mBank S.A. Group

IFRS Condensed Consolidated Financial Statements
for the first half of 2014

Contents

Selected financial data

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

	SELECTED FINANCIAL DATA FOR THE GROUP	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	**1 928 465**	**2 045 657**	**461 532**	**485 443**
II.	Fee and commission income	**722 940**	**627 314**	**173 018**	**148 864**
III.	Net trading income	**202 320**	**178 258**	**48 420**	**42 301**
IV.	Operating profit	**849 143**	**757 618**	**203 222**	**179 786**
V.	Profit before income tax	**849 143**	**757 618**	**203 222**	**179 786**
VI.	Net profit attributable to Owners of mBank S.A.	**662 597**	**603 589**	**158 577**	**143 234**
VII.	Net profit attributable to non-controlling interests	**2 452**	**1 119**	**587**	**266**
VIII.	Net cash flows from operating activities	**3 113 273**	**(318 581)**	**745 087**	**(75 601)**
IX.	Net cash flows from investing activities	**(101 015)**	**(63 204)**	**(24 176)**	**(14 999)**
X.	Net cash flows from financing activities	**(837 386)**	**(1 427 167)**	**(200 408)**	**(338 673)**
XI.	Net increase / decrease in cash and cash equivalents	**2 174 872**	**(1 808 952)**	**520 504**	**(429 272)**
XII.	Basic earnings per share (in PLN/EUR)	**15.71**	**14.32**	**3.76**	**3.40**
XIII.	Diluted earnings per share (in PLN/EUR)	**15.69**	**14.31**	**3.76**	**3.40**
XIV.	Declared or paid dividend per share (in PLN/EUR)	**17.00**	**10.00**	**4.07**	**2.37**

	SELECTED FINANCIAL DATA FOR THE GROUP	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	**111 947 445**	**104 282 761**	**108 143 858**	**26 904 623**	**25 145 342**	**24 980 102**
II.	Amounts due to the Central Bank	**-**	**-**	**1**	**-**	**-**	**0**
III.	Amounts due to other banks	**22 297 031**	**19 224 182**	**23 427 634**	**5 358 704**	**4 635 461**	**5 411 539**
IV.	Amounts due to customers	**63 293 721**	**61 673 527**	**62 195 198**	**15 211 546**	**14 871 124**	**14 366 441**
V.	Equity attributable to Owners of mBank S.A.	**10 289 867**	**10 229 342**	**9 578 503**	**2 472 991**	**2 466 566**	**2 212 534**
VI.	Non-controlling interests	**29 548**	**27 096**	**25 612**	**7 101**	**6 534**	**5 916**
VII.	Share capital	**168 702**	**168 696**	**168 568**	**40 545**	**40 677**	**38 937**
VIII.	Number of shares	**42 175 558**	**42 174 013**	**42 141 986**	**42 175 558**	**42 174 013**	**42 141 986**
IX.	Book value per share (in PLN/EUR)	**243.98**	**242.55**	**227.29**	**58.64**	**58.49**	**52.50**
X.	Total capital ratio/capital adequacy ratio	**15.79**	**19.38**	**18.18**	**15.79**	**19.38**	**18.18**

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

Condensed consolidated income statement

	Note	Period from 01.01.2014 to 30.06.2014	Period from 01.01.2013 to 30.06.2013 restated
Interest income	5	1 928 465	2 045 657
Interest expense	5	(720 219)	(977 942)
Net interest income		**1 208 246**	**1 067 715**
Fee and commission income	6	722 940	627 314
Fee and commission expense	6	(237 849)	(232 169)
Net fee and commission income		**485 091**	**395 145**
Dividend income	7	2 811	2 309
Net trading income, including:	8	202 320	178 258
Foreign exchange result		*134 893*	*143 460*
Other net trading income and result on hedge accounting		*67 427*	*34 798*
Gains less losses from investment securities, investments in subsidiaries and associates	9	13 886	36 934
Other operating income	10	199 103	175 508
Net impairment losses on loans and advances	11	(245 347)	(187 113)
Overhead costs	12	(791 450)	(729 144)
Amortisation		(94 444)	(90 434)
Other operating expenses	13	(131 073)	(91 560)
Operating profit		**849 143**	**757 618**
Profit before income tax		**849 143**	**757 618**
Income tax expense	23	(184 094)	(152 910)
Net profit		**665 049**	**604 708**
Net profit attributable to:			
- Owners of mBank S.A.		662 597	603 589
- Non-controlling interests		2 452	1 119

Net profit attributable to Owners of mBank S.A.		**662 597**	**603 589**
Weighted average number of ordinary shares	14	**42 175 481**	**42 141 459**
Basic earnings per share (in PLN)	14	**15.71**	**14.32**
Weighted average number of ordinary shares for diluted earnings	14	**42 237 339**	**42 182 663**
Diluted earnings per share (in PLN)	14	**15.69**	**14.31**

Notes presented on pages 11– 65 constitute an integral part of these Condensed Consolidated Financial Statements.

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

Condensed consolidated 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	**665 049**	**604 708**
Other comprehensive income net of tax, including:	**107 916**	**(205 344)**
Items that may be reclassified subsequently to the income statement		
Exchange differences on translation of foreign operations (net)	130	367
Change in valuation of available for sale financial assets (net)	107 786	(205 711)
Items that will not be reclassified to the income statement		
Actuarial gains and losses relating to post-employment benefits (net)	-	-
Total comprehensive income (net)	**772 965**	**399 364**
Total comprehensive income (net), attributable to:		
- Owners of mBank S.A.	770 513	398 245
- Non-controlling interests	2 452	1 119

Notes presented on pages 11– 65 constitute an integral part of these Condensed Consolidated Financial Statements.

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

Condensed consolidated statement of financial position

ASSETS	Note	30.06.2014	31.12.2013	30.06.2013 restated
Cash and balances with the Central Bank		1 418 016	1 650 467	2 039 840
Loans and advances to banks		4 933 231	3 471 241	4 828 511
Trading securities	15	2 812 471	763 064	1 741 743
Derivative financial instruments	16	3 017 875	2 349 585	2 544 434
Loans and advances to customers	17	70 137 177	68 210 385	71 796 954
Hedge accounting adjustments related to fair value of hedged items		778	970	1 109
Investment securities	18	27 128 055	25 341 763	22 681 955
Intangible assets	19	460 135	455 345	415 428
Tangible assets	20	710 505	709 552	736 680
Current income tax assets		63 843	7 332	884
Deferred income tax assets	23	261 282	370 821	405 461
Other assets		1 004 077	952 236	950 859
Total assets		**111 947 445**	**104 282 761**	**108 143 858**

LIABILITIES AND EQUITY				
Liabilities				
Amounts due to the Central Bank		-	-	1
Amounts due to other banks		22 297 031	19 224 182	23 427 634
Derivative financial instruments	16	2 915 003	2 459 715	3 087 827
Amounts due to customers	21	63 293 721	61 673 527	62 195 198
Debt securities in issue		7 696 154	5 402 056	4 904 909
Hedge accounting adjustments related to fair value of hedged items		47 620	(4 349)	(10 282)
Other liabilities		1 839 044	1 267 672	1 364 546
Current income tax liabilities		4 779	9 581	18 011
Provisions for deferred income tax	23	3 615	2 954	2 559
Provisions	22	252 194	228 228	201 375
Subordinated liabilities		3 278 869	3 762 757	3 347 965
Total liabilities		**101 628 030**	**94 026 323**	**98 539 743**
Equity				
Equity attributable to Owners of mBank S.A.		**10 289 867**	**10 229 342**	**9 578 503**
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:		**6 351 086**	**6 398 937**	**5 797 442**
- Profit from the previous years		5 688 489	5 192 562	5 193 853
- Profit for the current year		662 597	1 206 375	603 589
Other components of equity		**425 983**	**318 067**	**278 665**
Non-controlling interests		**29 548**	**27 096**	**25 612**
Total equity		**10 319 415**	**10 256 438**	**9 604 115**
Total liabilities and equity		**111 947 445**	**104 282 761**	**108 143 858**
Total capital ratio/capital adequacy ratio *)	25	**15.79**	**19.38**	**18.18**
Book value		**10 289 867**	**10 229 342**	**9 578 503**
Number of shares		**42 175 558**	**42 174 013**	**42 141 986**
Book value per share (in PLN)		**243.98**	**242.55**	**227.29**

*) 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.

Notes presented on pages 11– 65 constitute an integral part of these Condensed Consolidated Financial Statements

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

Condensed consolidated 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	Equity attributable to Owners of mBank S.A., total	Non-controlling interests	Total equity
Equity as at 1 January 2014	**168 696**	**3 343 642**	**4 118 312**	**100 057**	**989 953**	**1 190 615**	**-**	**(2 010)**	**320 561**	**(484)**	**10 229 342**	**27 096**	**10 256 438**
Total comprehensive income							**662 597**	**130**	**107 786**	**-**	**770 513**	**2 452**	**772 965**
Dividends paid	-	-	-	-	-	(716 984)	-	-	-	-	(716 984)	-	(716 984)
Transfer to general banking risk reserve	-	-	-	-	52 000	(52 000)	-	-	-	-	-	-	-
Transfer to supplementary capital	-	-	285 109	-	-	(285 109)	-	-	-	-	-	-	-
Issue of shares	6	-	-	-	-	-	-	-	-	-	6	-	6
Stock option program for employees	-	454	-	6 536	-	-	-	-	-	-	6 990	-	6 990
- value of services provided by the employees	-	-	-	6 990	-	-	-	-	-	-	6 990	-	*6 990*
- settlement of exercised options	-	454	-	(454)	-	-	-	-	-	-	-	-	-
Equity as at 30 June 2014	**168 702**	**3 344 096**	**4 403 421**	**106 593**	**1 041 953**	**136 522**	**662 597**	**(1 880)**	**428 347**	**(484)**	**10 289 867**	**29 548**	**10 319 415**

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	Equity attributable to Owners of mBank S.A., total	Non-controlling interests	Total equity
Equity as at 1 January 2013	**168 556**	**3 333 077**	**3 353 504**	**94 863**	**945 953**	**1 214 468**	**-**	**106**	**483 678**	**225**	**9 594 430**	**24 491**	**9 618 921**
Total comprehensive income							**1 206 375**	**(2 116)**	**(163 117)**	**(709)**	**1 040 433**	**2 603**	**1 043 036**
Dividends paid	-	-	-	-	-	(421 420)	-	-	-	-	(421 420)	-	(421 420)
Transfer to general banking risk reserve	-	-	-	-	44 000	(44 000)	-	-	-	-	-	-	-
Transfer to supplementary capital	-	-	764 808	-	-	(764 808)	-	-	-	-	-	-	-
Issue of shares	140	-	-	-	-	-	-	-	-	-	140	-	140
Other changes	-	-	-	-	-	-	-	-	-	-	-	2	2
Stock option program for employees	-	10 565	-	5 194	-	-	-	-	-	-	15 759	-	15 759
- value of services provided by the employees	-	-	-	15 759	-	-	-	-	-	-	15 759	-	*15 759*
- settlement of exercised options	-	10 565	-	(10 565)	-	-	-	-	-	-	-	-	-
Equity as at 31 December 2013	**168 696**	**3 343 642**	**4 118 312**	**100 057**	**989 953**	**(15 760)**	**1 206 375**	**(2 010)**	**320 561**	**(484)**	**10 229 342**	**27 096**	**10 256 438**

IFRS Condensed Consolidated 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	Equity attributable to Owners of mBank S.A., total	Non-controlling interests	Total equity
Equity as at 1 January 2013	**168 556**	**3 333 077**	**3 353 504**	**94 863**	**945 953**	**1 214 468**	**-**	**106**	**483 678**	**225**	**9 594 430**	**24 491**	**9 618 921**
Total comprehensive income							**603 589**	**367**	**(205 711)**	**-**	**398 245**	**1 119**	**399 364**
Dividends paid	-	-	-	-	-	(421 420)	-	-	-	-	(421 420)	-	(421 420)
Transfer to general banking risk reserve	-	-	-	-	44 000	(44 000)	-	-	-	-	-	-	-
Transfer to supplementary capital	-	-	764 808	-	-	(764 808)	-	-	-	-	-	-	-
Issue of shares	12	-	-	-	-	-	-	-	-	-	12	-	12
Other changes	-	-	-	-	-	-	-	-	-	-	-	2	2
Stock option program for employees	-	751	-	6 485	-	-	-	-	-	-	7 236	-	7 236
- value of services provided by the employees	-	-	-	7 236	-	-	-	-	-	-	7 236	-	*7 236*
- settlement of exercised options	-	751	-	(751)	-	-	-	-	-	-	-	-	-
Equity as at 30 June 2013 - restated	**168 568**	**3 333 828**	**4 118 312**	**101 348**	**989 953**	**(15 760)**	**603 589**	**473**	**277 967**	**225**	**9 578 503**	**25 612**	**9 604 115**

Notes presented on pages 11– 65 constitute an integral part of these Condensed Consolidated Financial Statements.

