Management Board Report on the Performance of mBank S.A. Group in H1 2014

Table of contents

1. Key highlights of mBank Group in H1 2014 4
1.1. H1 2014 in numbers 4
1.2. Key projects of mBank Group in H1 2014 5
1.2.1. Strategic alliance with Orange 5
1.2.2. Rebranding of the Group and New mBank 5
1.2.3. Changes to mBank's branch network 5
1.2.4. Mobile Banking 6
1.2.5. Euro Medium Term Note Programme 6
1.3. Awards and distinctions 7
2. Composition of mBank Group 10
3. mBank Group Strategy for 2012-2016 12
4. Economy and the banking sector in H1 2014 14
4.1. Questions about the Polish economy 14
4.2. Money supply and the banking sector mirroring the economy 16
4.3. Changes in recommendations of the Polish Financial Supervision Authority (PFSA) and other regulations concerning banks 17
4.4. Factors impacting the banking sector in H2 2014 19
5. Rating of mBank and Group subsidiaries 19
5.1. Fitch rating 19
5.2. Standard & Poor's rating 20
5.3. Moody's rating based on publicly available information 21
5.4. Ratings of Poland, mBank and Commerzbank – comparison 21
6. mBank shareholders and share price on the WSE 21
6.1. mBank shares as of June 30, 2014 21
6.2. mBank stock performance 22
7. Financial results of mBank Group in H1 2014 23
7.1. Profit and Loss Account of mBank Group 23
7.2. Segments and business lines 28
7.3. Financial results of mBank Group subsidiaries 31
7.4. Changes in the consolidated statement of financial position 32
7.5. Performance indicators 35
7.6. Financial results of mBank Group in Q2 2014 35
8. Corporates and Financial Markets 37
8.1. Corporate and Investment Banking (mBank) 37
8.1.1. Corporate clients 37
8.1.2. Product and service offer 38
8.1.3. Distribution network 41
8.2. Financial Markets 42
8.2.1. Activities within Financial Markets area 42
8.2.2. Financial Institutions 43
8.2.3. mBank's custody services 43
9. Retail Banking Area 44
9.1. Retail Banking in Poland (including Private Banking) 44

9.1.1. