mBank S.A.

IFRS Condensed Financial Statements for the first half of 2014

Contents

1. Selected financial data

The selected financial data are supplementary information to the condensed financial statements of mBank S.A. for the first half of 2014.

SELECTED FINANCIAL DATA FOR THE BANK		in PLN'000		in EUR'000	
		1st Half of 2014 the period from 01.01.2014 to 30.06.2014	1st Half of 2013 the period from 01.01.2013 to 30.06.2013 restated	1st Half of 2014 the period from 01.01.2014 to 30.06.2014	1st Half of 2013 the period from 01.01.2013 to 30.06.2013 restated
I.	Interest income	**1 770 385**	**1 880 807**	**423 699**	**446 323**
II.	Fee and commission income	**606 458**	**521 039**	**145 141**	**123 645**
III.	Net trading income	**190 670**	**163 765**	**45 632**	**38 862**
IV.	Operating profit	**742 869**	**690 912**	**177 788**	**163 956**
V.	Profit before income tax	**742 869**	**690 912**	**177 788**	**163 956**
VI.	Net profit	**589 232**	**555 632**	**141 019**	**131 854**
VII.	Net cash flows from operating activities	**2 854 786**	**(1 077 518)**	**683 225**	**(255 700)**
VIII.	Net cash flows from investing activities	**(42 863)**	**283 251**	**(10 258)**	**67 217**
IX.	Net cash flows from financing activities	**(785 135)**	**(1 045 688)**	**(187 903)**	**(248 146)**
X.	Net increase / decrease in cash and cash equivalents	**2 026 788**	**(1 839 955)**	**485 063**	**(436 629)**
XI.	Basic earnings per share (in PLN/EUR)	**13.97**	**13.18**	**3.34**	**3.13**
XII.	Diluted earnings per share (in PLN/EUR)	**13.95**	**13.17**	**3.34**	**3.13**
XIII.	Declared or paid dividend per share (in PLN/EUR)	**17.00**	**10.00**	**4.07**	**2.37**

SELECTED FINANCIAL DATA FOR THE BANK		in PLN'000			in EUR'000		
		As at			As at		
		30.06.2014	31.12.2013	30.06.2013 restated	30.06.2014	31.12.2013	30.06.2013 restated
I.	Total assets	**107 886 562**	**100 232 132**	**103 765 538**	**25 928 660**	**24 168 628**	**23 968 756**
II.	Amounts due to the Central Bank	**-**	**-**	**1**	**-**	**-**	**0**
III.	Amounts due to other banks	**22 098 282**	**18 863 854**	**22 865 863**	**5 310 938**	**4 548 576**	**5 281 776**
IV.	Amounts due to customers	**67 887 087**	**64 008 374**	**63 919 189**	**16 315 482**	**15 434 118**	**14 764 665**
V.	Own equity	**9 557 877**	**9 573 220**	**9 006 970**	**2 297 070**	**2 308 357**	**2 080 516**
VI.	Share capital	**168 702**	**168 696**	**168 568**	**40 545**	**40 677**	**38 937**
VII.	Number of shares	**42 175 558**	**42 174 013**	**42 141 986**	**42 175 558**	**42 174 013**	**42 141 986**
VIII.	Book value per share (in PLN/EUR)	**226.62**	**226.99**	**213.73**	**54.46**	**54.73**	**49.37**
IX.	Total capital ratio/capital adequacy ratio	**17.76**	**20.59**	**19.86**	**17.76**	**20.59**	**19.86**

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 2014: EUR 1 = PLN 4.1609, 31 December 2013: EUR 1 = PLN 4.1472 and 30 June 2013: EUR 1 = PLN 4.3292.

- 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 2014 and 2013: EUR 1 = PLN 4.1784 and EUR 1 = PLN 4.2140 respectively.

IFRS Condensed Financial Statements for the first half of 2014 PLN (000's)

2. Condensed financial data

Condensed income statement

	Note	Period from 01.01.2014 to 30.06.2014	Period from 01.01.2013 to 30.06.2013 restated
Interest income		1 770 385	1 880 807
Interest expense		(675 974)	(913 963)
Net interest income		**1 094 411**	**966 844**
Fee and commission income		606 458	521 039
Fee and commission expense		(207 099)	(205 781)
Net fee and commission income		**399 359**	**315 258**
Dividend income		27 540	37 359
Net trading income, including:		190 670	163 765
Foreign exchange result		131 977	*136 135*
Other net trading income and result on hedge accounting		58 693	*27 630*
Gains less losses from investment securities, investments in subsidiaries and associates		(9 545)	37 172
Other operating income		44 456	47 136
Net impairment losses on loans and advances	5.14	(214 884)	(162 915)
Overhead costs		(654 410)	(603 337)
Amortisation		(80 863)	(77 523)
Other operating expenses		(53 865)	(32 847)
Operating profit		**742 869**	**690 912**
Profit before income tax		**742 869**	**690 912**
Income tax expense		**(153 637)**	**(135 280)**
Net profit		**589 232**	**555 632**

Net profit		**589 232**	**555 632**
Weighted average number of ordinary shares	5.25	**42 175 481**	**42 141 459**
Basic earnings per share (in PLN)	5.25	**13.97**	**13.18**
Weighted average number of ordinary shares for diluted earnings	5.25	**42 237 339**	**42 182 663**
Diluted earnings per share (in PLN)	5.25	**13.95**	**13.17**

IFRS Condensed Financial Statements for the first half of 2014 PLN (000's)

Condensed statement of comprehensive income

	Period from 01.01.2014 to 30.06.2014	Period from 01.01.2013 to 30.06.2013 restated
Net profit	**589 232**	**555 632**
Other comprehensive income net of tax, including:	**105 413**	**(207 284)**
Items that may be reclassified subsequently to the income statement		
Exchange differences on translation of foreign operations (net)	69	(779)
Change in valuation of available for sale financial assets (net)	105 344	(206 505)
Items that will not be reclassified to the income statement		
Actuarial gains and losses relating to post-employment benefits (net)	-	-
Total comprehensive income net of tax, total	**694 645**	**348 348**

IFRS Condensed Financial Statements for the first half of 2014 PLN (000's)

Condensed statement of financial position

ASSETS	30.06.2014	31.12.2013	30.06.2013 restated
Cash and balances with the Central Bank	1 412 610	1 643 073	2 034 442
Loans and advances to banks	5 723 463	4 488 865	5 809 796
Trading securities	2 812 476	903 912	1 873 558
Derivative financial instruments	3 017 861	2 349 542	2 554 875
Loans and advances to customers	66 037 410	63 756 680	67 166 983
Hedge accounting adjustments related to fair value of hedged items	778	970	1 109
Investment securities	26 940 976	25 081 290	22 462 925
Investments in subsidiaries	735 775	757 259	653 623
Intangible assets	415 372	408 784	368 483
Tangible assets	443 592	442 726	462 604
Current income tax assets	63 405	6 593	-
Deferred income tax assets	13 351	133 258	167 467
Other assets	269 493	259 180	209 673
Total assets	**107 886 562**	**100 232 132**	**103 765 538**

LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the Central Bank	-	-	1
Amounts due to other banks	22 098 282	18 863 854	22 865 863
Derivative financial instruments	2 933 654	2 472 350	3 063 379
Amounts due to customers	67 887 087	64 008 374	63 919 189
Hedge accounting adjustments related to fair value of hedged items	42 157	(4 349)	(10 282)
Debt securities in issue	386 744	451 916	452 029
Other liabilities	1 539 547	962 870	989 084
Current income tax liabilities	-	-	14 393
Provisions for deferred income tax	1 519	80	84
Provisions	160 826	141 060	116 863
Subordinated liabilities	3 278 869	3 762 757	3 347 965
Total liabilities	**98 328 685**	**90 658 912**	**94 758 568**
Equity			
Share capital:	**3 512 798**	**3 512 338**	**3 502 396**
- Registered share capital	168 702	168 696	168 568
- Share premium	3 344 096	3 343 642	3 333 828
Retained earnings:	**5 617 460**	**5 738 676**	**5 225 293**
- Profit for the previous year	5 028 228	4 668 370	4 669 661
- Net profit for the current year	589 232	1 070 306	555 632
Other components of equity	**427 619**	**322 206**	**279 281**
Total equity	**9 557 877**	**9 573 220**	**9 006 970**
Total liabilities and equity	**107 886 562**	**100 232 132**	**103 765 538**

Total capital ratio/capital adequacy ratio *)	**17.76**	**20.59**	**19.86**
Book value	**9 557 877**	**9 573 220**	**9 006 970**
Number of shares	**42 175 558**	**42 174 013**	**42 141 986**
Book value per share (in PLN)	**226.62**	**226.99**	**213.73**

*) As at 30 June 2014, total capital ratio is presented, calculated in accordance with 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 and amending Regulation (EU) No 648/2012 (rules based on "Basel III"). As at 31 December 2013 and as at 30 June 2013 capital adequacy ratio is presented, calculated in accordance with the requirements of Article 128 of the Banking Law of 29 August 1997 as later amended (rules based on "Basel II"). As at 30 June 2013, data relating to the capital adequacy ratio for comparative periods has not been restated.

