1 416)
Loans and advances to banks (net)	**1 707 722**	**2 259 136**

Provisions for loans and advances to banks

	31.12.2017	30.06.2017
Incurred but not identified losses		
Gross balance sheet exposure	1 708 532	2 250 533
Impairment provisions for exposures analysed according to portfolio approach (IBNI)	(810)	(914)
Net balance sheet exposure	**1 707 722**	**2 249 619**
Receivables with impairment		
Gross balance sheet exposure	217	10 019
Provisions for receivables with impairment	(217)	(502)
Net balance sheet exposure	**-**	**9 517**

The table below presents the structure of concentration of mBank S.A. Group's exposures in particular sectors according to the new sector division based on the chain value concept introduced in January 2017, where under one single sector have been focused entities operating activities related to a given market (suppliers, manufacturers, vendors).

As at 30 June 2018 the table includes loans and advances at amortized cost and does not include the loans and advances measured mandatorily at fair value through profit or loss. Comparative data as at 31 December 2017 and as at 30 June 2017 remained unchanged.

The structure of concentration of carrying amounts of exposure of mBank Group

No.	Sectors	Principal exposure (in PLN thousand)	%	Principal exposure (in PLN thousand)	%	Principal exposure (in PLN thousand)	%
		30.06.2018		31.12.2017		30.06.2017	
1.	Household customers	48 795 456	54,24	48 142 786	55,09	48 757 793	56,55
2.	Real estate	5 788 495	6,43	5 949 824	6,81	6 019 309	6,98
3.	Construction	4 519 710	5,02	4 111 639	4,71	3 883 579	4,50
4.	Transport and logistics	2 611 850	2,90	2 306 225	2,64	2 206 134	2,56
5.	Food sector	2 541 711	2,83	2 489 925	2,85	2 192 132	2,54
6.	Metals	2 334 661	2,60	2 099 826	2,40	1 865 210	2,16
7.	Motorisation	2 289 803	2,55	1 958 338	2,24	1 839 718	2,13
8.	Construction materials	1 839 921	2,05	1 661 265	1,90	1 377 100	1,60
9.	Chemicals and plastic products	1 806 881	2,01	1 476 802	1,69	1 415 373	1,64
10.	Financial activities	1 442 806	1,60	923 673	1,06	606 691	0,70
11.	Wholesale trade	1 339 657	1,49	1 181 227	1,35	1 139 331	1,32
12.	Wood, furniture and paper products	1 276 260	1,42	1 504 274	1,72	1 395 191	1,62
13.	Fuels	1 092 869	1,21	1 049 079	1,20	1 000 923	1,16
14.	Scientific and technical activities	975 758	1,08	1 192 750	1,36	1 184 952	1,37
15.	Rental and leasing activities	972 156	1,08	1 033 389	1,18	1 215 698	1,41
16.	Information and communication	947 299	1,05	769 810	0,88	702 510	0,82
17.	Retail trade	898 562	1,00	850 512	0,97	976 384	1,13
18.	Power, power and heating distribution	858 105	0,95	885 455	1,01	993 914	1,15
19.	IT	729 153	0,81	484 017	0,55	425 835	0,49
20.	Hotels and restaurants	683 898	0,76	663 620	0,76	673 202	0,78
21.	Services	672 657	0,75	626 703	0,72	476 636	0,55
22.	Public administration	613 231	0,68	724 179	0,83	797 209	0,92
23.	Textiles and wearing apparel	539 441	0,60	547 283	0,63	520 687	0,60
24.	Other manufacturing activity	537 243	0,60	466 358	0,53	437 633	0,51
25.	Human health	530 403	0,59	454 995	0,52	440 962	0,51
26.	Municipal services	463 976	0,52	430 137	0,49	442 350	0,51
27.	Agriculture, forestry and fishing	435 656	0,48	544 444	0,62	451 444	0,52
28.	Media	377 016	0,42	416 144	0,48	491 879	0,57
29.	Pharmacy	306 871	0,34	304 448	0,35	277 854	0,32
30.	Electronics	292 404	0,33	241 998	0,28	139 499	0,16
31.	Household equipment	257 342	0,29	287 422	0,33	297 170	0,34
32.	Arts, entertainment and recreation	228 842	0,25	236 857	0,27	322 393	0,37
33.	Education and scientific research	131 040	0,15	125 835	0,14	122 244	0,14
34.	Mining	70 359	0,08	76 631	0,09	90 039	0,10

As at 30 June 2018, the total exposure of the Group in the above sectors (excluding household customers) amounts to 44.92% of the credit portfolio (31 December 2017: 43.56%; 30 June 2017: - 42.18%)

20. Investments in associates

On 2 June 2017, mBank S.A. signed a preliminary conditional agreement on the sale of mLocum S.A. shares to Archicom S.A. After meeting the conditions precedent, on 31 July 2017 were sold 14 120 880 shares representing 51% of the share capital of mLocum S.A. Sale of the remaining 8 026 120 shares representing 28.99% of the share capital of mLocum S.A. will take place no later than on 30 June 2020. From 31 July 2017, the mLocum's shares held by the Bank have been presented in the statement of financial position under position "Investments in associates".

On 3 January 2018, an amendment to the Statute of mLocum S.A. was registered, regarding the change of the name of the company and its branches. Currently, the company is called Archicom Polska S.A.

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21. Non-current assets held for sale

As at 31 December 2017 as non-current assets (disposal groups), the Group disclosed the value of the property owned by Garbary Sp. z o.o.

On 28 December 2017, the company Garbary Sp. z o.o. signed a preliminary agreement for sale of real estate placed at Garbary 101/111 Street in Poznań.

On 27 April 2018, the company Garbary Sp. z o.o. signed the final agreement on the sale of real estate. The transaction is described under Note 9 of Selected explanatory information "Effect of changes in the structure of the entity in the first half of 2018, including business combinations, acquisitions or disposal of subsidiaries, long-term investments, restructuring, and discontinuation of business activities".

22. Intangible assets

	30.06.2018	31.12.2017	30.06.2017
Goodwill	3 532	3 532	3 532
Patents, licences and similar assets, including:	364 872	379 288	364 809
- computer software	270 724	264 764	254 033
Other intangible assets	2 636	3 150	3 701
Intangible assets under development	332 484	324 672	255 858
Total intangible assets	**703 524**	**710 642**	**627 900**

23. Tangible assets

	30.06.2018	31.12.2017	30.06.2017
Tangible assets, including:	639 678	623 228	669 175
- land	1 038	1 038	1 038
- buildings and structures	159 582	162 546	180 259
- equipment	168 242	161 574	178 042
- vehicles	220 072	224 964	232 651
- other fixed assets	90 744	73 106	77 185
Fixed assets under construction	75 864	135 510	42 750
Total tangible assets	**715 542**	**758 738**	**711 925**

24. Financial liabilities held for trading and derivatives held for hedges

	30.06.2018	31.12.2017	30.06.2017
Derivatives, including:	1 110 810	1 095 365	1 114 492
- Held for trading derivative financial instruments classified into banking book	244 656	84 859	70 441
- Held for trading derivative financial instruments classified into trading book	939 186	1 089 007	1 186 519
- Derivative financial instruments held for fair value hedging	21 880	35 631	26 007
- Derivative financial instruments held for cash flow hedging	3 729	2 103	1 759
- Offsetting effect	(98 641)	(116 235)	(170 234)
Total financial liabilities held for trading	**1 110 810**	**1 095 365**	**1 114 492**

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25. Financial liabilities measured at amortised cost – amounts due to customers

	30.06.2018	31.12.2017	30.06.2017
Individual customers:	**59 902 801**	**55 693 608**	**53 835 222**
Current accounts	47 611 930	43 733 114	41 084 197
Term deposits	12 187 626	11 819 154	12 672 121
Other liabilities due to:	103 245	141 340	78 904
- liabilities in respect of cash collaterals	59 115	62 279	34 757
- other	44 130	79 061	44 147
Corporate customers:	**35 591 673**	**34 589 603**	**32 737 100**
Current accounts	19 324 180	21 463 748	20 849 425
Term deposits	10 157 040	8 037 151	6 157 014
Loans and advances received	4 322 724	4 142 944	4 006 225
Repo transactions	1 137 523	439 637	1 034 601
Other liabilities due to:	650 206	506 123	689 835
- liabilities in respect of cash collaterals	434 998	348 268	461 989
- other	215 208	157 855	227 846
Public sector customers:	**2 299 913**	**1 212 816**	**1 583 589**
Current accounts	562 834	623 231	490 419
Term deposits	1 731 423	585 389	1 092 350
Other liabilities due to:	5 656	4 196	820
- liabilities in respect of cash collaterals	-	4 196	-
- other	5 656	-	820
Total amounts due to customers	**97 794 387**	**91 496 027**	**88 155 911**
Short-term (up to 1 year)	**95 449 622**	**86 874 677**	**82 714 834**
Long-term (over 1 year)	**2 344 765**	**4 621 350**	**5 441 077**

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

In the presented reporting periods the value of liabilities in respect of current accounts and term deposits accepted from micro enterprises amounted to respectively: 30 June 2018: PLN 6 257 207 thousand, 31 December 2017: PLN 5 950 020 thousand, 30 June 2017: PLN 4 981 209 thousand.