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

Condensed consolidated 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	**3 113 273**	**(318 581)**
Profit before income tax	**849 143**	**757 618**
Adjustments:	***2 264 130***	***(1 076 199)***
Income taxes paid	(179 496)	(326 642)
Amortisation, including amortisation of fixed assets provided under operating lease	119 704	116 722
Foreign exchange (gains) losses related to financing activities	238 598	857 543
(Gains) losses on investing activities	124	(12 869)
Dividends received	(2 811)	(2 309)
Interest income (income statement)	(1 928 465)	(2 045 657)
Interest expense (income statement)	720 219	977 942
Interest received	1 970 051	2 140 849
Interest paid	(631 897)	(835 321)
Changes in loans and advances to banks	(848 360)	(686 599)
Changes in trading securities	(289 247)	112 232
Changes in assets and liabilities on derivative financial instruments	(195 382)	(132 712)
Changes in loans and advances to customers	(1 923 233)	(4 871 802)
Changes in investment securities	(1 624 421)	(2 927 002)
Changes in other assets	(52 321)	(77 507)
Changes in amounts due to other banks	5 133 371	2 089 232
Changes in amounts due to customers	1 069 559	4 246 597
Changes in debt securities in issue	85 809	336 120
Changes in provisions	23 966	(11 952)
Changes in other liabilities	578 362	(23 064)
Net cash generated from/(used in) operating activities	**3 113 273**	**(318 581)**
B.Cash flows from investing activities	**(101 015)**	**(63 204)**
Investing activity inflows	**20 087**	**29 706**
Disposal of shares in subsidiaries, net of cash disposed	-	2
Disposal of intangible assets and tangible fixed assets	17 276	13 981
Dividends received	2 811	2 309
Other investing inflows	-	13 414
Investing activity outflows	**121 102**	**92 910**
Acquisition of shares in subsidiaries	-	8
Purchase of intangible assets and tangible fixed assets	121 102	92 901
Other investing outflows	-	1
Net cash generated from/(used in) investing activities	**(101 015)**	**(63 204)**
C. Cash flows from financing activities	**(837 386)**	**(1 427 167)**
Financing activity inflows	**3 054 955**	**392 368**
Proceeds from loans and advances from other banks	-	82 356
Proceeds from other loans and advances	630 095	-
Issue of debt securities	2 424 854	310 000
Issue of ordinary shares	6	12
Financing activity outflows	**3 892 341**	**1 819 535**
Repayments of loans and advances from other banks	2 274 879	508 581
Repayments of other loans and advances	5 032	234 456
Redemption of debt securities	271 462	624 289
Acquisition of shares in subsidiaries - increase of involvement	-	1 650
Decrease of subordinated liabilities	480 122	-
Payments of financial lease liabilities	210	234
Dividends and other payments to shareholders	716 984	421 420
Interest paid from loans and advances received from other banks and from subordinated liabilities	143 652	28 905
Net cash generated from/(used in) financing activities	**(837 386)**	**(1 427 167)**
Net increase / decrease in cash and cash equivalents (A+B+C)	**2 174 872**	**(1 808 952)**
Effects of exchange rate changes on cash and cash equivalents	12 945	80
Cash and cash equivalents at the beginning of the reporting period	3 685 640	7 578 317
Cash and cash equivalents at the end of the reporting period	**5 873 457**	**5 769 445**

Notes presented on pages 11– 65 constitute an integral part of these Condensed Consolidated Financial Statements

Explanatory notes to the condensed consolidated financial statements

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

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

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

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

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

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

As at 30 June 2014, mBank S.A. Group covered by the condensed consolidated financial statements comprised the following companies:

mBank S.A., the parent entity

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

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

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

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

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

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

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

As at 30 June 2014 the headcount of mBank S.A. amounted to 4 709 FTEs (Full Time Equivalents) and of the Group to 6 136 FTEs (30 June 2013: Bank 4 720 FTEs, Group 6 107 FTEs).

As at 30 June 2014 the employment in mBank S.A. was 5 771 persons and in the Group 7 914 persons (30 June 2013: Bank 5 687 persons, Group 7 845 persons).

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

Corporates and Financial Markets Segment, including:

Corporates and Investment Banking

- Dom Maklerski mBanku S.A., subsidiary (the corporate segment of the company's activity)
- mFaktoring S.A., subsidiary
- mLeasing Sp. z o.o., subsidiary (the corporate segment of the company's activity)
- Garbary Sp. z o.o., subsidiary
- MLV 45 Sp. z o.o. spółka komandytowa, subsidiary
- Transfinance a.s., subsidiary

Financial Markets

- mFinance France S.A., subsidiary

Retail Banking Segment (including Private Banking)

- Aspiro S.A., subsidiary
- AWL I Sp. z o.o., subsidiary,
- Dom Maklerski mBanku S.A., subsidiary (the retail segment of the company's activity)
- mBank Hipoteczny S.A., subsidiary
- mLeasing Sp. z o.o., subsidiary (the retail segment of the company's activity)
- mWealth Management S.A., subsidiary
- BRE Ubezpieczenia TUiR S.A., subsidiary, insurer
- BRE Ubezpieczenia Sp. z o.o., subsidiary, insurance agent
- BRE Agent Ubezpieczeniowy Sp. z o.o., subsidiary, insurance agent

Other

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

Other information concerning companies of the Group

As a part of the reorganisation of mBank S.A. Group, on 25 February 2014, the share capital of the company AWL I Sp. z o.o. was increased by the amount of PLN 72 876 thousand. All shares in the increased share capital were taken by the current partner BRE Ubezpieczenia TUiR S.A. in exchange for a contribution in kind in the form of 100% of the shares of BRE Ubezpieczenia Sp. z o.o. and 100% of the shares of BRE Agent Ubezpieczeniowy Sp. z o.o.

Therefore, starting from the first quarter of 2014, the Group began to consolidate the subsidiary AWL I Sp. z oo, which is the direct owner of shares in companies BRE Ubezpieczenia Sp. z o.o. and BRE Agent Ubezpieczeniowy Sp. z o.o.

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

2. Description of the relevant accounting policies

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

2.1. Accounting basis

The condensed consolidated financial statements of mBank S.A. Group have been prepared for the 6-month period ended 30 June 2014.

The presented condensed consolidated 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 do not include all the information and disclosures required in the annual financial statements and, therefore, the presented condensed consolidated financial statements for the first half of 2014 should be read in conjunction with the mBank S.A. Group Consolidated 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 2.32.

The data presented in the mBank S.A. Group condensed consolidated 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 3.

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

The Management Board of mBank S.A. approved these condensed consolidated financial statements for issue on 30 July 2014.

2.2. Consolidation

Subsidiaries

Subsidiaries comprise entities, regardless of the nature of the involvement with an entity (including special purpose vehicles) over which the Group controls the investee. The control is achieved when the Group has power over the investee, is exposed or has rights, to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. When the Group has less than a majority of the voting rights of an investee, it considers all relevant facts and circumstances in assessing whether it has power over the investee, including a contractual arrangements between the Group and other vote holders, rights arising from other contractual arrangements, the Group's voting rights and potential voting rights. If facts and circumstances indicate that there are changes in at least one of the three elements of control listed above, the Group reassess whether it controls an investee. The consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. The consolidated financial statements combine items of assets, liabilities, equity, income and expenses of the parent with those of its subsidiaries eliminating the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary. Thus arises goodwill. If goodwill has negative value, it is recognised directly in the income statement (see Note 2.19). The profit or loss and each component of other comprehensive income is attributed to the Group's owners and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. If the Group loses control of a subsidiary, it shall account for all amounts previously recognised in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transaction (i.e. transactions with owners in their capacity as owners).

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

The company also applies accounting policies in line with IFRS 3 Business Combinations to combinations of bussines under common control in the case of the economic content of the transaction.

Consolidation does not cover those companies whose scale of business operations is immaterial in relation to the volume of business of the Group. Those companies were recognised at cost less impairment.

Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are settled using the equity method of accounting and they are initially recognised at cost.

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

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

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

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

Company	30.06.2014		31.12.2013		30.06.2013	
	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method
Aspiro S.A.	100%	full	100%	full	100%	full
AWL I Sp. z o.o.	100%	full	-	-	-	-
BDH Development Sp. z o.o.	100%	full	100%	full	-	-
BRE Agent Ubezpieczeniowy Sp. z o.o.	100%	full	100%	full	100%	full
BRE Ubezpieczenia Sp. z o.o.	100%	full	100%	full	100%	full
BRE Ubezpieczenia TUiR S.A.	100%	full	100%	full	100%	full
Dom Maklerski mBanku S.A.	100%	full	100%	full	100%	full
Garbary Sp. z o.o.	100%	full	100%	full	100%	full
mBank Hipoteczny S.A.	100%	full	100%	full	100%	full
mCentrum Operacji Sp. z o.o.	100%	full	100%	full	100%	full
mFaktoring S.A.	100%	full	100%	full	100%	full
mLeasing Sp. z o.o.	100%	full	100%	full	100%	full
mWealth Management S.A.	100%	full	100%	full	100%	full
MLV 45 Sp. z o.o. spółka komandytowa	100%	full	100%	full	100%	full
Transfinance a.s.	100%	full	100%	full	100%	full
mFinance France S.A.	99.98%	full	99.98%	full	99.98%	full
mLocum S.A.	79.99%	full	79.99%	full	79.99%	full

2.3. 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 Group estimates the cash flows taking into account all the contractual terms of the financial instrument, but without taking into account possible future losses on account of non-recovered loans and advances. This calculation takes into account all the fees paid or received between the parties to the contract, which constitute an integral component of the effective interest rate, as well as transaction expenses and any other premiums or discounts.

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

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

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

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

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

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

2.4. Fee and commission income

Income on account of fees and commissions is recognised on the accrual basis, at the time of performance of the respective services. Fees charged for the granting of loans which are likely to be drawn down are deferred (together with the related direct costs) and recognised as adjustments of the effective interest rate charge on the loan. Fees on account of syndicated loans are recognised as income at the time of closing of the process of organisation of the respective syndicate, if the Group has not retained any part of the credit risk on its own account or has retained a part of the risk of a similar level as other participants. Commissions and fees on account of negotiation or participation in the negotiation of a transaction on behalf of a third party, such as the acquisition of shares or other securities, or the acquisition or disposal of an enterprise, are recognised at the time of realisation of the 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 Group on account of issuance, renewal and change in the limit of credit and payment cards, guarantees granted as well as opening, extension and increase of letters of credit are accounted for a straight-line basis.

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

Additionally, fee and commission income on insurance activity comprises income on services provided by an insurance agent and income on account of payments for arranging instalments for a premium for insurance products sold through the Internet platform. The fee for the distribution of premium installment is settled in accordance with the duration of the policy.

Income on account of services provided as an insurance agent is recognised at the time of performance of the services in the net amount, after deduction of expenses of services provided by the entities from outside of the Group.