IFRS Condensed Financial Statements for the first half of 2014 PLN (000's)

Condensed statement of changes in equity

Changes from 1 January to 30 June 2014

	Share capital		Retained earnings					Other components of equity			
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	Exchange differences on translation of foreign operations	Valuation of available for sale financial assets	Actuarial gains and losses relating to post-employment benefits	Total equity
Equity as at 1 January 2014	**168 696**	**3 343 642**	**3 765 454**	**29 061**	**965 143**	**979 018**	**-**	**(6 512)**	**329 237**	**(519)**	**9 573 220**
Total comprehensive income							**589 232**	**69**	**105 344**	**-**	**694 645**
Dividends paid	-	-	-	-	-	(716 984)	-	-	-	-	(716 984)
Transfer to general banking risk reserve	-	-	-	-	50 000	(50 000)	-	-	-	-	-
Transfer to supplementary capital	-	-	212 034	-	-	(212 034)	-	-	-	-	-
Issue of shares	6	-	-	-	-	-	-	-	-	-	6
Stock option program for employees	-	454	-	6 536	-	-	-	-	-	-	6 990
- value of services provided by the employees	-	-	-	6 990	-	-	-	-	-	-	6 990
- settlement of exercised options	-	454	-	(454)	-	-	-	-	-	-	-
Equity as at 30 June 2014	**168 702**	**3 344 096**	**3 977 488**	**35 597**	**1 015 143**	**-**	**589 232**	**(6 443)**	**434 581**	**(519)**	**9 557 877**

Changes from 1 January to 31 December 2013

	Share capital		Retained earnings					Other components of equity			
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	Exchange differences on translation of foreign operations	Valuation of available for sale financial assets	Actuarial gains and losses relating to post-employment benefits	Total equity
Equity as at 1 January 2013	**168 556**	**3 333 077**	**3 027 390**	**23 867**	**925 143**	**1 108 196**	**-**	**(7 778)**	**494 118**	**225**	**9 072 794**
Total comprehensive income							**1 070 306**	**1 266**	**(164 881)**	**(744)**	**905 947**
Dividends paid	-	-	-	-	-	(421 420)	-	-	-	-	(421 420)
Transfer to general banking risk reserve	-	-	-	-	40 000	(40 000)	-	-	-	-	-
Transfer to supplementary capital	-	-	738 064	-	-	(738 064)	-	-	-	-	-
Issue of shares	140	-	-	-	-	-	-	-	-	-	140
Stock option program for employees	-	10 565	-	5 194	-	-	-	-	-	-	15 759
- value of services provided by the employees	-	-	-	15 759	-	-	-	-	-	-	*15 759*
- settlement of exercised options	-	10 565	-	(10 565)	-	-	-	-	-	-	-
Equity as at 31 December 2013	**168 696**	**3 343 642**	**3 765 454**	**29 061**	**965 143**	**(91 288)**	**1 070 306**	**(6 512)**	**329 237**	**(519)**	**9 573 220**

IFRS Condensed Financial Statements for the first half of 2014 PLN (000's)

Changes from 1 January to 30 June 2013

	Share capital		Retained earnings					Other components of equity			
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year - restated	Exchange differences on translation of foreign operations	Valuation of available for sale financial assets	Actuarial gains and losses relating to post-employment benefits	Total equity
Equity as at 1 January 2013	**168 556**	**3 333 077**	**3 027 390**	**23 867**	**925 143**	**1 108 196**	**-**	**(7 778)**	**494 118**	**225**	**9 072 794**
Total comprehensive income							**555 632**	**(779)**	**(206 505)**	**-**	**348 348**
Dividends paid	-	-	-	-	-	(421 420)	-	-	-	-	(421 420)
Transfer to general banking risk reserve	-	-	-	-	40 000	(40 000)	-	-	-	-	-
Transfer to supplementary capital	-	-	738 064	-	-	(738 064)	-	-	-	-	-
Issue of shares	12	-	-	-	-	-	-	-	-	-	12
Stock option program for employees	-	751	-	6 485	-	-	-	-	-	-	7 236
- value of services provided by the employees	-	-	-	7 236	-	-	-	-	-	-	*7 236*
- settlement of exercised options	-	751	-	(751)	-	-	-	-	-	-	-
Equity as at 30 June 2013 - restated	**168 568**	**3 333 828**	**3 765 454**	**30 352**	**965 143**	**(91 288)**	**555 632**	**(8 557)**	**287 613**	**225**	**9 006 970**

IFRS Condensed Financial Statements for the first half of 2014 PLN (000's)

Condensed statement of cash flows

the period	from 01.01.2014 to 30.06.2014	from 01.01.2013 to 30.06.2013 restated
A. Cash flows from operating activities	**2 854 786**	**(1 077 518)**
Profit before income tax	**742 869**	**690 912**
Adjustments:	***2 111 917***	***(1 768 430)***
Income taxes paid	(142 086)	(308 612)
Amortisation	80 863	77 523
Foreign exchange (gains) losses related to financing activities	233 755	838 797
(Gains) losses on investing activities	134	330
Impairment of investments in subsidiaries	23 431	-
Dividends received	(27 539)	(37 359)
Interest income (income statement)	(1 770 385)	(1 880 807)
Interest expense (income statement)	675 974	913 963
Interest received	1 818 789	1 981 652
Interest paid	(708 980)	(769 866)
Changes in loans and advances to banks	(763 788)	(582 821)
Changes in trading securities	(104 402)	363 457
Changes in assets and liabilities on derivative financial instruments	(189 395)	(184 058)
Changes in loans and advances to customers	(2 304 621)	(5 206 494)
Changes in investment securities	(1 803 913)	(2 964 006)
Changes in other assets	(9 762)	(35 138)
Changes in amounts due to other banks	5 108 314	2 112 543
Changes in amounts due to customers	1 391 576	4 078 706
Changes in debt securities in issue	519	(2 611)
Changes in provisions	19 766	(11 952)
Changes in other liabilities	583 667	(151 677)
Net cash generated from/(used in) operating activities	**2 854 786**	**(1 077 518)**
B.Cash flows from investing activities	**(42 863)**	**283 251**
Investing activity inflows	**27 639**	**346 704**
Disposal of shares in subsidiaries, net of cash disposed	-	2
Disposal of intangible assets and tangible fixed assets	100	480
Dividends received	27 539	37 359
Other investing inflows	-	308 863
Investing activity outflows	**70 502**	**63 453**
Acquisition of shares in subsidiaries	-	1 008
Purchase of intangible assets and tangible fixed assets	70 502	62 445
Net cash generated from/(used in) investing activities	**(42 863)**	**283 251**
C. Cash flows from financing activities	**(785 135)**	**(1 045 688)**
Financing activity inflows	**2 719 251**	**82 368**
Proceeds from loans and advances from other banks	-	82 356
Proceeds from other loans and advances	630 095	-
Issue of ordinary shares	6	12
Security deposit due to issue of Eurobonds	2 089 150	-
Financing activity outflows	**3 504 386**	**1 128 056**
Repayments of loans and advances from other banks	2 088 243	224 238
Repayments of other loans and advances	5 032	234 456
Redemption of debt securities	66 462	204 289
Acquisition of shares in subsidiaries - increase of involvement	2 000	10 000
Decrease of subordinated liabilities	480 122	-
Payments of financial lease liabilities	2 811	4 748
Dividends and other payments to shareholders	716 984	421 420
Interest paid from loans and advances received from other banks and from subordinated liabilities	142 732	28 905
Net cash generated from/(used in) financing activities	**(785 135)**	**(1 045 688)**
Net increase / decrease in cash and cash equivalents (A+B+C)	**2 026 788**	**(1 839 955)**
Effects of exchange rate changes on cash and cash equivalents	17 721	4 973
Cash and cash equivalents at the beginning of the reporting period	3 807 891	7 994 650
Cash and cash equivalents at the end of the reporting period	**5 852 400**	**6 159 668**

3. Description of the relevant accounting policies

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

3.1 Accounting basis

The condensed financial statements of mBank S.A. ('Bank') have been prepared for the 6-month period ended 30 June 2014.

The presented condensed financial statements for the first half of 2014 fulfill the requirements of the International Accounting Standard (IAS) 34 'Interim Financial Reporting', concerning interim financial statements and adopted for application by the European Union.

The condensed consolidated financial statements of the mBank S.A. Group ('Group'), which constitute an integral part of these condensed financial statements, are publicly available together with the condensed financial statements. The mBank S.A. condensed financial statements should be read in conjunction with the condensed consolidated financial statements of the Group to obtain a complete understanding of result and financial position of the issuer.

The presented condensed financial statements for the first half of 2014 should be read in conjunction with the mBank S.A. Financial Statements for the year ended 31 December 2013, which have been prepared in accordance with IFRSs. Accounting policies applied to the preparation of the condensed consolidated financial statements are consistent with those applied in the annual consolidated financial statements for the year ended 31 December 2013, with the exception of the application of new or amended standards and interpretations binding for annual periods beginning on or after 1 January 2014 and described in Note 3.26.

The data presented in the mBank S.A. condensed financial statements for the first half of 2014 and the first half of 2013 have been reviewed by the auditor, while the data for the year 2013 was audited by the auditor.

The preparation of the financial statements in compliance with IFRS requires the application of specific accounting estimates. It also requires the Management Board to use its own judgment when applying the accounting policies adopted by the Bank. The issues in relation to which a greater degree of judgment is required, more complex issues, or such issues where estimates or judgments are material to the financial statements are disclosed in Note 4.