26. Provisions

	30.06.2018	31.12.2017	30.06.2017
For legal proceedings	101 798	95 282	126 604
Commitments and guarantees given	120 049	75 715	36 846
Other provisions	40 801	19 978	22 053
Total provisions	**262 648**	**190 975**	**185 503**

Other provisions present provisions for the potential claims of third parties.

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Movements in the provisions

	30.06.2018	31.12.2017	30.06.2017
As at the beginning of the period (by type)	**190 975**	**182 754**	**182 754**
For legal proceedings	95 282	113 192	113 192
Commitments and guarantees given	75 715	43 435	43 435
Other provisions	19 978	26 127	26 127
Impact of the implementation of IFRS 9 on 1 January 2018	**44 324**	**-**	**-**
- increase in provisions for commitments and guarantees given	44 324	-	-
As at the beginning of the period (by type)	**235 299**	**182 754**	**182 754**
For legal proceedings	95 282	113 192	113 192
Commitments and guarantees given	120 039	43 435	43 435
Other provisions	19 978	26 127	26 127
Change in the period (due to)	**27 349**	**8 221**	**2 749**
- increase of provisions	69 752	183 058	61 996
- release of provisions	(35 154)	(162 041)	(53 208)
- write-offs	(675)	(2 723)	(2 983)
- utilization	(6 442)	(5 533)	(47)
- reclassification to other positions of statement of financial position	-	(2 587)	(2 587)
- foreign exchange differences	100	(1 953)	(422)
- other	(232)	-	-
As at the end of the period (by type)	**262 648**	**190 975**	**185 503**
For legal proceedings	101 798	95 282	126 604
Commitments and guarantees given	120 049	75 715	36 846
Other provisions	40 801	19 978	22 053

27. Assets and liabilities for deferred income tax

Deferred income tax assets	30.06.2018	31.12.2017	30.06.2017
As at the beginning of the period	**960 678**	**859 609**	**859 609**
Impact of the implementation of IFRS 9 on 1 January 2018	109 632		
Restated opening balance	**1 070 310**		
Changes recognized in the income statement	166 368	114 022	34 201
Changes recognized in other comprehensive income	(227)	(14 264)	(16 023)
Other changes	507	1 311	(131)
As at the end of the period	**1 236 958**	**960 678**	**877 656**

Provisions for deferred income tax	30.06.2018	31.12.2017	30.06.2017
As at the beginning of the period	**(331 509)**	**(320 061)**	**(320 061)**
Impact of the implementation of IFRS 9 on 1 January 2018	(40 243)		
Restated opening balance	**(371 752)**		
Changes recognized in the income statement	(8 553)	15 650	(22 771)
Changes recognized in other comprehensive income	(7 071)	(26 862)	(17 745)
Other changes	1 732	(236)	-
As at the end of the period	**(385 644)**	**(331 509)**	**(360 577)**

Income tax	30.06.2018	31.12.2017	30.06.2017
Current income tax	(403 509)	(562 504)	(231 609)
Deferred income tax recognised in the income statement	157 815	129 672	11 430
Income tax recognised in the income statement	**(245 694)**	**(432 832)**	**(220 179)**
Recognised in other comprehensive income	(7 298)	(51 727)	(46 446)
Total income tax	**(252 992)**	**(484 559)**	**(266 625)**

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28. Fair value of assets and liabilities

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

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

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

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

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

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

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

	30.06.2018	
	Carrying value	**Fair value**
Financial assets at amortised cost		
Debt securities	**9 314 878**	**9 396 393**
Loans and advances to banks	**3 786 979**	**3 817 192**
Loans and advances to customers, including:	**86 880 588**	**87 185 203**
Individual customers	**47 041 729**	**48 120 475**
Current accounts	5 828 649	6 006 782
Term loans	41 014 040	41 914 653
Other receivables	199 040	199 040
Corporate customers	**39 065 363**	**38 292 019**
Current accounts	4 938 792	4 833 532
Term loans, including finance leases	31 807 240	31 139 156
Reverse repo / buy-sell-back transactions	29 025	29 025
Other loans and advances	2 152 211	2 152 211
Other receivables	138 095	138 095
Public sector customers	**773 496**	**772 709**
Financial liabilities measured at amortised cost		
Amounts due to banks	**4 548 768**	**4 549 681**
Amounts due to customers	**97 794 387**	**97 782 513**
Debt securities issued	**16 817 711**	**17 138 043**
Subordinated financial liabilities	**2 206 733**	**2 223 320**

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	31.12.2017		30.06.2017	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets at amortised cost				
Loans and advances to banks	**1 707 722**	**1 701 570**	**2 259 136**	**2 258 588**
Loans and advances to customers	**84 475 844**	**84 924 846**	**83 377 025**	**84 188 309**
Loans and advances to individuals	**46 567 862**	**47 629 716**	**47 228 664**	**48 643 289**
Current accounts	6 669 099	6 825 992	6 439 776	6 673 732
Term loans	39 898 763	40 803 724	40 788 888	41 969 557
Loans and advances to corporate entities	**36 605 346**	**35 993 148**	**34 828 437**	**34 233 352**
Current accounts	4 975 919	4 851 402	4 911 868	4 741 464
Term loans	29 502 709	29 014 447	28 008 230	27 583 549
Reverse repo / buy sell back transactions	57 119	57 119	93 825	93 825
Other receivables	2 069 599	2 070 180	1 814 514	1 814 514
Loans and advances to public sector	**995 009**	**994 355**	**1 080 439**	**1 072 183**
Other receivables	**307 627**	**307 627**	**239 485**	**239 485**
Financial liabilities measured at amortised cost				
Amounts due to other banks	**5 073 351**	**5 100 040**	**8 641 320**	**8 703 619**
Amounts due to customers	**91 496 027**	**91 518 916**	**88 155 911**	**88 216 229**
Debt securities in issue	**14 322 852**	**14 685 791**	**13 011 687**	**13 370 410**
Subordinated liabilities	**2 158 143**	**2 137 590**	**2 232 839**	**2 154 362**

Differences between fair value presented in the table above and in the financial statements for the year 2017 and for the first half 2017 result from the update of the methodology for estimating the fair value of financial assets.

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

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

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

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

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

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

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

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

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

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

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

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

30.06.2018	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				
Financial assets held for trading and derivatives held for hedges	**4 634 873**	**3 109 443**	**1 190 079**	**335 351**
Debt securities	**3 444 103**	**3 108 752**	**-**	**335 351**
- General governments	3 108 752	3 108 752	-	-
- Credit institutions	171 352	-	-	171 352
- Other financial corporations	71 259	-	-	71 259
- Non-financial corporations	92 740	-	-	92 740
Equity securities	**851**	**691**	**160**	**-**
- Credit institutions	38	38	-	-
- Other financial corporations	238	78	160	-
- Non-financial corporations	575	575	-	-
Derivative financial instruments, including:	**1 189 919**	**-**	**1 189 919**	**-**
Derivative financial instruments held for trading:	**1 070 815**	**-**	**1 070 815**	**-**
- interest rate derivatives	552 367	-	552 367	-
- foreign exchange derivatives	445 676	-	445 676	-
- market risks derivatives	72 772	-	72 772	-
Derivative financial instruments held for hedging:	**119 104**	**-**	**119 104**	**-**
- derivatives designated as fair value hedges	116 727	-	116 727	-
- derivatives designated as cash flow hedges	2 377	-	2 377	-
Non-trading financial assets mandatorily at fair value through profit or loss	**2 783 950**	**769**	**-**	**2 783 181**
Loans and advances to custumers	**2 720 822**	**-**	**-**	**2 720 822**
- Individual customers	2 338 119	-	-	2 338 119
- Credit institutions	366 745	-	-	366 745
- Corporate custumers	15 958	-	-	15 958
Equity securities	**63 128**	**769**	**-**	**62 359**
- Other financial corporations	16 652	769	-	15 883
- Non-financial corporations	46 476	-	-	46 476
Financial assets at fair value through other comprehensive income	**24 010 418**	**20 519 799**	**2 201 349**	**1 289 270**
Debt securities	**23 952 299**	**20 519 799**	**2 201 349**	**1 231 151**
- Banki centralne	2 201 349	-	2 201 349	-
- General governments	19 575 092	19 537 870	-	37 222
- Credit institutions	393 450	-	-	393 450
- Other financial corporations	1 163 973	981 929	-	182 044
- Non-financial corporations	618 435	-	-	618 435
Equity securities	**58 119**	**-**	**-**	**58 119**
- Other financial corporations	58 119	-	-	58 119
Total financial assets	**31 429 241**	**23 630 011**	**3 391 428**	**4 407 802**