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

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

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

2.6. Insurance premium revenue

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

2.7. Compensations and benefits, net

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

2.8. Segment reporting

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

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

In accordance with IFRS 8, the Group has the following business segments: Retail Banking, Corporates and Financial Markets including the sub-segments Corporates and Institutions as well as Trading and Investment Acivity, and the other business.

2.9. Financial assets

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

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

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

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

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

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

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

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

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

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

- it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a group of financial assets, financial liabilities or both is 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 2.3), except for derivatives the recognition of which is discussed in Note 2.16, 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.

<u>Loans and receivables</u>

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

<u>Held to maturity investments</u>

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

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

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

<u>Available for sale investments</u>

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

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

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

Gains and losses arising from changes in the fair value of available for sale financial assets are recognised in other comprehensive income until the derecognition of the respective financial asset in the statement of financial position or until its impairment: at such time the aggregate net gain or loss previously recognised in other comprehensive income is now recognised in the income statement. However, interest calculated using the effective interest rate is recognised in the income statement.

Dividends on available for sale equity instruments are recognised in the income statement when the entity's right to receive payment is established.

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

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

2.10. Reinsurance assets

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

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

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

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

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

2.11. 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.

2.12. Impairment of financial assets

<u>Assets carried at amortised cost</u>

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

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

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.

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

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

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

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

The calculation of the present value of estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from 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 Group and sets the amount of the loss. Subsequent recoveries of amounts previously written off reduce the amount of the provision for loan impairment in the income statement.

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

Renegotiated agreements

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

2.13. Financial guarantee contracts

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

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

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

2.14. Cash and cash equivalents

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

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

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

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

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

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

Securities borrowed under 'buy-sell-back' transactions and then lent under 'sell-buy-back' transactions are not recognised as financial assets.

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

2.16. Derivative financial instruments and hedge accounting

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

The best fair value indicator for a derivative instrument at the time of its initial recognition is the price of the transaction (i.e., the fair value of the paid or received consideration). If the fair value of the particular instrument may be determined by comparison with other current market transactions concerning the same instrument (not modified) or relying on valuation techniques based exclusively on market data that are available for observation, then the Group recognises the respective gains or losses from the first day in accordance with the principles described under Note 2.17.

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

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

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

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

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

- The effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured.
- The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

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

Due to the split of derivatives classified into banking book and into trading book, the Group applies a different approach to the presentation of interest income/expense for each of these groups of derivatives that is described in Note 2.3 'Interest income and expenses'. The remaining result from fair value measurement of derivatives is recognised in Net trading income.

Fair value hedges

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

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

Cash flow hedges

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

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

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

Derivative instruments not fulfilling the criteria of hedge accounting

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

The Group holds the following derivative instruments in its portfolio:

Market risk instruments:

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

Interest rate risk instruments:

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

Foreign exchange risk instruments:

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

2.17. Gains and losses on initial recognition

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

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

2.18. 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.

2.19. 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.

Goodwill

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

Goodwill on acquisition of subsidiaries is included in 'intangible assets'. Goodwill is not amortised, but it is tested annually for impairment, and it is carried in the statement of financial position at cost reduced by accumulated impairment losses. Goodwill impairment losses should not be reversed.

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

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

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

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

Development costs

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

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

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

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

2.20. 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 Group and the cost of the item can be measured reliably. Any other expenses incurred on repairs and maintenance are expensed to the income statement in the reporting period in which they were incurred.

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

Buildings and structures	25-40 years,
Equipment	2-10 years,
Vehicles	5 years,
Information technology hardware	2-5 years,
Investments in third party fixed assets	10-40 years 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 Group 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.

2.21. Inventories

Inventories are stated at the lower of: cost of purchase/cost of construction and net realisable value. Cost of construction of inventories comprises direct construction costs, the relevant portion of fixed indirect production costs incurred in the construction process and the borrowing costs, which can be directly allocated to the purchase or construction of an asset. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling costs. The amount of any inventory write-downs to the net realisable value and any inventory losses are recorded as costs of the period in which a write-down or a loss occurred and they are classified as other operating costs.

Reversals of inventory write-downs resulting from increases in their net realisable value are recorded as a reduction of the inventories recognised as cost of the period in which the reversals took place. Inventory issues are valued through detailed identification of the individual purchase prices or costs of construction of the assets which relate to the realisation of the individual separate undertakings. In particular, inventories comprise land and rights to perpetual usufruct of land designated for use as part of construction projects carried out. They also comprise assets held for lease as well as assets taken over as a result of terminated lease agreements.

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

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

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

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

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

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

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

2.23. Deferred income tax

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

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

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

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

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

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

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

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

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

2.24. Assets repossessed for debt

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

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

2.25. Prepayments, accruals and deferred income

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

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

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

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

2.26. Leasing

mBank S.A. Group as a lessor

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

Revenue from leasing agreements is recognised as follows:

- Interests on finance lease

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

- Net revenue from operating lease

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

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

mBank S.A. Group as a lessee

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

2.27. Provisions

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

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

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

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

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

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

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

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

2.28. Post-employment employee benefits and other employee benefits

Post-employment employee benefits

The Group forms provisions against future liabilities on account of post-employment benefits determined on the basis of an estimation of liabilities of that type, using an actuarial model. The Group uses a principle of recognition of actuarial gains or losses from the measurement of post-employment benefits related to changes in actuarial assumptions in other comprehensive income. The Group 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.

In addition, in two of the Group's subsidiaries share-based payment incentive programmes have been established. These programmes meet the definition of cash-settled share-based payment transactions. The incentive programme functioning in mBank Hipoteczny is based on phantom shares of this bank. In addition, starting from the second quarter of 2014, the Group operates an incentive programme, under which the management and employees of BRE Ubezpieczenia TUiR SA will be entitled to potential capital gains concerning 4.99% of the shares of this company.

2.29. Equity

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

Registered share capital

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

- Own shares

In the case of acquisition of shares 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 benefits.

2.30. Valuation of items denominated in foreign currencies

Functional currency and presentation currency

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

Transactions and balances

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

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

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.

Companies belonging to the Group

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

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

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

Leasing business

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

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

2.31. 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.

Dom Maklerski mBanku S.A. operates trust and fiduciary activities in connection with the handling of securities accounts of the clients.

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

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

2.32. New standards, interpretations and amendments to published standards

These condensed consolidated 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 Group 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 Group did not use the possibility of early application.

<u>Published Standards and Interpretations which have been issued and binding for the Group for annual periods starting on 1 January 2014</u>

- 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.

<u>Published Standards and Interpretations which have been issued and binding for the Group for annual periods starting on 1 January 2015</u>

- 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 Group 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.

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

Standards and interpretations not yet approved by the European Union:

- 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 Group is of the opinion that the application of the amended standard will have no significant impact on the financial statements in the period of its initial application.
- IFRS 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 Group is of the opinion that the application of the standard will have an impact on the presentation and measurement of these instruments in the financial statements..

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

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

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

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

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

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

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

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

2.33. Comparative data

In 2013, the Group introduced changes in its accounting policies, which led to the restatement of comparative information presented in these condensed consolidated financial statements.

a) Actuarial gains and losses

In 2013, the Group 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 Group 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 above described change made by the Group, resulted in reduction of consolidated net profit as of 30 June 2013 by the amount of PLN 225 thousand and increase of other components of equity, by the same amount. The adjustment had no impact on the total amount of consolidated equity as at 30 June 2013.

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

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

In 2013, the Group 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 Group's clients has always voluntary character, in 2012 and before the Group 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 Group 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 Group verified its approach towards the recognition of bancassurance income and adhered to the afore-mentioned guidance. As a result of this change the Group 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 Group estimates also the part of remuneration which in the future will be returned due to early termination of insurance contract and appropriately decreases interest income or fee and commission income to be recognised.

The restatement of comparative data for the first half of 2013 due to this change, resulted in an increase of consolidated net profit for the first half of 2013 by the amount of PLN 7 139 thousand and a decrease of the total amount of consolidated 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 first half of 2013 in these condensed consolidated financial statements.

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

ASSETS	30.06.2013 before restatement	Restatement	30.06.2013 after restatement
Loans and advances to customers	71 904 305	(107 351)	71 796 954
Deferred income tax assets	385 775	19 686	405 461
Other items of assets	35 941 443	-	35 941 443
Total assets	**108 231 523**	**(87 665)**	**108 143 858**
LIABILITIES AND EQUITY			
Liabilities			
Provisions	205 116	(3 741)	201 375
Other items of liabilities	98 338 368	-	98 338 368
Total liabilities	**98 543 484**	**(3 741)**	**98 539 743**
Equity			
Share capital	**3 502 396**	**-**	**3 502 396**
Retained earnings:	**5 881 591**	**(84 149)**	**5 797 442**
- Profit for the previous year	5 285 141	(91 288)	5 193 853
- Net profit for the current year	596 450	7 139	603 589
Other components of equity	**278 440**	**225**	**278 665**
Non-controlling interests	**25 612**	**-**	**25 612**
Total equity	**9 688 039**	**(83 924)**	**9 604 115**
Total liabilities and equity	**108 231 523**	**(87 665)**	**108 143 858**

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

Adjustments in the mBank S.A. Group condensed consolidated 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	2 016 730	28 927	2 045 657
Interest expense	(977 942)	-	(977 942)
Net interest income	**1 038 788**	**28 927**	**1 067 715**
Fee and commission income	658 935	(31 621)	627 314
Fee and commission expense	(239 936)	7 767	(232 169)
Net fee and commission income	**418 999**	**(23 854)**	**395 145**
Dividend income	2 309	-	2 309
Net trading income	178 258	-	178 258
Gains less losses from investment securities, investments in subsidiaries and associates	36 934	-	36 934
Other operating income	175 508	-	175 508
Net impairment losses on loans and advances	(187 113)	-	(187 113)
Overhead costs	(729 144)	-	(729 144)
Amortisation	(90 434)	-	(90 434)
Other operating expenses	(95 301)	3 741	(91 560)
Operating profit	**748 804**	**8 814**	**757 618**
Profit before income tax	**748 804**	**8 814**	**757 618**
Income tax expense	**(151 235)**	**(1 675)**	**(152 910)**
Net profit	**597 569**	**7 139**	**604 708**
Net profit attributable to:			
- Owners of mBank S.A.	596 450	7 139	603 589
- Non-controlling interests	1 119	-	1 119
Basic earnings per share (in PLN)	**14.15**		**14.32**
Diluted earnings per share (in PLN)	**14.14**		**14.31**

Adjustments in the mBank S.A. Group condensed consolidated 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	**597 569**	**7 139**	**604 708**
Other comprehensive income net of tax, including:	**(205 344)**	**-**	**(205 344)**
Items that may be reclassified subsequently to the income statement			
Exchange differences on translation of foreign operations (net)	367	-	367
Change in valuation of available for sale financial assets (net)	(205 711)	-	(205 711)
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	**392 225**	**7 139**	**399 364**
Total comprehensive income (net), attributable to:			
- Owners of mBank S.A.	391 106	7 139	398 245
- Non-controlling interests	1 119	-	1 119

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

Adjustments in the mBank S.A. Group condensed consolidated 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	**(318 581)**	**-**	**(318 581)**
Profit before income tax	**748 804**	**8 814**	**757 618**
Adjustments:	***(1 067 385)***	***(8 814)***	***(1 076 199)***
Income taxes paid	(326 642)	-	(326 642)
Amortisation, including amortisation of fixed assets provided under operating lease	116 722	-	116 722
Foreign exchange (gains) losses related to financing activities	857 543	-	857 543
(Gains) losses on investing activities	(12 869)	-	(12 869)
Dividends received	(2 309)	-	(2 309)
Interest income (income statement)	(2 016 730)	(28 927)	(2 045 657)
Interest expense (income statement)	977 942	-	977 942
Interest received	2 116 995	23 854	2 140 849
Interest paid	(835 321)	-	(835 321)
Changes in loans and advances to banks	(686 599)	-	(686 599)
Changes in trading securities	112 232	-	112 232
Changes in assets and liabilities on derivative financial instruments	(132 712)	-	(132 712)
Changes in loans and advances to customers	(4 871 802)	-	(4 871 802)
Changes in investment securities	(2 927 002)	-	(2 927 002)
Changes in other assets	(77 507)	-	(77 507)
Changes in amounts due to other banks	2 089 232	-	2 089 232
Changes in amounts due to customers	4 246 597	-	4 246 597
Changes in debt securities in issue	336 120	-	336 120
Changes in provisions	(8 211)	(3 741)	(11 952)
Changes in other liabilities	(23 064)	-	(23 064)
Net cash generated from/(used in) operating activities	**(318 581)**	**-**	**(318 581)**
B.Cash flows from investing activities	**(63 204)**	**-**	**(63 204)**
C. Cash flows from financing activities	**(1 427 167)**	**-**	**(1 427 167)**
Net increase / decrease in cash and cash equivalents (A+B+C)	**(1 808 952)**	**-**	**(1 808 952)**
Effects of exchange rate changes on cash and cash equivalents	80	-	80
Cash and cash equivalents at the beginning of the reporting period	7 578 317	-	7 578 317
Cash and cash equivalents at the end of the reporting period	**5 769 445**	**-**	**5 769 445**

The above described and presented changes of comparative data have been included in all notes of these condensed consolidated financial statements which these changes concerned.