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

3.2 Interest income and expenses

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

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

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

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

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

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

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

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

3.3 Fee and commission income

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

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

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

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

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

The Bank treats sold insurance products as bundled with loans, in particular when insurance product is offered to the customer only with the loan, i.e. it is 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 Bank estimates also the part of remuneration which in the future will be returned due to early termination of insurance contract and appropriately decreases interest income or fee and commission income to be recognised.

3.5 Financial assets

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

Shares in subsidiaries, associates and joint ventures are valued at historical costs less impairment.

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

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

Financial assets valued at fair value through the income statement

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

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

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

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

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

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

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

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

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

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

Loans and receivables

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

Held to maturity investments

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

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

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

Available for sale investments

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

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

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

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

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

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

3.6 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

3.7 Impairment of financial assets

Assets carried at amortised cost

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

The list of definite loss events:

1. The number of days from which any exposure being the obligor's credit obligation becomes overdue is above 90 days and the overdue amount exceeds PLN 3,000 for corporate customers and PLN 500 for retail customers.
2. The Bank has sold exposures with a significant economic loss related to the change of the debtor creditworthiness.
3. The Bank performed enforced restructuring of the exposure, which resultes in the change of the loan/transaction service schedule due to the lack of possibility of the obligor to meet his obligations under loan/transaction agreement, as initially stipulated, which resulted in:

   a) reduction of financial obligations by remitting part of these obligations, or
   b) postponing the repayment of the substantial part of the principal, interest or (if it refers to) commission; provided that the lack of approval for restructuring would cause more than 90 calendar days delay in repayment of substantial part of the obligation.
4. Filing by the Bank, the parent or subsidiary entity of the Bank a bankruptcy motion against debtor or filing similar motion in respect of credit obligations of the debtor towards the Bank, the parent or subsidiary entity of the Bank.
5. Bankruptcy of debtor or acquiring by him a similar legal protection resulting in his evasion of or delay in repayment of credit obligations towards the Bank, the parent or subsidiary entity of the Bank.
6. Termination of part or whole credit agreement by the Bank and the beginning of restructuring/collection procedures.
7. Client's fraud.

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

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

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

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

The calculation of the present value of estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from taking over of the collateral less costs for purchasing and selling.

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

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

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

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

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

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

Assets measured at fair value

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

Renegotiated agreements

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

3.8 Financial guarantee contracts

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

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

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

3.9 Cash and cash equivalents

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

3.10 Sell-buy-back, buy-sell-back, reverse repo and repo contracts

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

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

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

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

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

3.11 Derivative financial instruments and hedge accounting

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

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

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

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

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

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

- The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

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

Due to the split of derivatives classified into banking book and into trading book, the Bank applies a different approach to the presentation of interest income/expense for each of these groups of derivatives that is described in Note 3.2 'Interest income and expenses'. The remaining result from fair value measurement of derivatives is recognised in Net trading income.

Fair value hedges

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

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

Cash flow hedges

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

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

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

Derivative instruments not fulfilling the criteria of hedge accounting

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

The Bank holds the following derivative instruments in its portfolio:

Market risk instruments:

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

Interest rate risk instruments:

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

Foreign exchange risk instruments:

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

3.12 Gains and losses on initial recognition

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

The transaction for which the fair value determined using a valuation model (where inputs are both observable and non-observable data) and the transaction price differ, the initial recognition is at the transaction price. The Bank assumes that the transaction price is the best indicator of fair value, although the value obtained from the relevant 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.

3.13 Borrowings and deposits taken

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

3.14 Intangible assets

Intangible assets are recognised at their cost of acquisition adjusted by the costs of improvement (rearrangement, development, reconstruction or modernisation) and accumulated amortization. Accumulated amortization is accrued by the straight line method taking into account the expected period of economic useful life of the respective intangible assets.

Computer software

Purchased computer software licences are capitalised in the amount of costs incurred for the purchase and adaptation for use of specific computer software. These costs are amortised on the basis of the expected useful life of the software (2-10 years). Expenses attached to the maintenance of computer software are expensed when incurred. Expenses directly linked to the development of identifiable and unique proprietary computer programmes controlled by the Bank, which are likely to generate economic benefits in excess of such costs expected to be gained over a period exceeding one year, are recognised as intangible assets. Direct costs comprise personnel expenses directly related to the software.

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

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

Development costs

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

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

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

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

3.15 Tangible fixed assets

Tangible fixed assets are carried at historical cost reduced by depreciation. 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 Bank and the cost of the item can be measured reliably. Any other expenses incurred on repairs and maintenance are expensed to the income statement in the reporting period in which they were incurred.

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

Buildings and structures	25-40 years,
Equipment	2-10 years,
Vehicles	5 years,
Information technology hardware	2-5 years,
Investments in third party fixed assets	10-40 years or the period of the rental/lease contract,
Office equipment, furniture	5-10 years.

Land and buildings consist mainly of branch outlets and offices. Residual values and estimated useful life periods are verified at the end of the reporting period and adjusted accordingly as the need arises.

Depreciable fixed 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. The value of a fixed asset carried in the statement of financial position is reduced to the level of its recoverable value if the carrying value in the statement of financial position exceeds the estimated recoverable amount. The recoverable value is the higher of two amounts: the fair value of the fixed asset reduced by its selling costs and the value in use.

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

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

3.16 Non-current assets held for sale and discontinued operations

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

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

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

- its carrying amount at a date before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been 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 Bank that either has been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operation or is a subsidiary acquired exclusively with a view to resale.

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

3.17 Deferred income tax

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

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

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

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

The Bank discloses separately the amount of negative temporary differences (mainly on account of unused tax losses or unutilised tax allowances) in connection with which the deferred income tax asset was not 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 Bank is provided on assets or liabilities due to temporary differences arising from investments in subsidiaries and associates, except where, on the basis of any probable evidence, the timing of the reversal of the temporary difference is controlled by the Bank and it is possible that the difference will not reverse in the foreseeable future.

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

3.18 Assets repossessed for debt

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

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

3.19 Prepayments, accruals and deferred income

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

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

3.20 Leasing

mBank S.A. as a Lessee

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

3.21 Provisions

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

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

3.22 Post-employment employee benefits and other employee benefits

Post-employment employee benefits

The Bank forms provisions against future liabilities on account of post-employment benefits determined on the basis of an estimation of liabilities of that type, using an actuarial model. The Bank uses a principle of recognition of actuarial gains or losses from the measurement of post-employment benefits related to changes in actuarial assumptions in other comprehensive income. The Bank recognizes service cost and net interest on the net defined benefit liability in profit or loss.

Benefits based on shares

The Bank runs programmes of remuneration based on and settled in own shares as well as based on shares of the ultimate parent of the Bank and settled in cash. These benefits are accounted for in compliance with IFRS 2 Share-based Payment. 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 in the case of transactions settled in own shares and liabilities in the case of cash-settled transactions based on shares of the ultimate parent of the Bank. 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. . In case of the part of the programme based on cash-settled share-based payments, 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.

3.23 Equity

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

Registered share capital

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

- Own shares

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

Share premium

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

- Share issue costs

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

Retained earnings

Retained earnings include:

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

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

Moreover, other reserve capital comprises valuation of employee options.

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

Other components of equity

Other components of equity result from:

- valuation of available for sale financial instruments,
- exchange differences on translation of foreign operations.
- actuarial gains and losses relating to post-employment employee benefits.

3.24 Valuation of items denominated in foreign currencies

Functional currency and presentation currency

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

Transactions and balances

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

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

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

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

3.25 Trust and fiduciary activities

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

3.26 New standards, interpretations and amendments to published standards

These condensed financial statements comply with all the International Accounting Standards and the International Financial Reporting Standards endorsed by the European Union, and the interpretations related to them, except for those 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 2013, the Bank decided for early application, in relation to the adoption of the mandatory application of the European Union, of IFRS 10, IFRS 11, IFRS 12 and amendments to IFRS 10, IFRS 11 and IFRS 12. In relation to other standards and interpretations that have been approved by the European Union, but entered or will enter into force after the balance sheet date, the Bank did not use the possibility of early application.

Published Standards and Interpretations which have been issued and binding for the Bank for annual periods starting on 1 January 2014

- Amendments to IAS 32, Financial Instruments: Presentation - *Offsetting Financial Assets and Financial Liabilities*, published by the International Accounting Standards Board on 16 December 2011, binding for annual periods beginning on or after 1 January 2014. The amendments were endorsed by the European Union on 13 December 2012.
- Amendments to IAS 39, *Novation of Derivatives and Continuation of Hedge Accounting*, published by the International Accounting Standards Board on 27 June 2013, binding for annual periods starting on or after 1 January 2014.
- Amendments to IFRS 10, IFRS 12 and IAS 27, *Investment Entities*, published by the International Accounting Standards Board on 31 October 2012, binding for annual periods starting on or after 1 January 2014. The amendments were endorsed by the European Union on 20 November 2013.
- Amendments to IFRS 10, IFRS 11 and IFRS 12 *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance*, published by the International Accounting Standards Board on 31 October 2012, binding for annual periods starting on or after 1 January 2014.

  The application of the amended standards had no significant impact on the financial statements in the period of its initial application.

Published Standards and Interpretations which have been issued and binding for the Bank for annual periods starting on 1 January 2015

- IFRIC 21, *Levies*, published by International Financial Reporting Standard Interpretations Committee on 20 May 2013, binding for annual periods starting on 1 January 2014. In the European Union standard is applicable for annual periods beginning on or after 17 June 2014.