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30.06.2018	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
Financial liabilities				
Derivative financial instruments	**1 110 810**	**-**	**1 110 810**	**-**
Derivative financial instruments held for trading	**1 193 152**	**-**	**1 193 152**	**-**
- interest rate derivatives	648 832	-	648 832	-
- foreign exchange derivatives	476 270	-	476 270	-
- market risks derivatives	68 050	-	68 050	-
Derivative financial instruments held for trading	**(82 342)**	**-**	**(82 342)**	**-**
- derivatives designated as fair value hedges	(79 043)	-	(79 043)	-
- derivatives designated as cash flow hedges	(3 299)	-	(3 299)	-
Total financial liabilities	**1 110 810**	**-**	**1 110 810**	**-**
TOTAL RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS	**31 429 241**	**23 630 011**	**3 391 428**	**4 407 802**
FINANCIAL LIABILITIES	**1 110 810**	**-**	**1 110 810**	**-**

Assets Measured at Fair Value Based on Level 3 - changes in the period from 1 January to 30 June 2018	Debt trading securities	Non-trading equity securities mandatorily at fair value through profit or loss	Debt securities at fair value through other comprehensive income	Equity securities at fair value through other comprehensive income
As at the beginning of the period	**288 676**	**-**	**1 214 940**	**86 639**
Transfer between asset categories due to the implementation of IFRS 9 as at 01.01.2018	-	40 101	-	(40 101)
Restated opening balance	**288 676**	**40 101**	**1 214 940**	**46 538**
Gains and losses for the period:	**1 307**	**-**	**(403)**	**11 581**
Recognised in profit or loss:	1 307	-	-	2 392
- *Net trading income*	*1 307*	-	-	*2 392*
Recognised in other comprehensive income:	-	-	(403)	9 189
- *Financial assets at fair value through other comprehensive income*	-	-	*(403)*	*9 189*
Purchases	750 225	25 799	860 942	-
Redemptions	(349 474)	-	(41 063)	-
Sales	(2 183 217)	(3 541)	(943 126)	-
Issues	1 827 834	-	139 861	-
As at the end of the period	**335 351**	**62 359**	**1 231 151**	**58 119**

In the first half of 2018 there were no transfers of financial instruments between the levels of fair value hierarchy.

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31.12.2017	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS				
Trading securities, including:	**1 525 382**	**1 236 546**	**160**	**288 676**
Debt securities	***1 523 908***	***1 235 232***	**-**	***288 676***
- government bonds	1 232 515	1 232 515	-	-
- deposit certificates	14 096	-	-	14 096
- banks bonds	98 601	-	-	98 601
- corporate bonds	178 696	2 717	-	175 979
Equity securities	***1 474***	***1 314***	***160***	**-**
- listed	1 314	1 314	-	-
- unlisted	160	-	160	-
Derivative financial instruments, including:	***1 236 303***	**-**	***1 236 303***	**-**
Derivative financial instruments held for trading	***1 146 956***	**-**	***1 146 956***	**-**
- interest rate derivatives	708 582	-	708 582	-
- foreign exchange derivatives	393 723	-	393 723	-
- market risks derivatives	44 651	-	44 651	-
Derivative financial instruments held for hedging	***89 347***	**-**	***89 347***	**-**
- derivatives designated as fair value hedges	59 652	-	59 652	-
- derivatives designated as cash flow hedges	29 695	-	29 695	-
Investment securities, including:	**32 144 699**	**28 520 206**	**2 322 914**	**1 301 579**
Debt securities	***32 057 074***	***28 519 220***	***2 322 914***	***1 214 940***
- government bonds	27 583 694	27 583 694	-	-
- money bills	2 322 914	-	2 322 914	-
- deposit certificates	221 700	-	-	221 700
- banks bonds	204 436	-	-	204 436
- corporate bonds	1 688 420	935 526	-	752 894
- communal bonds	35 910	-	-	35 910
Equity securities	***87 625***	***986***	**-**	***86 639***
- unlisted	87 625	986	-	86 639
TOTAL FINANCIAL ASSETS	**34 906 384**	**29 756 752**	**3 559 377**	**1 590 255**

31.12.2017	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
FINANCIAL LIABILITIES				
Derivative financial instruments, including:	***1 095 365***	**-**	***1 095 365***	**-**
Derivative financial instruments held for trading	***1 069 691***	**-**	***1 069 691***	**-**
- interest rate derivatives	658 744	-	658 744	-
- foreign exchange derivatives	376 854	-	376 854	-
- market risks derivatives	34 093	-	34 093	-
Derivative financial instruments held for trading	***25 674***	**-**	***25 674***	**-**
- derivatives designated as fair value hedges	24 188	-	24 188	-
- derivatives designated as cash flow hedges	1 486	-	1 486	-
Total financial liabilities	***1 095 365***	**-**	***1 095 365***	**-**
TOTAL RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS	**34 906 384**	**29 756 752**	**3 559 377**	**1 590 255**
FINANCIAL LIABILITIES	**1 095 365**	**-**	**1 095 365**	**-**

Assets Measured at Fair Value Based on Level 3 - changes in 2017	Debt trading securities	Equity trading securities	Derivative financial instruments	Debt investment securities	Equity investment securities
As at the beginning of the period	**290 544**	**-**	**-**	**901 885**	**65 261**
Total gains and losses for the period:	**3 274**	**-**	**-**	**(16 036)**	**3 339**
Recognised in profit or loss:	3 274	-	-	(7 511)	(4 751)
- Net trading income	*3 274*	-	-	-	-
- Gains less losses from investment securities, investments in subsidiaries and associates	-	-	-	*(7 511)*	*(4 751)*
Recognised in other comprehensive income:	-	-	-	(8 525)	8 090
- Available for sale financial assets	-	-	-	*(8 525)*	*8 090*
Purchases	1 038 365	-	-	478 498	22 636
Redemptions	(222 187)	-	-	(106 496)	-
Sales	(7 315 111)	-	-	(1 689 984)	(4 500)
Issues	6 493 791	-	-	1 647 073	-
Transfers out of Level 3	-	-	-	-	*(97)*
As at the end of the period	**288 676**	**-**	**-**	**1 214 940**	**86 639**

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Transfers between levels in 2017	Transfer into level 1	Transfer out of level 1	Transfer into level 2	Transfer out of level 2
Investment securities	**97**	-	-	-
Equity securities	97	-	-	-

In 2017, one transfer from level 3 to level 1 of the fair value hierarchy took place and concerned a company whose shares were admitted to public trading.

30.06.2017	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS				
TRADING SECURITIES	**3 296 641**	**3 076 310**	**155**	**220 176**
Debt securities	**3 291 857**	**3 071 681**	**-**	**220 176**
- government bonds	3 063 677	3 063 677	-	-
- treasury bills	4 987	4 987	-	-
- deposit certificates	12 093	-	-	12 093
- banks bonds	63 918	-	-	63 918
- corporate bonds	147 182	3 017	-	144 165
Equity securities	**4 784**	**4 629**	**155**	**-**
- listed	4 629	4 629	-	-
- unlisted	155	-	155	-
DERIVATIVE FINANCIAL INSTRUMENTS	**1 325 089**	**-**	**1 325 089**	**-**
Derivative financial instruments held for trading	**1 169 876**	**-**	**1 169 876**	**-**
- interest rate derivatives	782 934	-	782 934	-
- foreign exchange derivatives	370 580	-	370 580	-
- market risks derivatives	16 362	-	16 362	-
Derivative financial instruments held for hedging	**155 213**	**-**	**155 213**	**-**
- derivatives designated as fair value hedges	146 684	-	146 684	-
- derivatives designated as cash flow hedges	8 529	-	8 529	-
INVESTMENT SECURITIES	**30 469 641**	**29 279 235**	**99 971**	**1 090 435**
Debt securities	**30 406 586**	**29 278 210**	**99 971**	**1 028 405**
- government bonds	28 044 229	28 044 229	-	-
- treasury bills	498 722	498 722	-	-
- money bills	99 971	-	99 971	-
- deposit certificates	220 656	-	-	220 656
- banks bonds	135 729	-	-	135 729
- corporate bonds	1 369 404	735 259	-	634 145
- communal bonds	37 875	-	-	37 875
Equity securities	**63 055**	**1 025**	**-**	**62 030**
- unlisted	63 055	1 025	-	62 030
TOTAL FINANCIAL ASSETS	**35 091 371**	**32 355 545**	**1 425 215**	**1 310 611**