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

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

Impairment of loans and advances

The Group reviews its loan portfolio in terms of possible impairments at least once per quarter. In order to determine whether any impairment loss should be recognised in the income statement, the Group assesses whether any evidence exists that would indicate some measurable reduction of estimated future cash flows attached to the loan portfolio. The methodology and the assumptions (on the basis of which the estimated cash flow amounts and their anticipated timing are determined) are regularly verified. 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 these condensed consolidated financial statements.

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

Deferred tax assets

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

Revenue and expenses from sale of insurance products bundled with loans

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

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

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

Liabilities due to post-employment employee benefits

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

Technical-insurance provisions

Provision for unpaid claims and benefits which were reported to the insurer and in relation to which the information held does not enable to make an assessment of claims and benefits, is calculated using a lump sum method. Values of lump sum-based ratios for particular risks were established on the basis of information concerning the average value of claims arising from the given risk.

As at 30 June 2014, provisions for claims incurred but not reported to the insurer (IBNR) were calculated using the actuarial methods (Naive Loss Ratio and Bornhuetter-Ferguson). The expected loss ratios are composed on the basis of available market studies concerning loss arising from the given group of risks.

4. Business segments

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

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

Under the rebranding process, on 25 November 2013, BRE Bank and MultiBank changed their names. Entities of the former BRE Bank Group merged under the name mBank S.A. Ultimately, the rebranding process will cover all the outlets of the former BRE Bank Group with all its branches getting a new logo. The process will be completed during 2014. Additionally, in accordance with the strategy, all retail and corporate branches of the Bank will have been re-organized and repositioned by 2018 to provide a full range of services to all mBank S.A. clients.

In 2014, the name of the sub-segment "Corporates and Institutions" has been changed to "Corporate and Investment Banking" and the name of the sub-segment "Trading and Investment" has been changed to "Financial Markets". Moreover, from the beginning of 2014 a change of the assignment of mLeasing and Dom Maklerski mBanku to segments took place. Results of mLeasing (previously assigned to Corporate and Investment Banking segment) have been split between Corporate and Investment Banking segment and Retail Banking segment (according to split of customers into corporate and retail). Results of Dom Maklerski mBanku (previously assigned to Financial Markets segment) have been split between Corporate and Investment Banking segment and Retail Banking segment according to split of customers into corporate and retail.

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

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

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

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

- *Corporate and Investment Banking* sub-segment (business line), which targets small, medium and large-sized companies and public sector entities. The key products offered to these customers include transactional banking products and services including current account products, multi-functional internet banking, tailor-made cash management and trade finance services, term deposits, foreign exchange transactions, a comprehensive offer of short-term financing and investment loans, cross-border credit, project finance, structured and mezzanine finance services, investment banking products including foreign exchange options, forward contracts, interest rate derivatives and commodity swaps and options, structured deposit products with embedded options (interest on structured deposit products are directly linked to the performance of certain underlying financial instruments such as foreign exchange options, interest rate options and stock options), debt origination for corporate clients, treasury bills and bonds, non-government debt, medium-term bonds, buy sell back and sell buy back transactions and repo transactions, as well as leasing, factoring and brokerage services. The Corporate and Investment Banking sub-segment includes the results of the following subsidiaries: mFaktoring S.A., MLV 45 Sp. z o.o. spółka komandytowa, Transfinance a.s., Garbary Sp. z o.o., results of corporate segments of mLeasing Sp. z o.o. and Dom Maklerski mBanku S.A.

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

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

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

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

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

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

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

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

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

The primary basis used by the Group in the segment reporting is business line division. In addition, the Group's activity is presented by geographical areas reporting broken down into Poland and foreign countries because of the place of origin of income and expenses. Foreign countries segment includes activity of mBank's foreign branches in Czech Republic and Slovakia as well as activity of foreign subsidiaries Transfinance a.s. and mFinance France S.A.

Business segment reporting on the activities of mBank S.A. Group
for the period from 1 January to 30 June 2014
(PLN'000)

	Corporates & Financial Markets		Retail Banking (including Private Banking)	Other	Total figure for the Group	Statement of financial position reconciliation/ income statement reconciliation
	Corporates and Investment Banking	Financial Markets				
Net interest income	**331 509**	**42 877**	**838 339**	**(4 479)**	**1 208 246**	**1 208 246**
- sales to external clients	297 055	284 268	627 604	(681)	1 208 246	
- sales to other segments	34 454	(241 391)	210 735	(3 798)	-	
Net fee and commission income	**186 315**	**(3 502)**	**294 248**	**8 030**	**485 091**	**485 091**
Dividend income	**158**	**149**	**28**	**2 476**	**2 811**	**2 811**
Trading income	**90 668**	**46 994**	**64 737**	**(79)**	**202 320**	**202 320**
Gains less losses from investment securities, investments in subsidiaries and associates	**8 046**	**5 840**	**-**	**-**	**13 886**	**13 886**
Other operating income	**59 183**	**387**	**55 516**	**84 017**	**199 103**	**199 103**
Net impairment losses on loans and advances	**(109 013)**	**(31)**	**(136 329)**	**26**	**(245 347)**	**(245 347)**
Overhead costs	**(285 771)**	**(44 232)**	**(443 179)**	**(18 268)**	**(791 450)**	**(791 450)**
Amortisation	**(35 189)**	**(4 194)**	**(53 503)**	**(1 558)**	**(94 444)**	**(94 444)**
Other operating expenses	**(18 955)**	**(54)**	**(21 010)**	**(91 054)**	**(131 073)**	**(131 073)**
Gross profit of the segment	**226 951**	**44 234**	**598 847**	**(20 889)**	**849 143**	**849 143**
Income tax					(184 094)	(184 094)
Net profit attributable to Owners of mBank S.A.					662 597	662 597
Net profit attributable to non-controlling interests					2 452	2 452
Assets of the segment	**27 031 885**	**40 082 474**	**44 106 289**	**726 797**	**111 947 445**	**111 947 445**
Liabilities of the segment	**21 391 391**	**39 298 372**	**40 103 816**	**834 451**	**101 628 030**	**101 628 030**
Other items of the segment						
Expenditures incurred on fixed assets and intangible assets	69 323	2 427	44 955	1 174	117 879	

Business segment reporting on the activities of mBank S.A. Group
for the period from 1 January to 31 December 2013
(PLN'000)

	Corporates & Financial Markets		Retail Banking (including Private Banking)	Other	Total figure for the Group	Statement of financial position reconciliation/ income statement reconciliation
	Corporates and Investment Banking	Financial Markets				
Net interest income	**721 598**	**8 667**	**1 506 007**	**(10 461)**	**2 225 811**	**2 225 811**
- sales to external clients	652 399	627 894	950 291	(4 773)	2 225 811	
- sales to other segments	69 199	(619 227)	555 716	(5 688)	-	
Net fee and commission income	**335 073**	**(4 337)**	**490 841**	**13 161**	**834 738**	**834 738**
Dividend income	**24 454**	**-**	**186**	**2 216**	**26 856**	**26 856**
Trading income	**199 539**	**20 603**	**122 903**	**(67)**	**342 978**	**342 978**
Gains less losses from investment securities, investments in subsidiaries and associates	**11 680**	**53 394**	**13 504**	**-**	**78 578**	**78 578**
Other operating income	**89 262**	**713**	**143 116**	**141 730**	**374 821**	**374 821**
Net impairment losses on loans and advances	**(179 964)**	**(45)**	**(297 721)**	**(48)**	**(477 778)**	**(477 778)**
Overhead costs	**(541 478)**	**(78 974)**	**(841 039)**	**(28 662)**	**(1 490 153)**	**(1 490 153)**
Amortisation	**(71 270)**	**(6 659)**	**(106 769)**	**(3 192)**	**(187 890)**	**(187 890)**
Other operating expenses	**(39 311)**	**(33)**	**(72 853)**	**(98 061)**	**(210 258)**	**(210 258)**
Gross profit of the segment	**549 583**	**(6 671)**	**958 175**	**16 616**	**1 517 703**	**1 517 703**
Income tax					(308 725)	(308 725)
Net profit attributable to Owners of mBank S.A.					1 206 375	1 206 375
Net profit attributable to non-controlling interests					2 603	2 603
Assets of the segment	**25 242 780**	**35 051 093**	**43 054 028**	**934 860**	**104 282 761**	**104 282 761**
Liabilities of the segment	**20 804 275**	**33 183 994**	**39 296 017**	**742 037**	**94 026 323**	**94 026 323**
Other items of the segment						
Expenditures incurred on fixed assets and intangible assets	103 014	6 841	118 674	181	228 710	

Business segment reporting on the activities of mBank S.A. Group
for the period from 1 January to 30 June 2013
(PLN'000)

	Corporates & Financial Markets		Retail Banking (including Private Banking)	Other	Total figure for the Group	Statement of financial position reconciliation/ income statement reconciliation
	Corporates and Investment Banking	Financial Markets				
Net interest income	**360 942**	**978**	**711 831**	**(6 036)**	**1 067 715**	**1 067 715**
- sales to external clients	334 337	359 778	376 494	(2 894)	1 067 715	
- sales to other segments	26 605	(358 800)	335 337	(3 142)	-	
Net fee and commission income	**175 224**	**(2 787)**	**215 183**	**7 525**	**395 145**	**395 145**
Dividend income	**11**	**-**	**98**	**2 200**	**2 309**	**2 309**
Trading income	**106 281**	**9 134**	**61 719**	**1 124**	**178 258**	**178 258**
Gains less losses from investment securities, investments in subsidiaries and associates	**(257)**	**23 748**	**13 443**	**-**	**36 934**	**36 934**
Other operating income	**38 674**	**343**	**72 573**	**63 918**	**175 508**	**175 508**
Net impairment losses on loans and advances	**(55 927)**	**13**	**(131 191)**	**(8)**	**(187 113)**	**(187 113)**
Overhead costs	**(259 923)**	**(39 071)**	**(413 665)**	**(16 485)**	**(729 144)**	**(729 144)**
Amortisation	**(34 655)**	**(3 353)**	**(50 867)**	**(1 559)**	**(90 434)**	**(90 434)**
Other operating expenses	**(23 619)**	**(1)**	**(26 811)**	**(41 129)**	**(91 560)**	**(91 560)**
Gross profit of the segment	**306 751**	**(10 996)**	**452 313**	**9 550**	**757 618**	**757 618**
Income tax					(152 910)	(152 910)
Net profit attributable to Owners of mBank S.A.					603 589	603 589
Net profit attributable to non-controlling interests					1 119	1 119
Assets of the segment	**26 119 474**	**37 250 436**	**43 837 892**	**936 056**	**108 143 858**	**108 143 858**
Liabilities of the segment	**21 549 795**	**38 728 343**	**37 523 472**	**738 133**	**98 539 743**	**98 539 743**
Other items of the segment						
Expenditures incurred on fixed assets and intangible assets	37 804	3 536	33 570	50	74 960	