  The Bank believes that the application of IFRIC 21 will have no impact on the total level of recognised fees of the financial year, but it may have an impact on the level of such costs recognised in each quarter of the financial year.

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

Standards and interpretations not yet approved by the European Union:

- IAS 19 (Amended), *Defined Benefit Plans: Employee Contributions*, published by the International Accounting Standards Board on 21 November 2013, binding for annual periods starting on or after 1 July 2014.

  The Bank is of the opinion that the application of the amended standard will have no significant impact on the financial statements in the period of its initial application.
- IFRS 9, Financial Instruments, published by the International Accounting Standards Board on 24 July 2014, represents the final version of the standard, replaces earlier versions of IFRS 9 and completes the International Accounting Standards Board's project to replace IAS 39 Financial Instrument: *Recognition and Measurement*. The new standard addresses classification and measurement of financial assets and financial liabilities, impairment methodology and hedge accounting. IFRS 9 does not include macro hedge accounting, which is a separate project of International Accounting Standards Board. The Bank continues to apply IAS 39 accounting for macro hedges. The new standard is effective for annual periods beginning on or after 1 January 2018.

  The Bank is of the opinion that the application of the standard will have an impact on the presentation and measurement of these instruments in the financial statements.
- IFRS 11 (Amended), *Accounting for acquisitions of interests in joint operations*, published by the International Accounting Standards Board on 6 May 2014, binding for annual periods beginning on or after 1 January 2016.

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

- IFRS 14, Regulatory Deferral Accounts, published by the International Accounting Standards Board on 30 January 2014, binding for annual periods starting on or after 1 January 2016.

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

- IFRS 15, *Revenue from Contracts with Customers*, published by the International Accounting Standards Board on 28 May 2014, binding for annual periods beginning on or after 1 January 2017.

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

- Amendments to IAS 16 and IAS 38, *Clarification of acceptable methods of depreciation and amortization*, published by the International Accounting Standards Board on 12 May 2014, binding for annual periods beginning on or after 1 January 2016.

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

- Amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants* published by the International Accounting Standards Board on 30 June 2014, binding for annual periods beginning on or after 1 January 2016.

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

- Improvements to IFRSs 2010 - 2012, published by the International Accounting Standards Board on 12 December 2013, in majority binding for annual periods starting on or after 1 July 2014.

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

- Annual Improvements to IFRSs 2011 - 2013, published by the International Accounting Standards Board on 12 December 2013, binding for annual periods starting on or after 1 July 2014.

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

3.27 Comparative data

In 2013, the Bank introduced changes in its accounting policies described below, which led to the restatement of comparative information presented in these condensed financial statement.

a) Actuarial gains and losses

In 2013, the Bank introduced a change of accounting policies in the presentation of actuarial gains or losses from the measurement of post-employment benefits. On the basis of the application of revised IAS 19 the Bank introduced 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 and not as previously in profit or loss.

The restatement of comparative data as at 30 June 2013 due to this change resulted in a reduction of net profit by the amount of PLN 225 thousand and an increase in actuarial gains or losses relating to post-employment benefits, presented in other components of equity, by the same amount. The adjustment had no impact on the total amount of equity as at 30 June 2013.

b) Recognition of income and expenses from selling insurance products attached to loans

In 2013, the Bank introduced a change of its accounting policies regarding recognition of income and expenses from selling insurance products attached to loans.

Due to fact that the purchase of insurance products attached to loans by the Bank's clients has always voluntary character, in 2012 and before the Bank treated such insurance contracts as separate products and income from the sale of insurance products attached to loans was in most cases recognised as an upfront income. At the same time, in cases where for certain products and certain sales channels intermediary costs of selling insurance products existed, the Bank considered such costs as costs related to sale of loans. As a result, in cases where intermediary costs existed, they were deemed as part of the effective interest rate calculation for loans.

In 2013, also as a result of a detailed guidance provided by the Polish Financial Supervision Authority in December 2013, the Bank verified its approach towards the recognition of bancassurance income and adhered to the afore-mentioned guidance. As a result of this change the Bank implemented the recommended definition of bundled products and retrospectively implemented the policy of recognition of income and expenses from sale of insurance products attached to loans 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. This means that 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 Bank estimates also the part of remuneration which in the future will be returned due to early termination of insurance contract and appropriately decreases interest income or fee and commission income to be recognised.

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The restatement of comparative data due to this change, resulted in the increase of the net profit for the first half of 2013 by the amount of PLN 7 139 thousand and the decrease of the total amount of equity as at 30 June 2013 by the amount of PLN 83 924 thousand.

The following tables present the impact of the changes in accounting policies introduced in 2013 on presented comparative data regarding the first half of 2013 in these condensed financial statements.

Adjustments in the mBank S.A. condensed statement of financial position

ASSETS	30.06.2013 before restatement	Restatement	30.06.2013 after restatement
Loans and advances to customers	67 274 334	(107 351)	67 166 983
Deferred income tax assets	147 781	19 686	167 467
Other items of assets	36 431 088	-	36 431 088
Total assets	**103 853 203**	**(87 665)**	**103 765 538**
LIABILITIES AND EQUITY			
Liabilities			
Provisions	120 604	(3 741)	116 863
Other items of liabilities	94 641 705	-	94 641 705
Total liabilities	**94 762 309**	**(3 741)**	**94 758 568**
Equity			
Share capital	**3 502 396**	**-**	**3 502 396**
Retained earnings:	**5 309 442**	**(84 149)**	**5 225 293**
- Profit for the previous year	4 760 949	(91 288)	4 669 661
- Net profit for the current year	548 493	7 139	555 632
Other components of equity	**279 056**	**225**	**279 281**
Total equity	**9 090 894**	**(83 924)**	**9 006 970**
Total liabilities and equity	**103 853 203**	**(87 665)**	**103 765 538**

Adjustments in the mBank S.A. condensed income statement

	Period from 01.01.2013 to 30.06.2013 before restatement	Restatement	Period from 01.01.2013 to 30.06.2013 after restatement
Interest income	1 851 880	28 927	1 880 807
Interest expense	(913 963)	-	(913 963)
Net interest income	**937 917**	**28 927**	**966 844**
Fee and commission income	552 660	(31 621)	521 039
Fee and commission expense	(213 548)	7 767	(205 781)
Net fee and commission income	**339 112**	**(23 854)**	**315 258**

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Dividend income	37 359	-	37 359
Net trading income	163 765	-	163 765
Gains less losses from investment securities, investments in subsidiaries and associates	37 172	-	37 172
Other operating income	47 136	-	47 136
Net impairment losses on loans and advances	(162 915)	-	(162 915)
Overhead costs	(603 337)	-	(603 337)
Amortisation	(77 523)	-	(77 523)
Other operating expenses	(36 588)	3 741	(32 847)
Operating profit	**682 098**	**8 814**	**690 912**
Profit before income tax	**682 098**	**8 814**	**690 912**
Income tax expense	**(133 605)**	**(1 675)**	**(135 280)**
Net profit	**548 493**	**7 139**	**555 632**

Basic earnings per share (in PLN)	**13.02**		**13.18**
Diluted earnings per share (in PLN)	**13.00**		**13.17**

Adjustments in the mBank S.A. condensed statement of comprehensive income

	Period from 01.01.2013 to 30.06.2013 before restatement	Restatement	Period from 01.01.2013 to 30.06.2013 after restatement
Net profit	**548 493**	**7 139**	**555 632**
Other comprehensive income net of tax, including:	**(207 284)**	-	**(207 284)**
Items that may be reclassified subsequently to the income statement			
Exchange differences on translation of foreign operations (net)	(779)	-	(779)
Change in valuation of available for sale financial assets (net)	(206 505)	-	(206 505)
Items that will not be reclassified to the income statement			
Actuarial gains and losses relating to post-employment benefits (net)	-	-	-
Total comprehensive income net of tax, total	**341 209**	**7 139**	**348 348**

Adjustments in mBank S.A. condensed statement of cash flows

	Period from 01.01.2013 to 30.06.2013 before restatement	Restatement	Period from 01.01.2013 to 30.06.2013 after restatement
A. Cash flows from operating activities	**(1 077 518)**	**-**	**(1 077 518)**
Profit before income tax	**682 098**	**8 814**	**690 912**
Adjustments:	***(1 759 616)***	***(8 814)***	***(1 768 430)***
Income taxes paid	(308 612)	-	(308 612)
Amortisation	77 523	-	77 523
Foreign exchange (gains) losses on financing activities	838 797	-	838 797
(Gains) losses on investing activities	330	-	330
Dividends received	(37 359)	-	(37 359)
Interest income (income statement)	(1 851 880)	(28 927)	(1 880 807)
Interest expenses (income statement)	913 963	-	913 963
Interest received	1 957 798	23 854	1 981 652
Interest paid	(769 866)	-	(769 866)
Changes in loans and advances to banks	(582 821)	-	(582 821)
Changes in trading securities	363 457	-	363 457
Changes in assets and liabilities on derivative financial instruments	(184 058)	-	(184 058)
Changes in loans and advances to customers	(5 206 494)	-	(5 206 494)
Changes in investment securities	(2 964 006)	-	(2 964 006)
Changes in other assets	(35 138)	-	(35 138)

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Changes in amounts due to other banks	2 112 543	-	2 112 543
Changes in amounts due to customers	4 078 706	-	4 078 706
Changes in debt securities in issue	(2 611)	-	(2 611)
Changes in provisions	(8 211)	(3 741)	(11 952)
Changes in other liabilities	(151 677)	-	(151 677)
Net cash generated from/(used in) operating activities	**(1 077 518)**	-	**(1 077 518)**
B.Cash flows from investing activities	**283 251**	**-**	**283 251**
C. Cash flows from financing activities	**(1 045 688)**	**-**	**(1 045 688)**
Net increase / decrease in cash and cash equivalents (A+B+C)	**(1 839 955)**	**-**	**(1 839 955)**
Effects of exchange rate changes on cash and cash equivalents	4 973	-	4 973
Cash and cash equivalents at the beginning of the reporting period	7 994 650	-	7 994 650
Cash and cash equivalents at the end of the reporting period	**6 159 668**	**-**	**6 159 668**

The above described and presented changes of comparative data are included in these condensed financial statements in all the notes of which such changes regarded.

3.28 Business segments

Data concerning business segments was presented in the condensed consolidated financial statements of mBank S.A. Group for the first half of 2014.

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

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

Impairment of loans and advances

The Bank 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. Last such verification was performed in November 2013 and it did not have material impact on the overall level of provisions for loans and advances, however it had an impact on the structure of these provisions as well as on the level of loans and advances for which impairment was recognized. The detailed description of the changes implemented as a result of this verification is included under Note 3.4.4.2 of the consolidated financial statements for the year 2013, published on 3 March 2014 and under Note 17 of the condensed consolidated financial statements for the first half of 2014.

Fair value of derivative 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.

Impairment of available for sale investments

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

Deferred tax assets

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

Revenue and expenses from sale of insurance products bundled with loans

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

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

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

Liabilities due to post-employment employee benefits

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

5. Selected explanatory information

5.1 Compliance with international financial reporting standards

The presented condensed financial statements for the first half of 2014 fulfils the requirements of the International Accounting Standard (IAS) 34 'Interim Financial Reporting' relating to interim financial reports.

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

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

A detailed description of the accounting policy principles of the Bank is presented under items 2 and 3 of the notes to the condensed financial statements for the first half of 2014. The accounting policies were applied consistently over all periods presented in the condensed financial statements.

5.3 Seasonal or cyclical nature of the business

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

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

Events as indicated above did not occur in the Bank.

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

The impact of changes in the methodology of measuring impairment of loans and advances for the structure of provisions for loans and advances portfolio and the level of receivables with impairment is described under Note 17 of the condensed consolidated financial statements for the first half of 2014. Besides the above described, in the first half of 2014, there were no significant changes in estimate values of items presented in previous reporting periods.

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

On 31 March 2014, Bank purchased 650 bonds with a nominal value of PLN 65 000 thousand issued by mBank S.A. in November 2012 as part of the Bonds and Bank Securities Issue Programme.

On 24 March 2014, the bonds with undefined maturity date, issued on 24 June 2008 in the amount of CHF 90 000 thousand CHF (equivalent of PLN 310 032 thousand at the rate from 24 March 2014), was prepaid by mBank S.A. The consent for the prepayment was obtained from Polish Financial Supervision Authority (KNF). As at 31 December 2013, amount acquired from the issue according to the decision of KNF, was included in Tier2 of Bank' own funds. The prepayment of the issue did not have significant impact on the calculation of mBank S.A. and mBank S.A. up total capital ratio under the regulations effective from 1 January 2014 (rules based on "Basel III").

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

On 31 March 2014, the XXVII Ordinary General Meeting of mBank S.A. adopted a resolution regarding the distribution of the profit with the decision to pay a dividend for the year 2013. The dividend to the shareholders contributed an amount of PLN 716 984 486, wherein the amount of the dividend per one share was PLN 17. Number of shares eligible for dividend was 42 175 558. The dividend date was fixed for the 5th of May 2014. Payment of the dividend will be on 19 May 2014.

5.8 Income and profit by business segment

Income and profit by business segment within the Bank are presented on the consolidated level under Note 4 of the condensed consolidated financial statements for the first half of 2014.

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5.9 Significant events after the end of the first half of 2014, which are not reflected in the financial statements

Events as indicated above did not occur in the Bank.

5.10 Effect of changes in the structure of the entity in the first half of 2014, including business combinations, acquisitions or disposal of subsidiaries, long-term investments, restructuring, and discontinuation of business activities

As a result of the reorganisation within the mBank Group, on 25 February 2014, the share capital of AWL I Sp. z o.o. has been increased by PLN 72 876 thousand. All shares in the increased capital were taken up by the existing shareholder BRE Ubezpieczenia TUiR S.A. in exchange for a contribution in kind of 100% shares of BRE Ubezpieczenia Sp. z o.o and 100% shares of BRE Agent Ubezpieczeniowy Sp. z o.o.

5.11 Changes in contingent liabilities and commitments

In the first half of 2014, there were no changes in contingent liabilities and commitments of credit nature, i.e., guarantees, letters of credit or unutilised loan amounts, other than resulting from current operating activities of the Bank. There was no single case of granting of guarantees or any other contingent liability of any material value for the Bank.

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

Events as indicated above did not occur in the Bank.

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

Events as indicated above did not occur in the Bank.

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

the period	from 01.01.2014 to 30.06.2014	from 01.01.2013 to 31.12.2013	from 01.01.2013 to 30.06.2013
Provisions for losses on investments in subsidiaries	**(23 431)**	**(452)**	**-**
Net impairment losses on loans and advances, including:	**(214 884)**	**(414 816)**	**(162 915)**
Net impairment losses on amounts due from other banks	(3 970)	282	109
Net impairment losses on loans and advances to customers	(219 768)	(405 523)	(170 012)
Net impairment losses on off-balance sheet contingent liabilities due to customers	8 854	(9 575)	6 988
Total impairment of financial assets	**(238 315)**	**(415 268)**	**(162 915)**

In the first half of 2014 year, the Bank created an impairment provision for loss on shares in Garbary Sp. z o.o.

5.15 Reversals of provisions against restructuring costs

Events as indicated above did not occur in the Bank.

5.16 Acquisitions and disposals of tangible fixed asset items

In the first half of 2014, there were no material transactions of acquisition or disposal of any tangible fixed assets.

5.17 Material liabilities assumed on account of acquisition of tangible fixed assets

Events as indicated above did not occur in the Bank.

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

In the first half of 2014, events as indicated above did not occur in the Bank.

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

Events as indicated above did not occur in the Bank.

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5.20 Corrections of errors from previous reporting periods

In the first half of 2014, there were no corrections of errors from previous reporting periods.

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

Events as indicated above did not occur in the Bank.

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

mBank S.A. did not publish a performance forecast for the year 2014.

5.23 Registered share capital

The total number of ordinary shares as at 30 June 2014 was 42 175 558 shares (30 June 2013: 42 141 986) at PLN 4 nominal value each (30 June 2013: PLN 4). All issued shares were fully paid up.

REGISTERED SHARE CAPITAL (THE STRUCTURE) AS AT 30 JUNE 2014						
Share type	**Type of preference**	**Type of restrictions**	**Number of shares**	**Series / issue value**	**Paid up**	**Year of registration**
ordinary bearer*	-	-	9 982 500	39 930 000	fully paid in cash	1986
ordinary registered*	-	-	17 500	70 000	fully paid in cash	1986
ordinary bearer	-	-	2 500 000	10 000 000	fully paid in cash	1994
ordinary bearer	-	-	2 000 000	8 000 000	fully paid in cash	1995
ordinary bearer	-	-	4 500 000	18 000 000	fully paid in cash	1997
ordinary bearer	-	-	3 800 000	15 200 000	fully paid in cash	1998
ordinary bearer	-	-	170 500	682 000	fully paid in cash	2000
ordinary bearer	-	-	5 742 625	22 970 500	fully paid in cash	2004
ordinary bearer	-	-	270 847	1 083 388	fully paid in cash	2005
ordinary bearer	-	-	532 063	2 128 252	fully paid in cash	2006
ordinary bearer	-	-	144 633	578 532	fully paid in cash	2007
ordinary bearer	-	-	30 214	120 856	fully paid in cash	2008
ordinary bearer	-	-	12 395 792	49 583 168	fully paid in cash	2010
ordinary bearer	-	-	16 072	64 288	fully paid in cash	2011
ordinary bearer	-	-	36 230	144 920	fully paid in cash	2012
ordinary bearer	-	-	35 037	140 148	fully paid in cash	2013
ordinary bearer			1 545	6 180	fully paid in cash	2014
Total number of shares			**42 175 558**			
Total registered share capital				**168 702 232**		
Nominal value per share		**4**				

* As at the end of the reporting period

5.24 Material share packages

In the first half of 2014, there were no changes in the holding of material share packages of the Bank.

Commerzbank AG is a shareholder holding over 5% of the share capital and votes at the General Meeting and as at 30 June 2014 it held 69.60% of the share capital and votes at the General Meeting of mBank S.A.

Pursuant to a notice sent to mBank S.A. on 8 July 2011, the Bank informed in the current report No.46/2011, that ING Powszechny Fundusz Emerytalny (Fundusz) became the owner of mBank S.A. shares representing more than 5% of the votes at the General Meeting of mBank S.A.

Prior to this acquisition of shares, Fundusz held 2 085 431 shares of mBank S.A., which constituted 4.96% of mBank S.A. share capital and entitled it to exercise 2 085 431 votes at the General Meeting of mBank S.A., which represented 4.96% of the total number of votes at the General Meeting of mBank S.A.

On 8 July 2011, there were 2 290 882 shares of mBank S.A. at the Fund's securities account. It constitutes 5.44% of the Bank's share capital which entitles to exercise 2 290 882 votes at the General Meeting of mBank S.A., representing 5.44% of the total number of votes at the General Meeting of mBank S.A.

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On 2 August 2013, mBank S.A. received from AVIVA Otwarty Fundusz Emerytalny Aviva BZ WBK ("Aviva OFE") notification of exceeding 5% of the total number of votes at the General Meeting of mBank S.A. Prior to the acquisition of shares Aviva OFE held 2 070 319 shares of mBank S.A., representing 4.91% of the share capital (issued shares) of the Bank and carrying 2 070 319 votes at the General Meeting of mBank S.A., which represented 4.91% of total votes.

Following the acquisition, as at 31 July 2013, Aviva OFE held 2 140 284 shares of mBank S.A., representing 5.08% of the share capital of the Bank and carrying 2 140 284 votes at the General Meeting of mBank S.A., which were representing 5.08% of the total number of votes.

In the first half of 2014, the National Depository of Securities (KDPW) has registered 1 545 shares of mBank S.A., which were issued as part of the conditional increase in the share capital of the Bank by issuance of shares with no subscription rights for the existing shareholders in order to enable beneficiaries of the incentive programmes to take up shares in mBank S.A. As a result of the above registration, in the first quarter of 2014 the Bank's share capital increased by PLN 6 180.

In connection with the registration by KDPW on 29 July 2014, 31 844 shares of mBank S.A., the Bank's share capital increased on 29 July 2014 by the amount of PLN 127 376. The shares were issued as part of the conditional increase in the share capital of the Bank by issuance of shares with no subscription rights for the existing shareholders with the aim of granting those shares to beneficiaries of the incentive programmes. As at the publication date of this condensed consolidated financial statements, the share capital of mBank S.A. amounted to PLN 168 829 608 and was divided into 42 207 402 shares.

5.25 Earnings per share

<u>Earnings per share for 6 months</u>

the period	from 01.01.2014 to 30.06.2014	from 01.01.2013 to 30.06.2013
Basic:		
Net profit	589 232	555 632
Weighted average number of ordinary shares	42 175 481	42 141 459
Net basic profit per share (in PLN per share)	**13.97**	**13.18**
Diluted:		
Net profit applied for calculation of diluted earnings per share	589 232	555 632
Weighted average number of ordinary shares	42 175 481	42 141 459
Adjustments for:		
- share options	61 858	41 204
Weighted average number of ordinary shares for calculation of diluted earnings per share	42 237 339	42 182 663
Diluted earnings per share (in PLN per share)	**13.95**	**13.17**

5.26 Proceedings before a court, arbitration body or public administration authority

As at 30 June 2014, the Bank was not involved in any proceedings before a court, arbitration body, or public administration authority concerning liabilities of the Bank or its subsidiaries, which represent at least 10% of the Bank's equity. Moreover, the total value of claims concerning liabilities of the Bank or its subsidiary in all proceedings before a court, an arbitration body or a public administration authority as at 30 June 2014 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.

<u>Report on major proceedings brought against the Bank</u>

1. Lawsuit brought by Bank BPH SA ('BPH') against Garbary Sp. z o.o. ('Garbary')

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

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

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

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

3. Claims of clients of Interbrok

   170 entities who were clients of Interbrok Investment E. Dróżdż i Spółka Spółka jawna (hereinafter referred to as Interbrok) called the Bank for amicable settlement in the total amount of PLN 385 520 thousand and via the District Court in Warsaw. In addition, 9 legal compensation suits have been delivered to the Bank. Eight of the nine suits where placed by former clients of Interbrok for the total amount of PLN 800 thousand with the reservation that the claims may be extended up to the total amount of PLN 5 950 thousand. Plaintiffs allege that the Bank aided in Interbrok's illegal activities, which caused damage to plaintiffs. The District Court in Warsaw settled 8 of the aforementioned court cases and dismissed actions in all cases. As a consequence of the Court of Appeal verdict on 4 March 2010, one of the judgments becomes final and valid. On 22 June 2011, the Supreme Court dismissed the plaintiff's cassation appeal in the said case. As far as the remaining cases are concerned, on 21 December 2010 and 17 January 2012, the Court of Appeals revoked the judgments of the District Court and remanded the cases to the District Court in Warsaw for re-examination. On 23 May 2013, the District Court in Warsaw upon re-examination of the case of 6 former clients of Interbrok dismissed actions for a total of PLN 600 thousand. The court case was in whole appealed against by all plaintiffs, whereas in relation to one plaintiff the appeal was rejected, and in relation to five plaintiffs the appeal was dismissed under the verdict of the Court of Appeal in Warsaw issued on 13 June 2014. In the 9th case the value of the subject of litigation amounts to PLN 275 423 thousand together with statutory interest and legal costs. The amount set forth in the petition is to cover the receivables, acquired by the Plaintiff by way of assignment, due to parties aggrieved by Interbrok on account of the reduction (as a result of Interbrok's bankruptcy) of the receivables by a return of the deposits paid by the aggrieved for making investments on the forex market. The Plaintiff claims the Bank's liability on the grounds of the Bank's aiding to commit the illicit act of Interbrok involving the pursuit of brokerage activity without a permit. At present, the case is being heard by the court of first instance.

   In all court cases the Bank moves for dismissal of the claims in entirety and objects to charges raised in the legal suits. The legal analysis of the abovementioned claims indicates that there are not significant grounds to state that the Bank bears liability in the case.

4. Class action against mBank S.A.

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

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

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As at 30 June 2014, the Bank was not involved in any proceedings before a court, arbitration body, or public administration authority concerning receivables of the Bank or its subsidiaries, which represent at least 10% of the Bank's equity. The total value of claims concerning receivables of the Bank or its subsidiaries in all proceedings before a court, an arbitration body or a public administration authority underway at 30 June 2014 was also not higher than 10% of the Bank's equity.

Information regarding tax audits

Within the period from 7 January 2013 to 5 December 2013, audit proceedings and tax audit concerning reliability of declared tax bases and correctness of calculation and payment of corporate income tax for the year 2007 were conducted in mBank S.A. by the workers of Treasury Control Office in Warsaw (Urząd Kontroli Skarbowej w Warszawie). The audit did not identify any 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.

5.27 Off-balance sheet liabilities

Off-balance sheet liabilities as at 30 June 2014, 31 December 2013, and 30 June 2013, were as follows:

	30.06.2014	31.12.2013	30.06.2013
1. Contingent liabilities granted and received	**25 910 905**	**24 394 472**	**19 826 410**
Commitments granted	**24 391 600**	**22 997 849**	**18 524 773**
- financing	15 920 432	16 875 724	13 242 600
- guarantees and other financial facilities	8 465 714	6 113 125	5 116 298
- other commitments	5 454	9 000	165 875
Commitments received	**1 519 305**	**1 396 623**	**1 301 637**
- financial commitments received	-	210 735	434 260
- guarantees received	1 519 305	1 185 888	867 377
2. Derivative financial instruments (nominal value of contracts)	**688 405 355**	**604 655 028**	**720 508 204**
Interest rate derivatives	629 225 305	559 530 365	667 679 965
Currency derivatives	57 696 236	43 651 657	51 153 891
Market risk derivatives	1 483 814	1 473 006	1 674 348
Total off-balance sheet items	**714 316 260**	**629 049 500**	**740 334 614**

5.28 Transactions with related entities

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

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

Key transactions concluded with related companies in 2014

- From 14 January 2014 to 29 January 2014, the Bank concluded several agreements with its subsidiary entity mLeasing Sp. z oo, on the total value of PLN 1 199 235 thousand. The agreement concluded for the largest amount was the loan agreement concluded on 29 January 2014 in the amount of EUR 277 000 thousand (equivalent of PLN 1 167 694 thousand according to the average exchange rate of the National Bank of Poland as at 29 January 2014).

- From 30 January 2014 to 13 June 2014, the Bank signed another agreements with the company mLeasing Sp. z oo, which total value was PLN 1 115 247 thousand. The largest of these agreements was the loan agreement concluded on 5 June 2014 in the amount of EUR 120 000 thousand (equivalent of PLN 494 580 thousand according to the average exchange rate of the National Bank of Poland as at 5 June 2014).

The amounts of transactions with related entities, i.e., balances of receivables and liabilities and related costs and income as at 30 June 2014, 31 December 2013, and 30 June 2013 were as follows.

PLN (000's)	mBank S.A. subsidiaries not consolidated by the acquisition method			Commerzbank AG Group		
As at the end of the period	**30.06.2014**	**31.12.2013**	**30.06.2013**	**30.06.2014**	**31.12.2013**	**30.06.2013**
Statement of Financial Position						
Assets	7 653 267	7 248 639	6 991 730	754 093	930 803	1 376 641
Liabilities	5 814 787	3 798 450	2 894 021	15 868 777	17 916 472	21 879 141
Income Statement						
Interest income	86 956	180 700	99 412	69 441	113 713	60 872
Interest expense	(58 978)	(78 252)	(37 249)	(161 897)	(343 411)	(171 870)
Fee and commission income	38 907	71 383	31 492	-	-	-
Fee and commission expense	(63 936)	(96 818)	(46 138)	-	-	-
Other operating income	4 781	11 746	6 867	217	320	132
Overhead costs, amortisation and other operating expenses	(2 734)	(9 356)	(3 115)	(4 577)	(9 022)	(5 269)
Contingent liabilities granted and received						
Contingent liabilities granted	5 378 468	3 397 259	2 591 043	1 049 234	1 278 880	767 650
Contingent liabilities received	-	-	-	901 298	717 528	599 414

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

As at 30 June 2014, the Bank's exposure under guarantees granted in excess of 10% of own funds related to the guarantee payment of all amounts to be paid in respect of debt securities issued by mFinance France S.A. (mFF), a subsidiary of the mBank S.A.

On 4 October 2012, the subsidiary mFF issued Eurobonds under the Euro Medium Term Note Programme with a nominal value of EUR 500 000 thousand maturing on 12 October 2015. In this case, the guarantee was given on 4 October 2012 for the duration of the Programme, which is until 12 October 2015.

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

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

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

5.30 Fair value of financial assets and liabilities

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

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

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

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

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

In addition, the Bank assumed 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 condensed statement of financial position of the Bank at their fair values.

	30.06.2014		31.12.2013	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Loans and advances to banks	**5 723 463**	**5 722 098**	**4 488 865**	**4 509 817**
Loans and advances to customers	**66 037 410**	**66 938 161**	**63 756 680**	**63 004 639**
Loans and advances to individuals	**38 284 518**	**39 196 689**	**37 148 507**	**36 408 613**
current accounts	4 859 503	4 961 300	4 534 640	4 567 052
term loans including:	33 425 015	34 235 389	32 613 867	31 841 561
- housing and mortgage loans	28 464 974	29 134 253	28 129 912	27 309 083
Loans and advances to corporate entities	**25 440 669**	**25 439 730**	**24 046 610**	**24 059 232**
current accounts	4 055 824	4 038 204	3 464 034	3 462 161
term loans	18 730 632	18 747 313	17 233 006	17 247 501
- corporate & institutional enterprises	10 401 053	10 418 181	9 487 677	9 514 284
- medium & small enterprises	8 329 579	8 329 132	7 745 329	7 733 217
reverse repo / buy sell back transactions	2 652 320	2 652 320	3 287 066	3 287 066
other	1 893	1 893	62 504	62 504
Loans and advances to public sector	**1 690 899**	**1 680 418**	**1 940 944**	**1 916 175**
Other receivables	**621 324**	**621 324**	**620 619**	**620 619**
Financial liabilities				
Amounts due to other banks	**22 098 282**	**22 455 150**	**18 863 854**	**18 878 937**
Amounts due to customers	**67 887 087**	**68 059 342**	**64 008 374**	**64 052 528**
Debt securities in issue	**386 744**	**390 833**	**451 916**	**455 856**
Subordinated liabilities	**3 278 869**	**3 299 668**	**3 762 757**	**3 764 754**

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

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

Available for sale financial assets. Listed available for sale financial instruments held by the Bank are valued at fair value. The fair value of debt securities not listed at an active market is calculated using a discounted cash flow approach based on current interest rates (including the appropriate credit spread). The model of spread determination in the case of illiquid commercial papers was extended in order to reflect the costs of unexpected loss component of the credit spread more precisely.

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

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

The fair value for these financial liabilities with more than 1 year to maturity is based on principle and interest cash flows discounted using appropriate interest rates. For received loans the Bank used the swap amended by quotations of Commerzbank CDS for exposures in EUR (and for the loans received from European Investment Bank in EUR, EIB yield curve), quotations of issued bonds under EMTN program for the exposures in foreign currencies and the swap curve amended by credit spread for the exposures in PLN. In case of deposits the Bank used the curve based on overnight rates, term cash rates, as well as FRA contracts up to 1 year and IRS contracts over 1 year for appropriate currencies and maturities. For debt securities in issue the Bank used the prices directly from the market for these securities. For the purpose of measurement of subordinated liabilities the Bank used obtained primary market spreads of subordinated bonds issued by the Bank and if required corresponding cross-currency basis swap levels for the respective maturities.

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

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

30.06.2014	Including:	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS				
TRADING SECURITIES	**2 812 476**	**2 230 496**	**-**	**581 980**
Debt securities	**2 802 510**	**2 220 536**	**-**	**581 974**
- government bonds	2 091 930	2 091 930	-	-
- mortgage bonds	72 051	-	-	72 051
- banks bonds	605 692	126 015	-	479 677
- corporate bonds	32 837	2 591	-	30 246
Equity securities	**9 966**	**9 960**	**-**	**6**
- listed	9 960	9 960	-	-
- unlisted	6	-	-	6
DERIVATIVE FINANCIAL INSTRUMENTS	**3 017 861**	**576**	**3 015 737**	**1 548**
Derivative financial instruments held for trading	**2 940 734**	**576**	**2 938 610**	**1 548**
- interest rate derivatives	2 814 290	-	2 814 290	-
- foreign exchange derivatives	116 718	-	116 718	-
- market risks derivatives	9 726	576	7 602	1 548
Derivative financial instruments held for hedging	**77 127**	**-**	**77 127**	**-**
- derivatives designated as fair value hedges	77 127	-	77 127	-
INVESTMENT SECURITIES	**26 940 977**	**22 073 854**	**4 448 784**	**418 339**
Debt securities	**26 723 413**	**21 857 713**	**4 448 784**	**416 916**
- government bonds	21 693 534	21 693 534	-	-
- money bills	4 448 784	-	4 448 784	-
- mortgage bonds	359 803	-	-	359 803
- banks bonds	25 109	-	-	25 109
- corporate bonds	156 821	124 817	-	32 004
- communal bonds	39 362	39 362	-	-
Equity securities	**217 564**	**216 141**	**-**	**1 423**
- listed	215 324	215 324	-	-
- unlisted	2 240	817	-	1 423
TOTAL FINANCIAL ASSETS	**32 771 314**	**24 304 926**	**7 464 521**	**1 001 867**

30.06.2014	Including:	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
FINANCIAL LIABILITIES				
Derivative financial instruments	**2 933 654**	**588**	**2 931 553**	**1 513**
Derivative financial instruments held for trading	**2 932 586**	**588**	**2 930 485**	**1 513**
- interest rate derivatives	2 815 204	588	2 814 616	-
- foreign exchange derivatives	108 196	-	108 196	-
- market risks derivatives	9 186	-	7 673	1 513
Derivative financial instruments held for hedging	**1 068**	**-**	**1 068**	**-**
- derivatives designated as fair value hedges	1 068	-	1 068	-
Total financial liabilities	**2 933 654**	**588**	**2 931 553**	**1 513**
TOTAL RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS	**32 771 314**	**24 304 926**	**7 464 521**	**1 001 867**
FINANCIAL LIABILITIES	**2 933 654**	**588**	**2 931 553**	**1 513**

In case of financial instruments valuated in repetitive way to fair value, classified as level 1 and 2 in hierarchy of fair value in the first half of 2014 there were no movements observed between 1 and 2 level. The bank's Financial Market Risk Department observes a potential migration between the different fair value levels on the basis of internal guidelines. There are two cases which allow for a reclassification: change of availability of market parameters used to marked-to-market valuation for T-bonds or a change in liquidity of option on WIG20 index market. In case of T-bonds, if there is no market price for more than 2 business days, the methods of valuation is changed, i.e. change from marked-to-market valuation to marked-to-model valuation under the assumption that the valuation model for the respective type of fixed income securities has been already approved. Return to marked-to-market valuation takes place after 5 business days in which market prices are continuously available.

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In case of options on the WIG20 index the utilization of an internal model or marked-to-market valuation depends on the liquidity of the options market. If a marked-to-model method is applied and the market is liquid for successive 3 months the valuation approach changes from a marked-to-model towards the marked-to-market method. In case a marked-to-market model is utilized and the market is illiquid in a given month the valuation approach is adjusted towards a marked-to-model valuation at least until the beginning of the next month.

Assets Measured at Fair Value Based on Level 3 - changes in the first half of 2014	Debt trading securities	Equity trading securities	Derivative financial instruments	Debt investment securities	Equity investment securities
As at the beginning of the period	**615 439**	**6**	**407**	**502 204**	**16 395**
Gains and losses for the period:	543	-	1 141	(5 756)	-
Recognised in profit or loss:	543	-	1 141	-	-
Net trading income	*543*	-	*1 141*	-	-
Recognised in other comprehensive income:	-	-	-	(5 756)	-
Available for sale financial assets	-	-	-	*(5 756)*	-
Purchases	1 982 405	-	-	472 510	-
Redemptions	(303 805)	-	-	-	-
Sales	(6 835 067)	-	-	(563 164)	(15 817)
Issues	5 117 774	-	-	10 503	-
Settlements	4 685	-	-	619	845
As at the end of the period	**581 974**	**6**	**1 548**	**416 916**	**1 423**

31.12.2013	Including:	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS				
TRADING SECURITIES	**903 912**	**288 467**	**-**	**615 445**
Debt securities	**903 306**	**287 867**	**-**	**615 439**
- government bonds	287 768	287 768	-	-
- deposit certificates	37 787	-	-	37 787
- mortgage bonds	72 523	-	-	72 523
- banks bonds	421 665	99	-	421 566
- corporate bonds	83 563	-	-	83 563
Equity securities	**606**	**600**	**-**	**6**
- listed	600	600	-	-
- unlisted	6	-	-	6
DERIVATIVE FINANCIAL INSTRUMENTS	**2 349 542**	**153**	**2 348 982**	**407**
Derivative financial instruments held for trading	**2 349 542**	**153**	**2 348 982**	**407**
- interest rate derivatives	2 103 034	-	2 103 034	-
- foreign exchange derivatives	232 733	-	232 733	-
- market risks derivatives	13 775	153	13 215	407
INVESTMENT SECURITIES	**25 081 290**	**18 762 112**	**5 800 579**	**518 599**
Debt securities	**24 832 595**	**18 531 623**	**5 798 768**	**502 204**
- government bonds	18 493 240	18 493 240	-	-
- treasury bills	-	-	-	-
- money bills	5 798 768	-	5 798 768	-
- mortgage bonds	369 162	-	-	369 162
- banks bonds	25 136	-	-	25 136
- corporate bonds	107 906	-	-	107 906
- communal bonds	38 383	38 383	-	-
Equity securities	**248 695**	**230 489**	**1 811**	**16 395**
- listed	229 617	229 617	-	-
- unlisted	19 078	872	1 811	16 395
TOTAL FINANCIAL ASSETS	**28 334 744**	**19 050 732**	**8 149 561**	**1 134 451**

IFRS Condensed Financial Statements for the first half of 2014 PLN (000's)

31.12.2013	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
FINANCIAL LIABILITIES				
Derivative financial instruments	**2 472 350**	**12**	**2 471 931**	**407**
Derivative financial instruments held for trading	**2 464 594**	**12**	**2 464 175**	**407**
- interest rate derivatives	2 253 612	-	2 253 612	-
- foreign exchange derivatives	196 216	-	196 216	-
- market risks derivatives	14 766	12	14 347	407
Derivative financial instruments held for hedging	**7 756**	**-**	**7 756**	**-**
- derivatives designated as fair value hedges	7 756	-	7 756	-
- derivatives designated as cash flow hedges	-	-	-	-
Total financial liabilities	**2 472 350**	**12**	**2 471 931**	**407**
TOTAL RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS	**28 334 744**	**19 050 732**	**8 149 561**	**1 134 451**
FINANCIAL LIABILITIES	**2 472 350**	**12**	**2 471 931**	**407**

In 2013 a reclassification of exotic options embedded in investment deposits (options on basket of underlyings such as commodities or indexes) within the fair value hierarchy was observed from level 2 to level 3. The Fair value of reclassified instruments as of 31.12.2013 was equal to PLN 0.5 thousand (the value contains transactions with clients and opposite back-to-back transactions on interbank market, for transactions with clients as of 31 December 2013 the fair value was PLN 404 thousand). Value of PLN 407 thousand presented in the note applies to options sold (liabilities) and purchased (assets). The reclassification was made due to a review of valuation methods, in which there was identified that variables such as volatilities of underlyings and their correlations, which are estimated in internal model due to lack of quotations for these variables, have significant impact on their fair value.

Liabilities Measured at Fair Value Based on Level 3	Derivative financial instruments and other trading liabilities	Other financial liablitities
Transfers out of Level 3 in 2013	407	-
As at the end of the period	**407**	**-**

Assets Measured at Fair Value Based on Level 3 - changes in 2013	Debt trading securities	Equity trading securities	Derivative financial instruments	Debt investment securities	Equity investment securities
As at the beginning of the period	**812 480**	**17**	**-**	**539 082**	**13 557**
Gains and losses for the period:	14 624	(11)	-	(6 738)	2 768
Recognised in profit or loss:	14 624	(11)	-	-	-
Net trading income	*14 624*	*(11)*	-	-	-
Recognised in other comprehensive income:	-	-	-	*(6 738)*	*2 768*
Available for sale financial assets	-	-	-	*(6 738)*	*2 768*
Purchases	1 275 008	-	-	967 999	70
Redemptions	(891 337)	-	-	-	-
Sales	(13 952 837)	-	-	(1 533 757)	-
Issues	13 357 501	-	-	535 776	-
Settlements	-	-	-	(158)	-
Transfers into Level 3	-	-	407	-	-
As at the end of the period	**615 439**	**6**	**407**	**502 204**	**16 395**

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

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

Level 1

As at 30 June 2014, at Level 1 of the fair value hierarchy, the Bank has presented the fair value of held for trading government bonds in the amount of PLN 2 091 930 thousand and the fair value of investment government bonds in the amount of PLN 21 693 534 thousand (31 December 2013 respectively: PLN 287 768 thousand and PLN 18 493 240 thousand). Level 1 also includes the fair value of local government bonds in the amount of PLN 39 362 thousand (31 December 2013: PLN 38 383 thousand), the fair value of bonds issued by banks in the amount of PLN 126 015 thousand (31 December 2013:

PLN 99) and fair value of bonds issued by listed companies in the amount of PLN 127 408 thousand (31 December 2013: PLN 0).

In addition, as at 30 June 2014 level 1 includes the value of the shares of listed companies in the amount of PLN 226 101 thousand, including the value of shares in PZU S.A. in the amount of PLN 209 969 thousand (31 December 2013: respectively: PLN 231 089 thousand and PLN 211 532 thousand).

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

Level 2

Level 2 of the fair vale hierarchy includes the fair values of short term bills issued by NBP in the amount of PLN 4 448 784 thousand (31 December 2013: PLN 5 798 768 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, to level 2 the Bank 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 2014 and 31 December 2013, level 2 also includes the value of options referencing on the WIG 20 index, listed on the Stock Exchange due to changes in the valuation of these options from market quotations towards the application of the Bank's own valuation model. Change in valuation was due to the limited liquidity of the market in which these options are listed, hence using the Bank's valuation model provides for a higher quality of fair values compared to the previous approach.

Level 3

Level 3 of the hierarchy presents the fair values of commercial debt securities issued by local banks and companies (bonds, mortgage bonds and deposit certificates) in the amount of PLN 998 890 thousand (31 December 2013: PLN 1 117 643 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. The model uses parameters (e.g., rate of recovery from collateral, rating migrations, default ratio volatilities) which are not observed on active markets and hence were generated by statistical analysis.

Moreover, level 3 covers mainly the fair value of equity securities amounting to PLN 1 429 thousand valuated using the market multiples method. The market multiples method, consists of valuating the equity capital of a company by using a relation between the market values of the own equity capital or market values of the total capital invested in comparable companies (goodwill) and selected economic and financial figures.

5.31 Total capital ratio

Total capital ratio of mBank S.A. as of 30 June 2014 was calculated in accordance with 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 and amending Regulation (EU) No 648/2012 ("CRR Regulation") and delegated acts (regulations) issued under the Regulation of CRR as at 30 June, 2014. According to the CRR Regulation, certain decisions, relevant for the process of total capital ratio calculation (so called "national discretions"), will be taken and published in member states by public authorities or bodies empowered to supervise credit institutions and investment firms. National discretions were not determined and published by the respective Polish public authority or body till the date of issuing of these condensed financial statements. The total capital ratio of mBank S.A. presented as of 30 June 2014 was calculated on a best effort basis and preserving consistency of the information disclosed by the Bank. However, had the national discretions for Poland been determined and published and had the Bank received the aforementioned European Banking Authority interpretations, it cannot be ruled out that the total capital ratio of mBank S.A. as of 30 June 2014 would have differed from this actually published in these condensed financial statements.

5.32 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

- Appointment of the Supervisory Board for a new term

On 31 March 2014, the XXVII Ordinary General Meeting of mBank S.A. appointed the 12-member Supervisory Board of mBank S.A. for a joint term of three years, with the following members:

1. Maciej Leśny – Chairman of the Supervisory Board, Chairman of the Executive Committee, Member of the Audit Committee, Member of the Risk Committee, Member of the Remuneration Committee,
2. Martin Zielke – Deputy Chairman of the Supervisory Board, Member of the Remuneration Committee,
3. Dr Andre Carls – Member of the Supervisory Board, Chairman of the Remuneration Committee, Member of the Audit Committee, Member of the Executive Committee,
4. Stephan Engels – Member of the Supervisory Board, Chairman of the Audit Committee,
5. Dr Stefan Schmittmann – Member of the Supervisory Board, Chairmen of the Risk Committee,
6. Martin Blessing – Member of the Supervisory Board, Member of the Executive Committee,
7. Thorsten Kanzler – Member of the Supervisory Board, Member of the Risk Committee,
8. Teresa Mokrysz – Member of the Supervisory Board, Member of the Risk Committee,
9. Waldemar Stawski – Member of the Supervisory Board, Member of the Audit Committee,
10. Dr Jan Szomburg – Member of the Supervisory Board, Member of the Executive Committee,
11. Prof. Marek Wierzbowski – Member of the Supervisory Board, Member of the Remuneration Committee,
12. Wiesław Thor – Member of the Supervisory Board.

- BRE Ubezpieczenia TUiR S.A.

On 3 April 2014 the Management Board of mBank S.A. granted its consent to conduct activities aimed at the selection of an optimum cooperation partner for the Bank in insurance within mBank Group. Currently the Bank is in discussion with limited number of potential parties regarding strategic partnership in insurance activity. Sale of BRE Ubezpieczenia TUiR S.A. may be one of considered options.