30.06.2017	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
FINANCIAL LIABILITIES				
Derivative financial instruments	**1 114 492**	**-**	**1 114 492**	**-**
Derivative financial instruments held for trading	**1 113 152**	**-**	**1 113 152**	**-**
- interest rate derivatives	763 553	-	763 553	-
- foreign exchange derivatives	330 517	-	330 517	-
- market risks derivatives	19 082	-	19 082	-
Derivative financial instruments held for hedging	**1 340**	**-**	**1 340**	**-**
- derivatives designated as fair value hedges	18 101	-	18 101	-
- derivatives designated as cash flow hedges	(16 761)	-	(16 761)	-
Total financial liabilities	**1 114 492**	**-**	**1 114 492**	**-**
TOTAL RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS	**35 091 371**	**32 355 545**	**1 425 215**	**1 310 611**
FINANCIAL LIABILITIES	**1 114 492**	**-**	**1 114 492**	**-**

IFRS Condensed Consolidated Financial Statements for the first half of 2018 PLN (000's)

Assets Measured at Fair Value Based on Level 3 - changes in the period from 1 January to 30 June of 2017	Debt trading securities	Debt investment securities	Equity investment securities
As at the beginning of the period	**290 544**	**901 885**	**65 261**
Gains and losses for the period:	**590**	**(2 066)**	**(2 251)**
Recognised in profit or loss:	590	(7 511)	(4 751)
Net trading income	*590*	-	-
Gains less losses from investment securities, investments in subsidiaries and associates	-	*(7 511)*	*(4 751)*
Recognised in other comprehensive income:	-	*5 445*	*2 500*
Available for sale financial assets	-	*5 445*	*2 500*
Purchases	439 553	387 755	3 522
Redemptions	(45 209)	(25 342)	-
Sales	(2 346 113)	(463 339)	-
Issues	1 880 811	229 512	-
Settlements	-	-	(4 502)
As at the end of the period	**220 176**	**1 028 405**	**62 030**

In the first half of 2017 there were no transfers of financial instruments between the levels of fair value hierarchy.

Level 1

As at 30 June 2018, at level 1 of the fair value hierarchy, the Group has presented the fair value of held for trading government bonds in the amount of PLN 3 108 752 thousand (see Note 16) and the fair value of government bonds and treasury bills measured at fair value through other comprehensive income in the amount of PLN 19 537 870 thousand (see Note 18) (31 December 2017 respectively: PLN 1 232 515 thousand and PLN 27 583 694 thousand, 30 June 2017 respectively: PLN 3 068 664 thousand and PLN 28 542 951 thousand).

In addition, as at 30 June 2018 level 1 includes the value of the registered privileged shares of Giełda Papierów Wartościowych in the amount of PLN 769 thousand (31 December 2017: PLN 986 thousand, 30 June 2017: PLN 1 025 thousand) and the value of the shares of listed companies in the amount of PLN 691 thousand (31 December 2017: PLN 1 314 thousand, 30 June 2017: PLN 4 629 thousand).

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

Level 2

Level 2 of the fair value hierarchy mainly includes the fair values of bills issued by NBP in the amount of PLN 2 201 349 thousand (31 December 2017: PLN 2 322 914 thousand, 30 June 2017: PLN 99 971 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 2018, 31 December 2017, and 30 June 2017, level 2 also includes the value of options referencing on the WIG20 index, listed on the Stock Exchange. For the valuation of index options on WIG20 the Bank applied an internal model (based on a model for implied volatility) for which market data have been used as input parameters.

Level 3

Level 3 of the hierarchy presents the fair values of commercial debt securities issued by local banks and companies (bonds and deposit certificates) in the amount of PLN 1 529 280 thousand (31 December 2017: PLN 1 467 706 thousand, 30 June 2017: PLN 1 210 706 thousand).

Level 3 includes also the fair value of local government bonds in the amount of PLN 37 222 thousand (31 December 2017: PLN 35 910 thousand, 30 June 2017: PLN 37 875 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.

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As at 30 June 2018, Level 3 includes the fair value of loans and advances to customers in the amount of PLN 2 720 822 thousand.

The fair value for loans and advances to customers is calculated as the present value of future cash flows (adjusted by prepayments) using current interest rates, including credit spread, cost of liquidity and cost of capital margin. The level of credit spread was determined based on market quotation of median credit spreads for Moody's rating grade. Attribution of a credit spread to a given credit exposure is based on a mapping between Moody's rating grade and internal rating grades of the Group. To reflect the fact that the Group's exposures are in major part collateralised whereas the median of market quotation is centred around unsecured issues, the Group applied appropriate adjustments.

Moreover, level 3 also includes the fair value of equity securities amounting to PLN 120 478 thousand (31 December 2017: PLN 86 639 thousand, 30 June 2017: PLN 62 030 thousand). As at 30 June 2018, these amount includes the value of preferred stock in Visa Inc. in the amount of PLN 58 119 thousand (31 December 2017: PLN 46 538 thousand, 30 June 2017 PLN 40 911 thousand). The other equity securities presented at level 3 have been valuated using the market multiples method. The market multiples method, consists of valuating the equity capital of a company by using a relation between the market values of the own equity capital or market values of the total capital invested in comparable companies (goodwill) and selected economic and financial figures.

29. Prudential consolidation

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

Financial information presented below does not represent the International Financial Reporting Standards ("IFRS") measures as defined by the standards.

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

Basis of the preparation of the consolidated financial data

mBank S.A. Group consolidated financial data based on the rules of prudential consolidation specified by the CRR Regulation ("Consolidated prudentially financial data") have been prepared for the 6-month period ended 30 June 2018 and for the 6-month period ended 30 June 2016.

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

The accounting policies applied for the preparation of the Group consolidated prudentially financial data are identical to those, which have been applied to the mBank S.A. Group consolidated financial data for the first half of 2018, prepared in compliance with IFRS, except for the consolidation standards presented below.

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

Company	30.06.2018		31.12.2017		30.06.2017	
	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method
mFinanse S.A.	100%	full	100%	full	100%	full
mBank Hipoteczny S.A.	100%	full	100%	full	100%	full
mCentrum Operacji Sp. z o.o.	100%	full	100%	full	100%	full
mFaktoring S.A.	100%	full	100%	full	100%	full
mLeasing Sp. z o.o.	100%	full	100%	full	100%	full
Tele-Tech Investment Sp. z o.o.	100%	full	100%	full	100%	full
Future Tech Fundusz Inwestycyjny Zamknięty	98.04%	full	98.04%	full	100%	full
mFinance France S.A.	99.998%	full	99.998%	full	99.998%	full

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Beginning from June 2017, the Group started to consolidate the Fund Future Tech Fundusz Inwestycyjny Zamknięty. Information about the Fund has been included under Note 1.

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

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

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

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

Consolidated prudentially income statement

	Period from 01.04.2018 to 30.06.2018	Period from 01.01.2018 to 30.06.2018	Period from 01.04.2017 to 30.06.2017	Period from 01.01.2017 to 30.06.2017
Interest income, including:	1 102 436	2 155 995	990 216	1 972 923
Interest income on financial assets at amortised cost	*830 496*	*1 605 723*	*755 125*	*1 477 980*
Interest income on financial assets at fair value through other comprehesive income	*119 690*	*242 003*	*170 180*	*340 974*
Income similar to interest on financial assets at fair value through profit or loss	*152 250*	*308 269*	*64 911*	*153 969*
Interest expenses	(247 932)	(484 769)	(225 495)	(459 028)
Net interest income	**854 504**	**1 671 226**	**764 721**	**1 513 895**
Fee and commission income	423 052	852 550	415 311	822 416
Fee and commission expenses	(174 072)	(334 686)	(162 514)	(319 880)
Net fee and commission income	**248 980**	**517 864**	**252 797**	**502 536**
Dividend income	2 936	3 103	24 896	25 050
Net trading income, including:	84 698	169 191	61 068	137 965
Foreign exchange result	*79 620*	*151 047*	*57 912*	*134 319*
Gains or losses on financial assets and liabilities held for trading	*7 950*	*23 853*	*9 121*	*10 867*
Gains or losses from hedge accounting	*(2 872)*	*(5 709)*	*(5 965)*	*(7 221)*
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	(23 105)	(60 408)	*n/a*	*n/a*
Gains less losses from investment securities, investments in subsidiaries and associates	*n/a*	*n/a*	(26 090)	(24 434)
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates, including:	20 992	24 478	n/a	*n/a*
Gains less losses from debt securities measured at fair value through other comprehensive income	*1 716*	*6 042*	*n/a*	*n/a*
Gains less losses from investments in subsidiaries and associates	*19 276*	*18 436*	*n/a*	*n/a*
Other operating income	34 114	302 966	27 221	55 434
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(193 960)	(278 431)	(120 399)	(203 320)
Overhead costs	(451 172)	(985 654)	(430 839)	(954 692)
Depreciation	(58 662)	(124 492)	(51 521)	(102 522)
Other operating expenses	(36 555)	(98 987)	(34 294)	(61 667)
Operating profit	**482 770**	**1 140 856**	**467 560**	**888 245**
Taxes on the Group balance sheet items	(98 287)	(196 750)	(93 018)	(184 323)
Profit before income tax	**384 483**	**944 106**	**374 542**	**703 922**
Income tax expense	(97 062)	(245 694)	(104 842)	(215 444)
Net profit	**287 421**	**698 412**	**269 700**	**488 478**
Net profit attributable to:				
- Owners of mBank S.A.	287 435	698 435	269 700	488 478
- Non-controlling interests	(14)	(23)	-	-