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Geographical areas reporting on the activities of mBank S.A. Group for the period	from 1 January to 30 June 2014			from 1 January to 31 December 2013			from 1 January to 30 June 2013		
	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total
Net interest income	1 149 316	58 930	**1 208 246**	2 124 260	101 551	**2 225 811**	1 022 849	44 866	**1 067 715**
Net fee and commission income	470 229	14 862	**485 091**	811 613	23 125	**834 738**	386 321	8 824	**395 145**
Dividend income	2 811	-	**2 811**	26 856	-	**26 856**	2 309	-	**2 309**
Trading income	199 512	2 808	**202 320**	337 150	5 828	**342 978**	175 822	2 436	**178 258**
Gains less losses from investment securities, investments in subsidiaries and associates	13 886	-	**13 886**	78 578	-	**78 578**	36 934	-	**36 934**
Other operating income	198 138	965	**199 103**	370 182	4 639	**374 821**	174 835	673	**175 508**
Net impairment losses on loans and advances	(239 078)	(6 269)	**(245 347)**	(467 468)	(10 310)	**(477 778)**	(180 742)	(6 371)	**(187 113)**
Overhead costs	(734 924)	(56 526)	**(791 450)**	(1 395 426)	(94 727)	**(1 490 153)**	(680 912)	(48 232)	**(729 144)**
Amortisation	(92 458)	(1 986)	**(94 444)**	(183 337)	(4 553)	**(187 890)**	(88 091)	(2 343)	**(90 434)**
Other operating expenses	(129 204)	(1 869)	**(131 073)**	(202 490)	(7 768)	**(210 258)**	(89 526)	(2 034)	**(91 560)**
Gross profit of the segment	838 228	10 915	**849 143**	1 499 918	17 785	**1 517 703**	759 799	(2 181)	**757 618**
Income tax			(184 094)			(308 725)			(152 910)
Net profit attributable to Owners of mBank S.A.			662 597			1 206 375			603 589
Net profit attributable to non-controlling interests			2 452			2 603			1 119
Assets of the segment, including:	109 093 235	2 854 210	**111 947 445**	101 649 833	2 632 928	**104 282 761**	105 535 796	2 608 062	**108 143 858**
- tangible assets	1 155 888	14 752	1 170 640	1 147 730	17 167	1 164 897	1 133 644	18 464	1 152 108
- deferred income tax assets	244 717	16 565	261 282	367 611	3 210	370 821	401 502	3 959	405 461
Liabilities of the segment	91 146 257	10 481 773	**101 628 030**	85 956 950	8 069 373	**94 026 323**	90 808 308	7 731 435	**98 539 743**

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5. Net interest income

the period	from 01.01.2014 to 30.06.2014	from 01.01.2013 to 30.06.2013
Interest income		
Loans and advances including the unwind of the impairment provision discount	1 391 744	1 466 258
Investment securities	409 805	453 415
Cash and short-term placements	37 526	47 040
Trading debt securities	23 721	23 629
Interest income on derivatives classified into banking book	57 726	49 258
Interest income on derivatives concluded under the hedge accounting	3 893	-
Other	4 050	6 057
Total interest income	**1 928 465**	**2 045 657**
Interest expense		
Arising from amounts due to banks	(101 008)	(132 470)
Arising from amounts due to customers	(432 772)	(692 518)
Arising from issue of debt securities	(104 396)	(102 305)
Arising from subordinated liabilities	(39 819)	(30 581)
Interest expense on derivatives concluded under the hedge accounting	-	(283)
Other	(42 224)	(19 785)
Total interest expense	**(720 219)**	**(977 942)**

Interest income related to impaired financial assets amounted to PLN 81 146 thousand (30 June 2013: PLN 93 122 thousand).

6. Net fee and commission income

the period	from 01.01.2014 to 30.06.2014	from 01.01.2013 to 30.06.2013
Fee and commission income		
Payment cards-related fees	228 723	187 132
Credit-related fees and commissions	126 785	120 067
Commissions from insurance activity	60 095	54 753
Fees from brokerage activity	46 333	44 036
Commissions from bank accounts	83 534	75 789
Commissions from money transfers	45 424	42 689
Commissions due to guarantees granted and trade finance commissions	22 351	18 308
Commissions for agency service regarding sale of products of external financial entities	44 100	34 221
Commissions on trust and fiduciary activities	10 068	9 143
Fees from portfolio management services and other management-related fees	7 074	5 710
Other	48 453	35 466
Total fee and commission income	**722 940**	**627 314**
Fee and commission expense		
Payment cards-related fees	(97 211)	(108 193)
Commissions paid to external entities for sale of the Bank's products	(38 583)	(31 265)
Insurance activity-related fees	(4 035)	(2 272)
Discharged brokerage fees	(15 353)	(16 789)
Other discharged fees	(82 667)	(73 650)
Total fee and commission expense	**(237 849)**	**(232 169)**

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7. Dividend income

the period	from 01.01.2014 to 30.06.2014	from 01.01.2013 to 30.06.2013
Trading securities	152	4
Securities available for sale	2 659	2 305
Total dividend income	**2 811**	**2 309**

8. Net trading income

the period	from 01.01.2014 to 30.06.2014	from 01.01.2013 to 30.06.2013
Foreign exchange result	**134 893**	**143 460**
Net exchange differences on translation	197 431	294 807
Net transaction gains/(losses)	(62 538)	(151 347)
Other net trading income and result on hedge accounting	**67 427**	**34 798**
Interest-bearing instruments	55 821	30 071
Equity instruments	389	(511)
Market risk instruments	(1 383)	1 765
Result on hedge accounting, including:	12 600	3 473
- Net profit on hedged items	(52 162)	13 172
- Net profit on hedging instruments	64 762	(9 699)
Total net trading income	**202 320**	**178 258**

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

The Group applies fair value hedge accounting for:

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

In all cases described above, the risk of changes in interest rates is the only type of risk hedged within hedge accounting applied by the Group. The result of the valuation of hedged items and hedging instruments is presented in the above note.

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

the period	from 01.01.2014 to 30.06.2014	from 01.01.2013 to 30.06.2013
Sale/redemption of financial assets available for sale, investments in subsidiaries and associates	13 886	36 934
Total gains and losses from investment securities and investments in subsidiaries and associates	**13 886**	**36 934**

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10. Other operating income

the period	from 01.01.2014 to 30.06.2014	from 01.01.2013 to 30.06.2013
Income from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories	94 960	63 597
Income from insurance activity net	45 802	37 523
Income from services provided	13 425	15 249
Net income from operating lease	6 084	7 792
Income due to release of provisions for future commitments	5 157	23 082
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	1 037	208
Income from compensations, penalties and fines received	167	69
Other	32 471	27 988
Total other operating income	**199 103**	**175 508**

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

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

Income from insurance activity net comprises income from premiums, reinsurance and co-insurance activity, reduced by claims paid and costs of claims handling and adjusted by the changes in provisions for claims connected with the insurance activity conducted within mBank S.A. Group.

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

Net income from insurance activity generated for the first half of 2014 and the first half of 2013 is presented below.

the period	from 01.01.2014 to 30.06.2014	from 01.01.2013 to 30.06.2013
Income from premiums		
- Premiums attributable	94 291	87 759
- Change in provision for premiums	208	2 027
Premiums earned	**94 499**	**89 786**
Reinsurer's shares		
- Gross premiums written	(34 024)	(36 601)
- Change in unearned premiums reserve	(699)	(291)
Reinsurer's share in premiums earned	**(34 723)**	**(36 892)**
Net premiums earned	**59 776**	**52 894**
Claims and benefits		
- Claims and benefits paid out in the current year including costs of liquidation before tax	(31 735)	(37 398)
- Change in provision for claims and benefits paid out in the current year including costs of liquidation before tax	(9 272)	(9 767)
- Reinsurer's share in claims and benefits paid out in the current year including costs of liquidation	23 559	26 678
- Change in provision for reinsurer's share of claims and benefits paid out in the current year including costs of liquidation	5 215	7 094
Claims and benefits net	**(12 233)**	**(13 393)**
- Other costs net of reinsurance	(1 818)	(1 885)
- Other operating income	208	3
- Costs of expertise and certificates concerning underwriting risk	(131)	(96)
Total net income from insurance activity	**45 802**	**37 523**

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Net income from operating lease for the first half of 2014 and the first half of 2013 is presented below.

the period	from 01.01.2014 to 30.06.2014	from 01.01.2013 to 30.06.2013
Net income from operating lease, including:		
- Income from operating lease	31 344	34 080
- Depreciation cost of fixed assets provided under operating lease	(25 260)	(26 288)
Total net income from operating lease	**6 084**	**7 792**

11. Net impairment losses on loans and advances

the period	from 01.01.2014 to 30.06.2014	from 01.01.2013 to 30.06.2013
Net impairment losses on amounts due from other banks	(3 970)	109
Net impairment losses on loans and advances to customers	(250 231)	(194 210)
Net impairment losses on off-balance sheet contingent liabilities due to customers	8 854	6 988
Total net impairment losses on loans and advances	**(245 347)**	**(187 113)**

12. Overhead costs

the period	from 01.01.2014 to 30.06.2014	from 01.01.2013 to 30.06.2013
Staff-related expenses	(414 310)	(399 176)
Material costs	(317 667)	(280 036)
Taxes and fees	(20 628)	(19 620)
Contributions and transfers to the Bank Guarantee Fund	(35 353)	(26 815)
Contributions to the Social Benefits Fund	(3 255)	(3 243)
Other	(237)	(254)
Total overhead costs	**(791 450)**	**(729 144)**

Staff-related expenses for first half of 2014 and first half of 2013 are presented below.

the period	from 01.01.2014 to 30.06.2014	from 01.01.2013 to 30.06.2013
Wages and salaries	(332 304)	(323 870)
Social security expenses	(55 255)	(53 250)
Remuneration concerning share-based payments, including:	(10 560)	(7 236)
- share-based payments settled in mBank S.A. shares	(6 990)	(7 236)
- cash-settled share-based payments	(3 570)	-
Other staff expenses	(16 191)	(14 820)
Staff-related expenses, total	**(414 310)**	**(399 176)**

13. Other operating expenses

the period	from 01.01.2014 to 30.06.2014	from 01.01.2013 to 30.06.2013
Costs arising from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories	(68 382)	(46 921)
Provisions for future commitments	(37 974)	(14 394)
Donations made	(2 601)	(2 628)
Compensation, penalties and fines paid	(1 490)	(642)
Costs arising from provisions created for other receivables (excluding loans and advances)	(683)	(483)
Costs of sale of services	(924)	(1 216)
Costs arising from receivables and liabilities recognised as prescribed, remitted and uncollectible	(3)	(78)
Other operating costs	(19 016)	(25 198)
Total other operating expenses	**(131 073)**	**(91 560)**

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

Costs of services provided concern non-banking services.

14. Earnings per share

Earnings per share for 6 months

the period	from 01.01.2014 to 30.06.2014	from 01.01.2013 to 30.06.2013
Basic:		
Net profit attributable to Owners of mBank S.A.	662 597	603 589
Weighted average number of ordinary shares	42 175 481	42 141 459
Net basic profit per share (in PLN per share)	**15.71**	**14.32**
Diluted:		
Net profit attributable to Owners of mBank S.A., applied for calculation of diluted earnings per share	662 597	603 589
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)	**15.69**	**14.31**

15. Trading securities

	30.06.2014			31.12.2013			30.06.2013		
	Trading securities without pledge	Pledged trading securities	Total trading securities	Trading securities without pledge	Pledged trading securities	Total trading securities	Trading securities without pledge	Pledged trading securities	Total trading securities
Debt securities:	**1 085 293**	**1 689 282**	**2 774 575**	**482 343**	**252 278**	**734 621**	**383 717**	**1 320 499**	**1 704 216**
Issued by government	505 615	1 689 282	2 194 897	135 981	252 278	388 259	258 755	1 320 499	1 579 254
- government bonds	505 615	1 689 282	2 194 897	135 981	252 278	388 259	258 755	1 320 499	1 579 254
Other debt securities	579 678	-	579 678	346 362	-	346 362	124 962	-	124 962
- bank's bonds	557 840	-	557 840	264 922	-	264 922	104 687	-	104 687
- deposit certificates	-	-	-	37 787	-	37 787	-	-	-
- corporate bonds	21 838	-	21 838	43 653	-	43 653	20 275	-	20 275
Equity securities:	**37 896**	**-**	**37 896**	**28 443**	**-**	**28 443**	**37 527**	**-**	**37 527**
- listed	16 137	-	16 137	6 893	-	6 893	4 627	-	4 627
- unlisted	21 759	-	21 759	21 550	-	21 550	32 900	-	32 900
Total debt and equity securities:	**1 123 189**	**1 689 282**	**2 812 471**	**510 786**	**252 278**	**763 064**	**421 244**	**1 320 499**	**1 741 743**

16. Derivative financial instruments

	30.06.2014		31.12.2013		30.06.2013	
	assets	liabilities	assets	liabilities	assets	liabilities
Held for trading derivative financial instruments classified into banking book	80 009	40 739	137 092	40 303	34 299	130 080
Held for trading derivative financial instruments classified into trading book	2 850 772	2 872 402	2 212 493	2 411 656	2 494 829	2 956 220
Derivative financial instruments held for hedging	87 094	1 862	-	7 756	15 306	1 527
Total derivative financial instruments assets/liabilities	**3 017 875**	**2 915 003**	**2 349 585**	**2 459 715**	**2 544 434**	**3 087 827**

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

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

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

Due to the application of fair value hedge accounting for part of the portfolio of fixed interest rate mortgage loans granted by foreign branches of the Bank in the Czech Republic and fair value hedge accounting of Eurobonds issued by mFinance France S.A. within interest rate swaps and fair value hedge accounting of covered bonds issued by mBank Hipoteczny within interest rate swaps, the Group distinguished instruments that hedge the risk of changes in interest rate. Result from valuation of the hedged item and hedging instruments is presented in this condensed consolidated financial statements in item 'Net income from other trading operations and hedge accounting' in Note 8.

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

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

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

17. Loans and advances to customers

	30.06.2014	31.12.2013	30.06.2013
Loans and advances to individuals:	**39 664 158**	**38 307 915**	**39 042 037**
- current receivables	5 343 170	4 978 854	4 840 815
- term loans, including:	34 320 988	33 329 061	34 201 222
housing and mortgage loans	29 169 136	28 692 896	29 830 150
Loans and advances to corporate entities:	**30 564 478**	**29 475 274**	**32 523 288**
- current receivables	4 203 981	3 597 377	4 422 438
- term loans:	22 283 841	21 076 873	21 598 628
corporate & institutional enterprises	5 396 534	5 115 320	5 640 919
medium & small enterprises	16 887 307	15 961 553	15 957 709
- reverse repo / buy-sell-back transactions	2 652 320	3 287 066	5 080 882
- other	1 424 336	1 513 958	1 421 340
Loans and advances to public sector	**1 881 573**	**2 177 976**	**2 438 813**
Other receivables	**621 462**	**620 627**	**422 190**
Total (gross) loans and advances to customers	**72 731 671**	**70 581 792**	**74 426 328**
Provisions for loans and advances to customers (negative amount)	(2 594 494)	(2 371 407)	(2 629 374)
Total (net) loans and advances to customers	**70 137 177**	**68 210 385**	**71 796 954**
Short-term (up to 1 year)	25 740 229	24 596 330	29 507 218
Long-term (over 1 year)	44 396 948	43 614 055	42 289 736

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

Loans to micro enterprises in the presented reporting periods amounted to respectively: 30 June 2014 – PLN 4 398 053 thousand, 31 December 2013 – PLN 4 041 584 thousand, 30 June 2013 – PLN 3 901 951 thousand.

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Provisions for loans and advances

	30.06.2014	31.12.2013	30.06.2013
Incurred but not identified losses			
Gross balance sheet exposure	68 095 603	66 158 075	70 781 224
Impairment provisions for exposures analysed according to portfolio approach	(269 765)	(256 556)	(207 523)
Net balance sheet exposure	**67 825 838**	**65 901 519**	**70 573 701**
Receivables with impairment			
Gross balance sheet exposure	4 636 068	4 423 717	3 645 104
Provisions for receivables with impairment	(2 324 729)	(2 114 851)	(2 421 851)
Net balance sheet exposure	**2 311 339**	**2 308 866**	**1 223 253**

Starting from November 2013, the Group aligned its impairment credit risk parameters in retail area with the corresponding ones derived from Basel 2 oriented methods after necessary adjustments aimed at elimination of differences between IAS 39 and Basel II approaches. The major difference was the way of recognition of default status that under new assessment is based on all credit data of the individual person instead of formerly purely one product data. The more conservative approach towards recognition of impaired status (collection of all past due amounts from all products, considering the oldest date from past due data) resulted in two offsetting effects:

1. Earlier recognition of impaired status that gave larger amount of impaired portfolio,
2. Higher recovery out of such defined impairment due to higher natural cure rate for clients preventatively assessed as non performing.

In case of LGD model Bank changed its approach to collateral effects from unconditional recognition towards conditional one defined by probability (dependent on specifics of work out process) of collateral realization and recognized partial recoveries as well as broader range of recoveries coming from natural cures.

Additionally, the Group re-assessed the length of Loss Identification Period (LIP) for retail and corporate portfolio based on current internal data concerning bank's processes and abilities to detect the loss situations. The result was extension of retail LIP to uniform 12-month period and shortening of corporate LIP to 6-8 months according to the customer size.

The combined effect of all the above changes was immaterial for the overall level of loan loss provisions for the entire loan portfolio, however the implemented changes 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 table below presents the structure of concentration of mBank S.A. Group's exposures in particular sectors.

No.	Sectors	Principal exposure (in PLN thousand) 30.06.2014	%	Principal exposure (in PLN thousand) 31.12.2013	%	Principal exposure (in PLN thousand) 30.06.2013	%
1.	Household customers	39 664 158	54.53	38 307 915	54.27	39 042 037	52.46
2.	Real estate management	5 589 359	7.68	5 401 342	7.65	5 003 935	6.72
3.	Transport and travel agencies	2 165 962	2.98	2 102 952	2.98	2 356 910	3.17
4.	Building industry	1 845 729	2.54	1 761 635	2.50	1 709 895	2.30
5.	Power industry and heat engineering	1 635 728	2.25	1 680 154	2.38	1 566 640	2.10
6.	Public administration	1 556 515	2.14	1 781 251	2.52	2 008 638	2.70
7.	Motorization	1 310 034	1.80	1 192 851	1.69	983 554	1.32
8.	Metals	1 283 918	1.77	1 183 575	1.68	1 388 399	1.87
9.	Chemistry and plastic processing	1 121 525	1.54	957 713	1.36	922 414	1.24
10.	Groceries	1 021 439	1.40	906 962	1.28	833 039	1.12
11.	Wood and furniture	939 670	1.29	754 178	1.07	818 037	1.10
12.	Building materials	913 066	1.26	834 755	1.18	1 030 914	1.39
13.	Other retail trade	846 420	1.16	739 214	1.05	696 531	0.94
14.	Liquid fuels and natural gas	827 834	1.14	882 918	1.25	1 119 905	1.50
15.	Other wholesale trade	737 525	1.01	662 973	0.94	680 990	0.91
16.	Pharmaceuticals and health care	670 624	0.92	594 231	0.84	748 274	1.01
17.	Meat processing industry	643 977	0.89	613 667	0.87	642 171	0.86
18.	Management, consulting, advertising	489 112	0.67	373 151	0.53	485 090	0.65
19.	Telecommunication	476 703	0.66	500 479	0.71	583 776	0.78
20.	IT	455 255	0.63	415 992	0.59	407 036	0.55
21.	Hotels and restaurants	430 418	0.59	422 679	0.60	376 816	0.51
22.	Textiles and clothing	388 415	0.53	334 823	0.47	339 951	0.46

As at 30 June 2014, the total exposure of the Group in the above sectors (excluding household customers) amounted to 34.85% of the credit portfolio (31 December 2013 – 34.14%; 30 June 2013 – 33.20%).

18. Investment securities

	30.06.2014			31.12.2013			30.06.2013		
	Investment securities without pledge	Pledged investment securities	Total investment securities	Investment securities without pledge	Pledged investment securities	Total investment securities	Investment securities without pledge	Pledged investment securities	Total investment securities
Debt securities	**17 274 839**	**9 611 911**	**26 886 750**	**19 303 219**	**5 766 038**	**25 069 257**	**17 664 323**	**4 747 658**	**22 411 981**
Issued by government	12 189 849	9 611 911	21 801 760	12 839 094	5 744 542	18 583 636	11 845 353	4 746 458	16 591 811
- government bonds	12 189 849	9 611 911	21 801 760	12 839 094	5 744 542	18 583 636	11 692 938	4 746 458	16 439 396
- treasury bills	-	-	-	-	-	-	152 415	-	152 415
Issued by central bank	4 863 698	-	4 863 698	6 292 700	21 496	6 314 196	5 664 317	1 200	5 665 517
Other debt securities	221 292	-	221 292	171 425	-	171 425	154 653	-	154 653
- bank's bonds	25 109	-	25 109	25 136	-	25 136	64 589	-	64 589
- corporate bonds	156 821	-	156 821	107 906	-	107 906	52 900	-	52 900
- communal bonds	39 362	-	39 362	38 383	-	38 383	37 164	-	37 164
Equity securities:	**241 305**	**-**	**241 305**	**272 506**	**-**	**272 506**	**269 974**	**-**	**269 974**
Listed	215 324	-	215 324	229 617	-	229 617	226 900	-	226 900
Unlisted	25 981	-	25 981	42 889	-	42 889	43 074	-	43 074
Total debt and equity securities:	**17 516 144**	**9 611 911**	**27 128 055**	**19 575 725**	**5 766 038**	**25 341 763**	**17 934 297**	**4 747 658**	**22 681 955**
Short-term (up to 1 year)	7 163 494	-	7 163 494	6 706 581	23 494	6 730 075	6 260 662	795 195	7 055 857
Long-term (over 1 year)	10 352 650	9 611 911	19 964 561	12 869 144	5 742 544	18 611 688	11 673 635	3 952 463	15 626 098

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

As at 30 June 2014, presented above value of equity securities includes provisions for impairment of PLN 11 297 thousand (31 December 2013: PLN 11 422 thousand; 30 June 2013: PLN 10 470 thousand).

As at 30 June 2014, listed equity securities include fair value of PZU shares in amount of PLN 209 969 thousand, (31 December 2013 – PLN 212 430 thousand, 30 June 2013 – PLN 193 858 thousand).

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19. Intangible assets

	30.06.2014	31.12.2013	30.06.2013
Development costs	2	382	435
Goodwill	4 728	4 728	4 728
Patents, licences and similar assets, including:	358 031	343 802	308 257
- computer software	272 828	289 606	252 335
Other intangible assets	6 816	7 067	7 517
Intangible assets under development	90 558	99 366	94 491
Total intangible assets	**460 135**	**455 345**	**415 428**

20. Tangible assets

	30.06.2014	31.12.2013	30.06.2013
Tangible assets, including:	673 578	672 519	688 256
- land	1 267	1 267	1 242
- buildings and structures	212 777	215 061	216 708
- equipment	139 986	147 926	154 773
- vehicles	213 117	190 017	192 848
- other fixed assets	106 431	118 248	122 685
Fixed assets under construction	36 927	37 033	48 424
Total tangible assets	**710 505**	**709 552**	**736 680**

21. Amounts due to customers

	30.06.2014	31.12.2013	30.06.2013
Individual customers:	**35 725 983**	**34 203 119**	**33 689 231**
Current accounts	25 817 356	24 260 502	24 496 406
Term deposits	9 843 802	9 889 000	9 139 181
Other liabilities:	64 825	53 617	53 644
- liabilities in respect of cash collaterals	20 695	24 566	30 903
- other	44 130	29 051	22 741
Corporate customers:	**26 595 090**	**26 752 869**	**27 351 389**
Current accounts	12 773 309	12 849 839	12 402 829
Term deposits	7 161 514	6 434 108	6 982 155
Loans and advances received	2 725 524	2 100 331	1 550 259
Repo transactions	3 394 599	4 629 955	5 862 005
Other liabilities:	540 144	738 636	554 141
- liabilities in respect of cash collaterals	456 307	433 438	411 592
- other	83 837	305 198	142 549
Public sector customers:	**972 648**	**717 539**	**1 154 578**
Current accounts	620 813	579 319	445 909
Term deposits	347 868	129 981	693 344
Other liabilities:	3 967	8 239	15 325
- liabilities in respect of cash collaterals	-	137	-
- other	3 967	8 102	15 325
Total amounts due to customers	**63 293 721**	**61 673 527**	**62 195 198**
Short-term (up to 1 year)	58 876 551	57 590 020	60 056 910
Long-term (over 1 year)	4 417 170	4 083 507	2 138 288

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

In the presented reporting periods the value of liabilities in respect of current accounts and term deposits accepted from micro enterprises amounted to respectively: 30 June 2014 – PLN 2 638 350 thousand, 31 December 2013 – PLN 2 784 616 thousand, 30 June 2013 – PLN 2 178 799 thousand).

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22. Provisions

	30.06.2014	31.12.2013	30.06.2013
For off-balance sheet granted contingent liabilities *	47 244	56 068	40 017
For legal proceedings	85 990	56 275	47 342
Technical-insurance provisions	91 368	87 168	84 512
Other	27 592	28 717	29 504
Total provisions	**252 194**	**228 228**	**201 375**

* includes valuation of financial guarantees

Movements in the provisions

	30.06.2014	31.12.2013	30.06.2013
As at the beginning of the period (by type)	**228 228**	**213 327**	**213 327**
For off-balance sheet granted contingent liabilities	56 068	46 462	46 462
For legal proceedings	56 275	47 204	47 204
Technical-insurance provisions	87 168	84 512	84 512
Other	28 717	35 149	35 149
Change in the period (due to)	**23 966**	**14 901**	**(11 952)**
- increase of provisions	117 060	151 374	53 395
- release of provisions	(84 656)	(115 307)	(54 295)
- write-offs	(8 470)	(20 942)	(11 385)
- utilization	-	(150)	(150)
- foreign exchange differences	32	(74)	483
As at the end of the period (by type)	**252 194**	**228 228**	**201 375**
For off-balance sheet granted contingent liabilities	47 244	56 068	40 017
For legal proceedings	85 990	56 275	47 342
Technical-insurance provisions	91 368	87 168	84 512
Other	27 592	28 717	29 504

23. Assets and provisions for deferred income tax

Deferred income tax assets	30.06.2014	31.12.2013	30.06.2013
As at the beginning of the period	**614 352**	**737 353**	**737 353**
Changes recognized in the income statement	(41 261)	(122 461)	(28 346)
Changes recognized in other comprehensive income	685	166	165
Other changes	(239)	(706)	(259)
As at the end of the period	**573 537**	**614 352**	**708 913**

Provisions for deferred income tax	30.06.2014	31.12.2013	30.06.2013
As at the beginning of the period	**(246 485)**	**(347 833)**	**(347 833)**
Changes recognized in the income statement	(32 656)	56 775	(5 900)
Changes recognized in other comprehensive income	(34 649)	44 482	47 722
Other changes	(2 080)	91	-
As at the end of the period	**(315 870)**	**(246 485)**	**(306 011)**

Income tax	30.06.2014	31.12.2013	30.06.2013
Current income tax	(110 177)	(243 039)	(118 664)
Deferred income tax recognised in the income statement	(73 917)	(65 686)	(34 246)
Income tax recognised in the income statement	**(184 094)**	**(308 725)**	**(152 910)**
Recognised in other comprehensive income	(53 880)	44 648	47 888
Total income tax	**(237 974)**	**(264 077)**	**(105 022)**

24. 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:

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

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

Following market practices the Group values open positions in financial instruments using either the mark-to-market approach or is applying pricing models well established in market practice (mark-to-model method) which use as inputs market prices or market parameters, and in few cases parameters estimated internally by the Group. All significant open positions in derivatives (currency or interest rates) are valued by 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.

The Group 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 Group 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 Group 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	**4 933 231**	**4 931 866**	**3 471 241**	**3 515 772**
Loans and advances to customers	**70 137 177**	**70 950 473**	**68 210 385**	**67 300 927**
Loans and advances to individuals	**38 381 768**	**39 298 139**	**37 153 418**	**36 413 808**
current accounts	4 859 503	4 961 300	4 534 640	4 567 052
term loans including:	33 522 265	34 336 839	32 618 778	31 846 756
- housing and mortgage loans	28 658 191	29 331 670	28 223 739	27 403 194
Loans and advances to corporate entities	**29 253 761**	**29 157 050**	**28 270 161**	**28 124 414**
current accounts	3 870 594	3 849 813	3 362 963	3 353 764
term loans	21 371 029	21 295 099	20 161 638	20 025 090
- corporate & institutional enterprises	5 199 120	5 197 339	4 934 639	4 953 138
- medium & small enterprises	16 171 909	16 097 760	15 226 999	15 071 952
reverse repo / buy sell back transactions	2 652 320	2 652 320	3 287 066	3 287 066
other	1 359 818	1 359 818	1 458 494	1 458 494
Loans and advances to public sector	**1 880 324**	**1 873 960**	**2 166 179**	**2 142 078**
Other receivables	**621 324**	**621 324**	**620 627**	**620 627**
Financial liabilities				
Amounts due to other banks	**22 297 031**	**22 653 899**	**19 224 182**	**19 239 265**
Amounts due to customers	**63 293 721**	**63 337 270**	**61 673 527**	**61 670 841**
Debt securities in issue	**7 696 154**	**7 796 376**	**5 402 056**	**5 444 193**
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 Group for estimation of the fair values of financial instruments:

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

Available for sale financial assets. Listed available for sale financial instruments held by the Group are valued at fair value. The fair value of debt securities not listed at an active market is calculated using a discounted cash flow approach based on current interest rates including 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.

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

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

The fair value for these financial liabilities with more than 1 year to maturity is based on principle and interest cash flows discounted using appropriate interest rates. For received loans the Group 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 CHF and the swap curve amended by credit spread for the exposures in PLN. In case of deposits the Group 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 Group used the prices directly from the market for these securities. For the purpose of measurement of subordinated liabilities the Group used obtained primary market spreads of subordinated bonds issued by the Group and if required corresponding cross-currency basis swap levels for the respective maturities.

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

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

30.06.2014	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	**2 812 471**	**2 339 603**	**21 790**	**451 078**
Debt securities	2 774 575	2 323 503	-	451 072
- government bonds	2 194 897	2 194 897	-	-
- banks bonds	557 840	126 015	-	431 825
- corporate bonds	21 838	2 591	-	19 247
Equity securities	**37 896**	**16 100**	**21 790**	**6**
- listed	16 137	16 100	37	-
- unlisted	21 759	-	21 753	6
DERIVATIVE FINANCIAL INSTRUMENTS	**3 017 875**	**576**	**3 015 737**	**1 562**
Derivative financial instruments held for trading	**2 930 781**	**576**	**2 928 643**	**1 562**
- interest rate derivatives	2 804 323	-	2 804 323	-
- foreign exchange derivatives	116 732	-	116 718	14
- market risks derivatives	9 726	576	7 602	1 548
Derivative financial instruments held for hedging	**87 094**	**-**	**87 094**	**-**
- derivatives designated as fair value hedges	87 094	-	87 094	-
INVESTMENT SECURITIES	**27 128 055**	**22 182 080**	**4 863 698**	**82 277**
Debt securities	**26 886 750**	**21 965 939**	**4 863 698**	**57 113**
- government bonds	21 801 760	21 801 760	-	-
- money bills	4 863 698	-	4 863 698	-
- banks bonds	25 109	-	-	25 109
- corporate bonds	156 821	124 817	-	32 004
- communal bonds	39 362	39 362	-	-
Equity securities	**241 305**	**216 141**	**-**	**25 164**
- listed	215 324	215 324	-	-
- unlisted	25 981	817	-	25 164
TOTAL FINANCIAL ASSETS	**32 958 401**	**24 522 259**	**7 901 225**	**534 917**

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30.06.2014	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	**2 915 003**	**588**	**2 912 902**	**1 513**
Derivative financial instruments held for trading	**2 913 141**	**588**	**2 911 040**	**1 513**
- interest rate derivatives	2 801 206	-	2 801 206	-
- foreign exchange derivatives	102 161	-	102 161	-
- market risks derivatives	9 774	588	7 673	1 513
Derivative financial instruments held for hedging	**1 862**	**-**	**1 862**	**-**
- derivatives designated as fair value hedges	1 862	-	1 862	-
Total financial liabilities	**2 915 003**	**588**	**2 912 902**	**1 513**
TOTAL RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS	**32 958 401**	**24 522 259**	**7 901 225**	**534 917**
FINANCIAL LIABILITIES	**2 915 003**	**588**	**2 912 902**	**1 513**

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	**346 263**	**6**	**450**	**133 042**	**40 206**
Gains and losses for the period:	476	-	1 112	(2 652)	-
Recognised in profit or loss:	476	-	1 112	-	-
Net trading income	*476*	-	*1 112*	-	-
Recognised in other comprehensive income:	-	-	-	*(2 652)*	-
Available for sale financial assets	-	-	-	*(2 652)*	-
Purchases	1 833 128	-	-	27 571	-
Redemptions	(244 982)	-	-	-	-
Sales	(5 970 445)	-	-	(111 250)	(15 887)
Issues	4 482 533	-	-	10 503	-
Settlements	4 099	-	-	(101)	845
As at the end of the period	**451 072**	**6**	**1 562**	**57 113**	**25 164**

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.

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.

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
RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS				
TRADING SECURITIES	**763 064**	**395 214**	**21 581**	**346 269**
Debt securities	734 621	388 358	-	346 263
- government bonds	388 259	388 259	-	-
- deposit certificates	37 787	-	-	37 787
- banks bonds	264 922	99	-	264 823
- corporate bonds	43 653	-	-	43 653
Equity securities	**28 443**	**6 856**	**21 581**	**6**
- listed	6 893	6 856	37	-
- unlisted	21 550	-	21 544	6

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DERIVATIVE FINANCIAL INSTRUMENTS	**2 349 585**	**153**	**2 348 982**	**450**
Derivative financial instruments held for trading	**2 349 585**	**153**	**2 348 982**	**450**
- interest rate derivatives	2 103 034	-	2 103 034	-
- foreign exchange derivatives	232 776	-	232 733	43
- market risks derivatives	13 775	153	13 215	407
INVESTMENT SECURITIES	**25 341 763**	**18 852 508**	**6 316 007**	**173 248**
Debt securities	**25 069 257**	**18 622 019**	**6 314 196**	**133 042**
- government bonds	18 583 636	18 583 636	-	-
- money bills	6 314 196	-	6 314 196	-
- banks bonds	25 136	-	-	25 136
- corporate bonds	107 906	-	-	107 906
- communal bonds	38 383	38 383	-	-
Equity securities	**272 506**	**230 489**	**1 811**	**40 206**
- listed	229 617	229 617	-	-
- unlisted	42 889	872	1 811	40 206
TOTAL FINANCIAL ASSETS	**28 454 412**	**19 247 875**	**8 686 570**	**519 967**

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	**2 459 715**	**12**	**2 459 296**	**407**
Derivative financial instruments held for trading	**2 451 959**	**12**	**2 451 540**	**407**
- interest rate derivatives	2 253 550	-	2 253 550	-
- foreign exchange derivatives	183 643	-	183 643	-
- 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	-
Total financial liabilities	**2 459 715**	**12**	**2 459 296**	**407**

TOTAL RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS	**28 454 412**	**19 247 875**	**8 686 570**	**519 967**
FINANCIAL LIABILITIES	**2 459 715**	**12**	**2 459 296**	**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 December 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 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 into 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	**303 587**	**17**	**96**	**204 032**	**34 885**
Gains and losses for the period:	13 874	(11)	(53)	(3 408)	2 830
Recognised in profit or loss:	13 874	(11)	(53)	-	62
Net trading income	*13 874*	*(11)*	*(53)*	-	-
Gains less losses from investment securities, investments in subsidiaries and associates	-	-	-	-	*62*
Recognised in other comprehensive income:	-	-	-	*(3 408)*	*2 768*
Available for sale financial assets	-	-	-	*(3 408)*	*2 768*
Purchases	2 149 795	-	-	136 374	13 145
Redemptions	(1 462 147)	-	-	-	(884)
Sales	(11 822 979)	-	-	(409 537)	(13 851)
Issues	11 164 133	-	-	204 000	(452)
Settlements	-	-	-	1 581	4 533
Transfers into Level 3	-	-	407	-	-
As at the end of the period	**346 263**	**6**	**450**	**133 042**	**40 206**

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

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

Level 1

As at 30 June 2014, at level 1 of the fair value hierarchy, the Group has presented the fair value of held for trading government bonds in the amount of PLN 2 194 897 thousand (see Note 15) and the fair value of investment government bonds in the amount of PLN 21 801 760 thousand (see Note 18) (31 December 2013 respectively: PLN 388 259 thousand and PLN 18 583 636 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 thousand) and fair value of 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 232 241 thousand, including the value of shares in PZU S.A. in the amount of PLN 209 969 thousand (31 December 2013 respectively: PLN 237 345 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 4 863 698 thousand (31 December 2013: PLN 6 314 196 thousand), whose valuation is based on a NPV model (discounted future cash flows) fed with interest rate curves generated by transformation of quotations taken directly from active and liquid financial markets.

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

As at 30 June 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 Group'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 Group'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 508 185 thousand (31 December 2013: PLN 479 305 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 25 170 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.

25. Total consolidated capital ratio

Total capital ratio of mBank S.A. Group 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 consolidated financial statements. The total capital ratio of mBank S.A. Group presented as of 30 June 2014 was calculated on a best effort basis and preserving consistency of the information disclosed by the Group. However, had the national discretions for Poland been determined and published and had the Group received the aforementioned European Banking Authority interpretations, it cannot be ruled out that the total capital ratio of mBank S.A. Group as of 30 June 2014 would have differed from this actually published in these condensed consolidated financial statements.

Selected explanatory information

1. Compliance with international financial reporting standards

The presented condensed consolidated report 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).

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

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

3. Seasonal or cyclical nature of the business

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

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

Events as indicated above did not occur in the Group.

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 introduced in 2013, 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. 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.

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's own funds. The prepayment of the issue did not have significant impact on the calculation of mBank S.A. and mBank S.A. Group total capital ratio under the regulations effective from 1 January 2014 (rules based on "Basel III").

On 24 March 2014, mFinance France S.A. (mFF), a subsidiary of the Bank (the Bank holds 99.98% of the subsidiary's shares), issued Eurobonds with a nominal value of EUR 500 000 thousand (equivalent to PLN 2 099 500 at the average exchange rate of the National Bank of Poland as at 24 March 2014) maturing in 2019. On 1 April 2014, the funds raised from the issue in the amount of EUR 496 095, on the basis of the agreement concluded on 24 March 2014, were deposited in mBank S.A. by mFF as the security deposit for the guarantee of payment of all amounts to be paid in respect of the issued Eurobonds granted by mBank.

In the first half of 2014, mBank Hipoteczny S.A. (mBH S.A.) issued bonds in the amount of PLN 150 000 thousand and mortgage bonds in the amount of EUR 50 500 thousand. In the same time, mBH S.A. redeemed bonds in the amount of PLN 180 000 thousand and mortgage bonds in the amount of PLN 25 000 thousand.

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.

8. 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 Group.

9. 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.

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

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

Events as indicated above did not occur in the Group.

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

Events as indicated above did not occur in the Group.

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

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

14. Reversals of provisions against restructuring costs

Events as indicated above did not occur in the Group.

15. 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, with the exception of typical lease and property development operations that are performed by the companies of the Group.

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

Events as indicated above did not occur in the Group.

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

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

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

Events as indicated above did not occur in the Group.

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19. Corrections of errors from previous reporting periods

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

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

Events as indicated above did not occur in the Group.

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

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

22. 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 privilege**	**Type of limitation**	**Number of shares**	**Series / face value of issue in PLN**	**Paid up**	**Registered on**
ordinary bearer*	-	-	9 982 500	39 930 000	fully paid in cash	1986
ordinary registered*	-	-	17 500	70 000	fully paid in cash	1986
ordinary bearer	-	-	2 500 000	10 000 000	fully paid in cash	1994
ordinary bearer	-	-	2 000 000	8 000 000	fully paid in cash	1995
ordinary bearer	-	-	4 500 000	18 000 000	fully paid in cash	1997
ordinary bearer	-	-	3 800 000	15 200 000	fully paid in cash	1998
ordinary bearer	-	-	170 500	682 000	fully paid in cash	2000
ordinary bearer	-	-	5 742 625	22 970 500	fully paid in cash	2004
ordinary bearer	-	-	270 847	1 083 388	fully paid in cash	2005
ordinary bearer	-	-	532 063	2 128 252	fully paid in cash	2006
ordinary bearer	-	-	144 633	578 532	fully paid in cash	2007
ordinary bearer	-	-	30 214	120 856	fully paid in cash	2008
ordinary bearer	-	-	12 395 792	49 583 168	fully paid in cash	2010
ordinary bearer	-	-	16 072	64 288	fully paid in cash	2011
ordinary bearer	-	-	36 230	144 920	fully paid in cash	2012
ordinary bearer	-	-	35 037	140 148	fully paid in cash	2013
ordinary bearer	-	-	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 (PLN)		**4**				

* As at the end of the reporting period

23. 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.

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

	Number of rights to shares held as at the date of publishing the report for Q1 2014	Number of rights to shares acquired from the date of publishing the report for Q1 2014 to the date of publishing the report for H1 2014	Number of rights to shares realised from the date of publishing the report for Q1 2014 to the date of publishing the report for H1 2014	Number of rights to shares held as at the date of publishing the report for H1 2014
Management Board				
1. Cezary Stypułkowski	-	2 034	2 034	-
2. Lidia Jabłonowska-Luba	-	-	-	-
3. Przemysław Gdański	-	2 956	2 956	-
4. Joerg Hessenmueller	-	901	901	-
5. Hans-Dieter Kemler	-	2 712	2 712	-
6. Cezary Kocik	-	1 017	1 017	-
7. Jarosław Mastalerz	-	3 142	3 142	-

	Number of shares held as at the date of publishing the report for Q1 2014	Number of shares acquired from the date of publishing the report for Q1 2014 to the date of publishing the report for H1 2014	Number of shares sold from the date of publishing the report for Q1 2014 to the date of publishing the report for H1 2014	Number of shares held as at the date of publishing the report for H1 2014
Management Board				
1. Cezary Stypułkowski	-	2 034	-	2 034
2. Lidia Jabłonowska-Luba	-	-	-	-
3. Przemysław Gdański	1 000	2 956	250	3 706
4. Joerg Hessenmueller	-	901	-	901
5. Hans-Dieter Kemler	-	2 712	-	2 712
6. Cezary Kocik	-	1 017	-	1 017
7. Jarosław Mastalerz	-	3 142	-	3 142

As at the date of publishing the report for the first quarter of 2014 and as at the date of publishing the report for the first half of 2014, the Members of the Management Board had no Bank rights to shares and they have no Bank rights to shares.

As at the date of the publishing the report for the first quarter of 2014, Mr. Wiesław Thor had 6 463 shares of mBank. As at the day of the publishing the report for the first half of 2014, due to the purchasing of 1 453 shares, Mr. Wiesław Thor had 7 916 shares.

As at the date of publishing the report for the first quarter of 2014 and as at the date of publishing the report for the first half of 2014, the other Members of the Supervisory Board of mBank S.A. had neither Bank shares nor Bank rights to shares.

25. 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.

Report on major proceedings brought against the Bank

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.

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

From 14 May 2014 to 4 June 2014, Director of the Treasury Office Poznan-Wilda (Urząd Skarbowy Poznań – Wilda) carried out tax audit in Garbary Sp. z o.o. concerning correctness of the settlements of the personal income tax, the corporate income tax and the value added tax for the period from 1 January to 31 December 2012. The audits did not identify any irregularities.

From 11 February 2014 to 4 April 2014, Director of the First Mazovian Treasury Office in Warsaw (Pierwszy Mazowiecki Urząd Skarbowy w Warszawie) carried out tax audit at the company mLeasing concerning correctness of the settlement of the value added tax for the fourth quarter of 2013. The audit did not identify any irregularities.

From 9 January 2014 to 7 February 2014, Director of the First Mazovian Treasury Office in Warsaw (Pierwszy Mazowiecki Urząd Skarbowy w Warszawie) carried out tax audit at the company BRE

Ubezpieczenia Sp. z o.o. concerning correctness of the settlement of the value added tax for the third quarter of 2013. The audit did not identify any irregularities.

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.

26. 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	**22 765 468**	**23 128 865**	**18 865 172**
Commitments granted	**21 243 787**	**21 729 866**	**17 561 120**
- financing	17 678 010	18 532 287	14 493 549
- guarantees and other financial facilities	3 560 049	3 188 247	2 901 462
- other commitments	5 728	9 332	166 109
Commitments received	**1 521 681**	**1 398 999**	**1 304 052**
- financial commitments	-	210 735	434 260
- guarantees	1 521 681	1 188 264	869 792
2. Derivative financial instruments (nominal value of contracts)	**685 487 837**	**602 679 318**	**719 738 161**
Interest rate derivatives	627 592 983	558 866 816	666 554 238
Currency derivatives	56 410 802	42 339 260	51 509 149
Market risk derivatives	1 484 052	1 473 242	1 674 774
Total off-balance sheet items	**708 253 305**	**625 808 183**	**738 603 333**

27. Transactions with related entities

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

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

The amounts of transactions with related entities, i.e., balances of receivables and liabilities and related costs and income as at 30 June 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	90 313	59 358	59 923	785 818	948 518	1 402 752
Liabilities	1 672	1 541	1 708	16 475 464	18 245 291	22 123 177
Income Statement						
Interest income	4 064	3 822	1 830	69 441	113 713	60 872
Interest expense	(16)	(34)	(10)	(164 721)	(345 291)	(173 415)
Fee and commission income	14	35	18	-	-	-
Other operating income	-	3	1	217	320	132
Overhead costs, amortisation and other operating expenses	-	(70)	(26)	(4 577)	(9 022)	(5 269)
Contingent liabilities granted and received						
Contingent liabilities granted	360	857	878	1 049 234	1 278 880	767 650
Contingent liabilities received	-	-	-	901 298	717 528	599 414

28. 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 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.

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

- 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. As of 30 June 2014 the company was not classified as a disposal group in these condensed consolidated financial statements because in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations it did not meet the definition of a non-current asset (or disposal group) held for sale. In particular as of 30 June 2014 the company was not available for immediate sale in its present condition.