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Consolidated prudentially statement of financial position

ASSETS	30.06.2018	31.12.2017	30.06.2017
Cash and balances with the Central Bank	5 514 886	7 384 869	5 855 425
Financial assets held for trading and derivatives held for hedges	4 634 873	2 761 685	4 621 730
Loans and advances to banks	*n/a*	1 707 518	2 258 704
Non-trading financial assets mandatorily at fair value through profit or loss	2 893 911	*n/a*	*n/a*
Investment securities	*n/a*	32 235 490	30 601 695
Financial assets at fair value through other comprehensive income	24 010 418	n/a	n/a
Loans and advances to customers	*n/a*	84 507 454	83 387 992
Financial assets at amortised cost, including:	99 982 445	*n/a*	*n/a*
Investments in associates	29 644	28 680	-
Non-current assets and disposal groups classified as held for sale	-	-	81 314
Intangible assets	703 524	710 642	627 900
Tangible assets	715 542	758 735	711 921
Current income tax assets	7 412	9 688	5 822
Deferred income tax assets	851 398	629 250	518 373
Other assets	733 691	719 405	704 804
Total assets	**140 077 744**	**131 453 416**	**129 375 680**

LIABILITIES AND EQUITY			
Liabilities			
Financial liabilities held for trading and derivatives held for hedges	1 110 810	1 095 365	1 114 492
Financial liabilities measured at amortised cost, including:	121 427 866	113 080 362	112 088 660
Amounts due to banks	4 548 765	5 073 351	8 641 320
Amounts due to customers	97 854 657	91 526 016	88 202 813
Debt securities issued	16 817 711	14 322 852	13 011 688
Subordinated liabilities	2 206 733	2 158 143	2 232 839
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	44 854	55 195
Provisions	262 648	190 975	185 503
Current income tax liabilities	219 333	179 685	67 912
Deferred income tax liabilities	84	81	1 294
Other liabilities	2 536 389	2 570 538	2 207 677
Total liabilities	**125 557 130**	**117 161 860**	**115 720 733**
Equity			
Equity attributable to Owners of mBank S.A.	**14 518 448**	**14 289 370**	**13 654 947**
Share capital:	**3 564 176**	**3 564 176**	**3 554 016**
- Registered share capital	169 248	169 248	169 143
- Share premium	3 394 928	3 394 928	3 384 873
Retained earnings:	**10 801 995**	**10 574 294**	**9 977 628**
- Profit from the previous years	10 103 560	9 482 764	9 489 150
- Profit for the current year	698 435	1 091 530	488 478
Other components of equity	**152 277**	**150 900**	**123 303**
Non-controlling interests	**2 166**	**2 186**	**-**
Total equity	**14 520 614**	**14 291 556**	**13 654 947**
Total liabilities and equity	**140 077 744**	**131 453 416**	**129 375 680**

Selected explanatory information

1. Compliance with international financial reporting standards

The presented condensed consolidated report for the first half of 2018 fulfils the requirements of the International Accounting Standard (IAS) 34 "Interim Financial Reporting" relating to interim financial reports.

In addition, selected explanatory information provide additional information in accordance with Decree of the Minister of Finance dated 29 March 2018 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equal information required by the law of other state, which is not a member state (Journal of Laws 2018, item 757).

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

The detailed description of the Group's accounting policies is presented in Note 2 and 3 of these condensed consolidated financial statements. The accounting principles adopted by the Group were applied on a continuous basis for all periods presented in the financial statements, except for the accounting principles applied in connection with the implementation of IFRS 9 as of 1 January 2018. The main changes in the classification, measurement and principles for creating provisions for impairment of financial instruments introduced by IFRS 9 are presented under Note 2.31 Comparative data.

3. Seasonal or cyclical nature of the business

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

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

- From 1 January 2018, the Group has implemented the International Financial Reporting Standard - IFRS 9: "Financial Instruments", whose impact on the statement of financial situation and the level of own funds of the Bank and the Group as at 1 January 2018 has been presented under Note 2.31.
- On 21 March 2018, the Bank early redeemed two series of perpetual subordinated bonds in the total nominal amount of CHF 250 000 thousand (equivalent of PLN 905 125 thousand according to the average exchange rate of the National Bank of Poland of 21 March 2018). The bonds were entirely covered by Commerzbank AG. As at the repurchase date the bonds were redeemed. The Bank has made the early redemption as the funds obtained from these bonds were no longer included in Tier 2 capital, according to art. 490 of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

  Additionally, on 21 March 2018, the Bank drew a subordinated loan in the amount of CHF 250 000 thousand (equivalent of PLN 905 125 thousand according to the average exchange rate of the National Bank of Poland of 21 March 2018) based on a subordinated loan agreement signed with Commerzbank on 27 November 2017. Under the terms of the Agreement, the disbursement of the loan as well as the repurchase of subordinated bonds occurred by way of netting of the related claims.
- On 29 March 2018, the Polish Financial Supervision Authority gave a consent for qualifying funds from subordinated loan in the amount of CHF 250 000 thousand as instrument in the Bank's Tier 2 capital. The amount of CHF 250 000 thousand according to the average exchange rate of the National Bank of Poland of 29 March 2018 is the equivalent of PLN 893 200 thousand.
- New debt securities issue program (EMTN)

  On 11 April 2018, the Management Board of mBank SA adopted a resolution regarding a consent to establish a new programme for the issuance of debt instruments (Euro Medium Term Note Program) directly by the Bank, in many tranches and currencies, with various interest structures and due dates, up to the total amount of EUR 3 000 000 thousand ("New EMTN Programme"). The amount of EUR 3 000 000 thousand is the equivalent of PLN 12 573 300 thousand according to the average exchange rate of the National Bank of Poland of 11 April 2018.

  The new EMTN Programme will be established by the way of update of the existing debt instruments programme of mFinance France S.A. (mFF) of a incorporated under the laws of

France with its registered office in Paris, subsidiary of mBank S.A. The update does not affect the existence of the instruments already issued by mFF nor the validity of the guarantee granted by the Bank with regard to those instruments.

Under the New EMTN Programme, on June 7, 2018, the Bank issued bonds with a total value of CHF 180 000 thousand (equivalent of PLN 660 906 thousand at the average exchange rate of the National Bank of Poland as of 7 June 2018), maturing on 7 June 2022.

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

The impact of the implementation as at 1 January 2018 of IFRS 9 on the statements of financial position of the Bank and mBank S.A. Group prepared as at 31 December 2017 has been presented under Note 2.31 of these condensed consolidated financial statements.

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

In the first quarter of 2018, mBank Hipoteczny S.A. issued short term bonds in the amount of PLN 622 000 thousand and mortgage bonds in the amount of PLN 1 571 760 thousand. In the same time the company redeemed short term bonds in the amount of PLN 712 700 thousand and mortgage bonds in the amount of EUR 7 500 thousand as well as made an early redemption on the secondary market of private issue addressed to mBank in the amount of PLN 400 000 thousand.

On 21 March 2018 made an early redemption of two series of perpetual subordinated bonds in the total nominal amount of CHF 250 000 thousand, which was described under point 4 above.

In addition, on June 7, 2018, the Bank issued bonds with a total value of CHF 180,000 thousand, which was described under point 4 above.

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

On 12 April 2018, the 31st Annual General Meeting of mBank S.A. adopted a resolution regarding the distribution of the net profit for 2017. The dividend for the Bank's shareholders was contributed the amount of PLN 217 907 428.30, with the amount of the dividend per share amounting to PLN 5.15. This amount represents 20% of the Bank's net profit generated in the period from 1 January to 31 December 2017.

The dividend day was set for 24 May 2018 (the dividend day), while the payment of the dividend took place on June 7, 2018.

8. Significant events after the end of the first half of 2018, which are not reflected in the financial statements

Events as indicated above did not occur in the Group.

9. Effect of changes in the structure of the entity in the first half of 2018, including business combinations, acquisitions or disposal of subsidiaries, long-term investments, restructuring, and discontinuation of business activities

- The sale of an organised part of mFinanse

On 27 November 2017, mBank S.A. and mBank's subsidiary mFinanse S.A. ("mFinanse"), concluded a conditional agreement under which mBank was obliged to sell 100%, i.e. 100 000 shares in Latona S.A. to Phoebe IVS with its registered office in Denmark "Inwestor", then mFinanse was obliged to sell the organized part of the enterprise of mFinanse to Latona S.A.

In connection with the above, on 26 March 2018, the Bank sold 100% of shares in Latona S.A. to the Investor, and on 27 March 2018, mFinanse sold the organized part of mFinanse to Latona S.A.

The organized part of the enterprise is a separate activity under which, on the basis of agency agreements, mFinanse performs insurance intermediation activities in the field of group insurance contracts as an insurance agent.

As a result of the transaction, in the first half of 2018 the Group recognised a gross profit in the amount of PLN 238 832 thousand. As at the date of publication of these financial statements, the Group estimates that the maximum value of remuneration on account of the transaction is approximately PLN 435 million. Due to the nature of the transaction, the recognition of the part of the remuneration in the future will depend on the performance of the business sold. This may result in the recognition of an additional gross profit of up to PLN 161 million in the period of about 6 years from the end of the first half of 2018. Cash flows relating to the transaction are presented in the in the statement of cash flows as "Other investing inflows".

- Restructuring of mCentrum Operacji Sp. Z o.o.

On 1 March 2018, the Group completed the process of reorganisation of mCentrum Operacji Sp z o.o. ("mCO"). As part of the process, two organized parts of the enterprise were separated in the form of the Development Division of Automatic Processes and the General Division. On 1 March 2018, the Development Division of Automatic Process was sold to Feronia, of which the major shareholder is Future Tech FIZ, a subsidiary of the Bank, in order to automation of the processes handled by this part of mCO, while the General Division, including the majority of processes so far serviced by mCO, was sold to the Bank.

These transactions had no impact on the financial results and net assets of the Bank and mBank S.A. Group.

- Sale of real estate by Garbary Sp. z o.o

On 28 December 2017, the company Garbary Sp. z o.o. signed a preliminary agreement for sale of real estate placed at Garbary 101/111 Street in Poznań.

In connection with the concluded agreement, as at 31 December 2017 and as at 31 March 2018, the Group disclosed in the fixed assets and disposal groups held for sale the value of the property owned by Garbary Sp. z o.o. in the amount of PLN 42 134 thousand.

On 27 April 2018, the company Garbary Sp. z o.o. signed the final agreement on the sale of real estate.

10. Changes in contingent liabilities and commitments

In the first half of 2018, there were no changes in contingent liabilities and commitments of credit nature, i.e., guarantees, letters of credit or unutilised loan amounts, other than resulting from current operating activities of the Group. There was no single case of granting of guarantees or any other contingent liability of any material value for the Group.

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

In the first half of 2018, events as indicated above did not occur in the Group.

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

In the first half of 2018, events as indicated above did not occur in the Group.

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

Data regarding write-offs on account of impairment of financial assets is presented under Note 12 of these condensed consolidated financial statements.

14. Reversals of provisions against restructuring costs

In the first half of 2018, events as indicated above did not occur in the Group.

15. Acquisitions and disposals of tangible fixed asset items

In the first half of 2018, there were no material transactions of acquisition or disposal of any tangible fixed assets, with the exception of typical lease operations that are performed by the companies of the Group.

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

In the first half of 2018, events as indicated above did not occur in the Group.

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

In connection with the implementation of IFRS 9 as of 1 January 2018, the Group has appropriately changed the methods for determining the fair value of financial instruments, as described in detail under Note 2 "Description of relevant accounting policies".

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

In the reporting period there were no changes in the classification of financial assets as a result of a change in the purpose or use of these assets.

19. Corrections of errors from previous reporting periods

In the first half of 2018 there no corrections of errors from previous reporting periods.

20. Information on changes in the economic situation and operating conditions that have a significant impact on the fair value of financial assets and financial liabilities of the entity, regardless of whether these assets and liabilities are included in the fair value or in the adjusted purchase price (amortized cost)

In the first half of 2018, events as indicated above did not occur in the Group.

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

In the first half of 2018, events as indicated above did not occur in the Group.

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 quarterly report compared to the forecast

mBank S.A. did not publish a performance forecast for the year 2018.

23. Registered share capital

The total number of ordinary shares as at 31 March 2018 was 42 312 122 shares (31 December 2017: 42 312 122 shares, 30 June 2017 - 42 285 676 shares) at PLN 4 nominal value each. All issued shares were fully paid up.

REGISTERED SHARE CAPITAL (THE STRUCTURE) AS AT 30 JUNE 2018						
Share type	**Type of privilege**	**Type of limitation**	**Number of shares**	**Series / face value of issue in PLN**	**Paid up**	**Registered on**
ordinary bearer*	-	-	9 988 000	39 952 000	fully paid in cash	1986
ordinary registered*	-	-	12 000	48 000	fully paid in cash	1986
ordinary bearer	-	-	2 500 000	10 000 000	fully paid in cash	1994
ordinary bearer	-	-	2 000 000	8 000 000	fully paid in cash	1995
ordinary bearer	-	-	4 500 000	18 000 000	fully paid in cash	1997
ordinary bearer	-	-	3 800 000	15 200 000	fully paid in cash	1998
ordinary bearer	-	-	170 500	682 000	fully paid in cash	2000
ordinary bearer	-	-	5 742 625	22 970 500	fully paid in cash	2004
ordinary bearer	-	-	270 847	1 083 388	fully paid in cash	2005
ordinary bearer	-	-	532 063	2 128 252	fully paid in cash	2006
ordinary bearer	-	-	144 633	578 532	fully paid in cash	2007
ordinary bearer	-	-	30 214	120 856	fully paid in cash	2008
ordinary bearer	-	-	12 395 792	49 583 168	fully paid in cash	2010
ordinary bearer	-	-	16 072	64 288	fully paid in cash	2011
ordinary bearer	-	-	36 230	144 920	fully paid in cash	2012
ordinary bearer	-	-	35 037	140 148	fully paid in cash	2013
ordinary bearer	-	-	36 044	144 176	fully paid in cash	2014
ordinary bearer	-	-	28 867	115 468	fully paid in cash	2015
ordinary bearer	-	-	41 203	164 812	fully paid in cash	2016
ordinary bearer	-	-	31 995	127 980	fully paid in cash	2017
Total number of shares			**42 312 122**			
Total registered share capital				**169 248 488**		
Nominal value per share (PLN)		**4**				

* As at the end of the reporting period

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24. Material share packages

In the first half of 2018, there were no changes in the holding of material share packages of the Bank.

Commerzbank AG is a shareholder holding over 5% of the share capital and votes at the General Meeting and as at 31 March 2018 it held 69.37% of the share capital and votes at the General Meeting of mBank S.A.

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

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

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

	Number of shares held as at the date of publishing the report for Q1 2018	Number of shares acquired from the date of publishing the report for Q1 2018 to the date of publishing the report for H1 2018	Number of shares sold from the date of publishing the report for Q1 2018 to the date of publishing the report for H1 2018	Number of shares held as at the date of publishing the report for H1 2018
Management Board				
1. Cezary Stypułkowski	16 275	-	-	16 275
2. Lidia Jabłonowska-Luba	-	-	-	-
3. Frank Bock	-	-	-	-
4. Andreas Böger	-	-	-	-
5. Krzysztof Dąbrowski	1 117	-	-	1 117
6. Cezary Kocik	-	-	-	-
7. Adam Pers	-	-	-	-

As at the date of publishing the report for the first quarter of 2018 and as at the date of publishing the report for the first half of 2018, the Members of the Management Board had no and they have no rights to Bank's shares.

As at the date of publishing the report for the first quarter of 2018 and as at the date of publishing the report for the first half of 2018, the Member of the Supervisory Board of mBank S.A. Mr Jörg Hessenmüller had 6 118 Bank's shares.

As at the date of publishing the report for the first quarter of 2018 and as at the date of publishing the report for the first half of 2018, the other Members of the Supervisory Board of mBank S.A. had neither Bank shares nor rights to Bank shares.

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

As at 30 June 2018, the Bank was not involved in any proceedings before a court, arbitration body, or public administration authority concerning liabilities and receivables 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 2018 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.

Information on the most important court proceedings relating to the issuer's contingent liabilities

1. Claims of Interbrok's clients

   Since 14 August 2008, 170 entities which have been clients of Interbrok Investment E. Dróżdż i Spółka Spółka jawna (hereinafter Interbrok) called the Bank for amicable settlement for the total amount of PLN 385,520 thousand via the District Court in Warsaw. Nine compensation lawsuits were filed against the Bank. Eight of the nine lawsuits were filed by former clients of Interbrok for the total amount of PLN 800 thousand with the proviso that the claims may be extended up to the total amount of PLN 5,950 thousand. The plaintiffs alleged that the Bank had aided in Interbrok's illegal activities, which caused damage to them. With regard to seven of the afore-mentioned cases, legal proceedings against the Bank were dismissed and the cases were finally concluded. In the eighth case, a plaintiff withdrew their suit waiving the claim and the Regional

Court dismissed the action. As far as the ninth suit is concerned, the amount in dispute is PLN 275,423 thousand, including statutory interest and costs of proceedings. According to the claims brought in the suit, this amount comprises the receivables, acquired by the plaintiff by way of assignment, due to the parties aggrieved by Interbrok on account of a 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 aid in committing the illicit act of Interbrok, consisting in unlicensed brokerage operations. On 7 November 2017, the Regional Court in Warsaw dismissed the action in its entirety. The ruling is not final.

2. Class action against mBank S.A. concerning the clause on changing interest rate

On 4 February 2011, a class action filed with the Regional Court in Łódź on 20 December 2010 by the Municipal Consumer Ombudsman representing a group of 835 individuals, the Bank's retail banking clients, was served on the Bank. The class action was filed to determine the Bank's liability for the improper performance of mortgage loan agreements. It was in particular claimed that the Bank had improperly applied provisions of agreements on changing interest rate, namely that the Bank had not lowered interest on loans, despite the fact that, according to the Plaintiff, it was obliged to do so. The Bank does not agree with the above-mentioned allegations. On 18 February 2011, the Bank responded to the lawsuit filing for its dismissal in whole.

On 6 May 2011, the Regional Court in Łódź decided to dismiss the application for dismissing the lawsuit, filed by mBank S.A., and admitted the case to be heard as a class action. In response to this decision, mBank S.A. filed a complaint with the Court of Appeal in Łódź on 13 June 2011. However, the Court of Appeal in Łódź dismissed mBank S.A.'s complaint on 28 September 2011. Currently, the case proceeds as a class action. Until March 2012, new individuals had been joining the class action. As at 17 October 2012, the group of class members consisted of 1,247 individuals. The Regional Court in Łódź did not establish bail for the benefit of mBank S.A., which was applied for by the Bank. The Bank filed a complaint about this decision. But on 29 November 2012, the Court of Appeal in Łódź overturned the Bank's complaint about the establishment of bail. The judgment is binding and the plaintiff is not obliged to pay bail. The final statement of defence was sent in January 2013 and on 15 February 2013, the plaintiff answered it in a pleading. By its decision of 18 February 2013, the Regional Court in Łódź submitted the case to mediation. On 26 February 2013, the Municipal Consumer Ombudsman appealed against the case being submitted to mediation. On 22 June 2013, a trial was held and on 3 July 2013, the Court announced its judgment allowing the claim in full. According to the Court, the Bank did not properly execute the agreements concluded with consumers, as a result of which they suffered losses. The Bank appealed against this judgment on 9 September 2013. However, on 30 April 2014, the Court of Appeal in Łódź dismissed the appeal of mBank S.A., upholding the stance adopted by the Regional Court expressed in the judgment. Upon receiving a written justification of the judgment, mBank S.A. brought a cassation appeal. The cassation appeal was filed with the Supreme Court by mBank S.A. on 3 October 2014. By its decision of 7 October 2014, the Court of Appeal in Łódź suspended the enforcement of the judgment passed by the Regional Court until the cassation appeal of mBank S.A. has been resolved. On 18 February 2015, the Supreme Court accepted the cassation appeal filed by mBank S.A. for review. On 14 May 2015, the Supreme Court revoked the ruling of the Court of Appeal in Łódź and referred the case back to that court for re-examination. By the decision of 24 September 2015, the Court of Appeal in Łódź admitted the expert opinion evidence in order to verify the legality of mBank's actions connected with changing the interest rates on the mortgage loans covered by the class action in the period from 1 January 2009 to 28 February 2010.

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

On 24 February 2017, a trial was held during which the court admitted the oral supplementary expert opinion as evidence; however, the opinion did not allay the Court's doubts so by the resolution of 6 April 2017, the Court of Appeal admitted another written supplementary expert opinion as evidence. The supplementary opinion was issued by an expert and presented to Parties for comments. On 29 September 2017, the Bank submitted a comprehensive piece of writing with its comments on the opinion. On 30 April 2018, a hearing was held before the Court which accepted supplementary verbal testimony of an expert as evidence. The Court issued a decision obliging mBank to submit certificates containing the history of changes in interest rates applied to each credit agreement covered by the proceedings by 15 June 2018. The court granted the

Plaintiff's attorney a period of 21 days to collect data necessary to supplement the opinion by an expert.

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

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

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

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

By its decision of 9 May 2017, the Regional Court in Łódź decided on instigating a class action and set the time limit of three months from the publication of the decision for persons whose claims may be covered by the class action to join the class. Within the time limit set, 352 persons joined the group of class members. As decided by the Court on 13 March 2018, the group is composed of 1,731 persons. The said decision was appealed against by both parties. Regardless of the appeal proceedings, the Court scheduled a hearing for 5 October 2018.

4. A lawsuit filed by LPP S.A.

On 17 May 2018, mBank S.A. received a lawsuit filed by LPP S.A. with its registered office in Gdańsk seeking damages amounting to PLN 96 307 009.15 on account of interchange fee. In the lawsuit, LPP S.A. petitioned the court for awarding the damages jointly from mBank S.A. and from other domestic bank.

The plaintiff accuses the two sued banks as well as other banks operating in Poland of taking part in a collusion breaching the Competition and Consumer Protection Act and the Treaty on the Functioning of the European Union. In the plaintiff's opinion, the collusion took the form of an agreement in restriction of competition in the market of acquiring services connected with settling clients' liabilities towards the plaintiff on account of payments for goods purchased by them with payment cards in the territory of Poland. According to the plaintiff:

a. the banks agreed on the interchange fee amount for transactions made with VISA and/or MasterCard payment cards and charged the plaintiff these amounts,
b. the sued banks as well as other banks operating in Poland collaborating with the sued banks charged the plaintiff the interchange fees in the amount agreed on in the collusion and amounts of interchange fees paid by the plaintiff to the sued banks and other banks collaborating with the sued banks in the years 2008-2014,
c. the plaintiff suffered losses due to the collusion of the sued banks and other banks operating in Poland as the banks agreed on the interchange fee amount and charged the plaintiff the fee, and
d. the sued banks were aware of the legal nature of the collusion and economic consequences the plaintiff had to face due to the collusion (the plaintiff's losses: the plaintiff had to pay more than it would have paid if the the sued banks and other banks collaborating with the sued banks had not entered in the collusion).

At present, mBank S.A. is preparing its statement of defence. The time limit for submitting the statement of defence expires on 17 August 2018.

Tax audits

On June 11, 2018, in CSK Sp. z o.o., (on 100% dependent on BDH Development Sp. z o.o.) the employees of the Lodz Treasury Office in Łódź (Urząd Skarbowy Łódź Śródmieście)started the tax inspection in the area of corporate income tax for 2016. Tax inspection are still pending.

From 23 November 2017 to 3 April 2018 at mBank S.A. was conducted the tax inspection regarding the correctness of settlement of the tax on goods and services due to the import of services for 2015, conducted by employees of the Mazowiecki Customs and Tax Office in Warsaw. The tax audit revealed no irregularities.

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

The tax authorities, may inspect 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.

27. Off-balance sheet liabilities

Off-balance sheet liabilities as at 30 June 2018, 31 December 2017 and 30 June 2017 were as follows:

	30.06.2018	31.12.2017	30.06.2017
1. Contingent liabilities granted and received	**40 595 316**	**37 494 697**	**32 570 295**
Commitments granted	**36 313 829**	**33 491 642**	**29 672 153**
- financing	26 920 167	25 947 991	23 240 124
- guarantees and other financial facilities	7 575 047	7 143 651	6 431 699
- other commitments	1 818 615	400 000	330
Commitments received	**4 281 487**	**4 003 055**	**2 898 142**
- financial commitments	1 492 190	13 222	200 277
- guarantees	2 789 297	3 989 833	2 697 865
2. Derivative financial instruments (nominal value of contracts)	**499 676 512**	**429 312 795**	**411 075 045**
Interest rate derivatives	389 896 661	334 308 351	315 271 515
Currency derivatives	103 858 398	91 837 298	85 875 149
Market risk derivatives	5 921 453	3 167 146	9 928 381
Total off-balance sheet items	**540 271 828**	**466 807 492**	**443 645 340**

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 2018, 31 December 2017 and 30 June 2017 were as follows.

PLN (000's)	mBank S.A. subsidiaries and associates			Commerzbank AG			Other companies of the Commerzbank AG Group		
As at the end of the period	**30.06.2018**	**31.12.2017**	**30.06.2017**	**30.06.2018**	**31.12.2017**	**30.06.2017**	**30.06.2018**	**31.12.2017**	**30.06.2017**
Statement of Financial Position									
Assets	23 743	10 481	1 633	1 465 781	610 783	722 985	-	9 084	8 463
Liabilities	73 951	41 915	10 212	3 325 157	4 442 482	8 164 063	1 123 684	1 079 046	872 658
Income Statement									
Interest income	555	938	8	53 823	110 603	58 367	277	431	199
Interest expense	(306)	(395)	-	(39 876)	(121 661)	(66 415)	(3 196)	(5 331)	(2 547)
Fee and commission income	578	138	10	630	1 158	550	17	39	23
Fee and commission expense	-	-	-	-	(5)	(3)	-	-	-
Other operating income	-	67	33	9	24	10	-	-	-
Overhead costs, amortisation and other operating expenses	-	(11)	(4)	(5 234)	(8 865)	(6 067)	-	-	-
Contingent liabilities granted and received									
Contingent liabilities granted	372 440	361 286	892	1 742 274	2 099 374	1 597 257	-	7 057	7 151
Contingent liabilities received	-	-	-	1 947 800	1 632 240	1 522 806	-	8 385	9 017

The total costs of remuneration of Members of the Supervisory Board, the Management Board and other key management personnel of the Bank that perform their duties from 1 January to 31 March 2018 recognised in the Group's income statement for that period amounted to PLN 22 898 764 (in the period from 1 January to 30 June 2017: PLN 16 615 800).

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

29. Credit and loan guarantees, other guarantees granted of significant value

As at 30 June 2018, the Bank's significant exposure under guarantees granted related to the guarantee payment of all amounts to be paid in respect of debt securities issued by mFinance France S.A. (mFF), a subsidiary of the mBank S.A.

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

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

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

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

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

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

30. 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

On 12 April 2018, the 30th the Supervisory Board of mBank S.A. selected members of the Management Board of mBank S.A. for a joint term of five years, with the following composition:

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

31. Factors affecting the results in the coming quarter

Apart from operating activity of the Bank and mBank Group entities, there are no other events expected in the third quarter of 2018 that would have a significant impact on the profit of this period.

32. Other information

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

On 13 January 2017, FSC endorsed the resolution on the recommendation on the restructuring of the foreign exchange housing loans portfolio. The resolution includes a list of recommendations, part of which were introduced in the year 2017. Two of the recommendations that may have significant impact on the Group but have not yet been introduced, are:

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

- introduction of changes in the rules of operation of the Borrower Support Fund, which would lead to a greater use of the funds to support borrowers in difficult financial situation - recommendation not introduced. In October 2017 the Parliament of the Republic of Poland has begun work on the draft of the amendment to the *act on support of borrowers in financial difficulties, who had taken out a housing loan* as well as a *law on corporate income tax*, proposed by the President of the Republic of Poland, which address the FSC recommendation.

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

- Requirements on mBank Group capital ratios in 2018

Starting from 2018 the binding conservation capital buffer defined in the Act on Macro-prudential Supervision over the Financial System and Crisis Management in the Financial System of 5 August 2015 (Dz.U. 2015 item 1513), increased to 1.88% of the total risk exposure amount.

Starting from 1 January 2018, banks in Poland has been obliged to meet systemic risk buffer of 3% on individual and consolidated basis, resulting from entry into force of the Regulation of the Minister of Development and Finance with regard to systemic risk buffer, addressing one of the mentioned FSC recommendations. The regulation introduces systemic risk buffer of 3% of the total risk exposure amount applied to all exposures located in Poland. Due to the fact that not all exposures are located in Poland, mBank having two foreign branches in Czech Republic and in Slovakia, the systemic risk buffer rate to be applied to mBank Group shall be slightly below 3%.

Taking into account the above mentioned capital buffers and the position of KNF on the minimum level of capital ratios binding in 2017, the required level of capital ratios for 2018 will amount to:

- Individual total capital ratio – 17.51% and Tier 1 capital ratio – 14.48%
- Consolidated total capital ratio – 16.98% and Tier 1 capital ratio – 14.10%.

At the date of publication of these financial statements, mBank S.A. fulfils the KNF requirements related to the required capital ratios for 2018 on both individual and consolidated levels.

- Request of the Polish Financial Supervision Authority to express an opinion by the Financial Stability Committee regarding a change of the other systemically important institution buffer imposed on mBank S.A.

In the course of administrative proceedings conducted by the Polish Financial Supervision Authority (PFSA), on 14 June 2018 , the Bank received a letter, in which the PFSA asks the Financial Stability Committee (FSC) to express its opinion regarding a change of the amount of the other systemically important institution (O-SII) buffer imposed on the Bank.

Pursuant to the PFSA's decision of 19 December 2017, the Bank is currently required to maintain the O-SII buffer in the amount equivalent to 0.75% of the total risk exposure amount calculated in accordance with Art. art. 92 par. 3 of the Regulation of the European Parliament and of the Council (EU) No. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms, amending Regulation (EU) No. 648/2012 ("CRR").

As part of the review of the adequacy of the O-SII buffer, carried out by the PFSA in accordance with art. 46 par. 1 of the Act of 5 August 2015 on Macroprudential Supervision of the Financial System and Crisis Management (Journal of Laws of 2017, item 1934, as amended), the PFSA indicated that the assessment of systemic importance obtained by the Bank is the basis to impose on the Bank the O-SII buffer in the amount equivalent to 0.5% of the total risk exposure amount calculated in accordance with Art. art. 92 par. 3 of CRR, instead of the current buffer of 0.75%.

On 21 June 2018 the Bank received a decision of the FSC, in which the FSC expressed a positive opinion on the imposition on the Bank of the other systemically important institution buffer imposed on Bank.

The final decision will be issued by the PFSA. By the date of publication of these condensed consolidated financial statements, the Bank did not receive the PFSA decision.

- Proposals concerning foreign currency mortgage loans restructuring

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

- Appointment of an auditor to audit financial statements

On 12 April 2018, the 31st Annual General Meeting of mBank S.A., pursuant to the applicable law and Article 11 letter n) of the By-laws of the Bank, appointed Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa as the auditor to examine the financial statements of mBank S.A. and consolidated financial statements of mBank S.A. Group for 2018 and 2019.

- Distribution of profit for 2017

On 12 April 2018, the 31st Annual General Meeting of mBank S.A. adopted a resolution regarding the distribution of the net profit for 2017. The net profit of mBank S.A. in the amount of PLN 1 089 703 775.81 will be allocated to:

1. in the amount of PLN 217 907 428.30 for a dividend for shareholders,

2. in the amount of PLN 871 796 347.51 for the Bank's supplementary capital.

Additionally, the 31st Annual General Meeting of mBank S.A. adopted a resolution regarding the distribution of the undivided profit from the previous years in the amount of PLN 1 199 399 249.57.

33. Events after the balance sheet date

From 30 June 2018 until the date of publication of these condensed consolidated financial statements, no events occurred, which would require additional disclosure in these condensed consolidated financial statements.

Signature of the Management Board of mBank S.A.

Date	First and last name	Position	Signature
31.07.2018	Cezary Stypułkowski	President of the Management Board	
31.07.2018	Lidia Jabłonowska-Luba	Vice-President of the Management Board, Chief Risk Officer	
31.07.2018	Frank Bock	Vice-President of the Management Board, Head of Financial Markets	
31.07.2018	Andreas Böger	Vice-President of the Management Board, Chief Financial Officer	
31.07.2018	Krzysztof Dąbrowski	Vice-President of the Management Board, Head of Operations and IT	
31.07.2018	Cezary Kocik	Vice-President of the Management Board, Head of Retail Banking	
31.07.2018	Adam Pers	Vice President of the Management Board, Head of Corporate & Investment Banking	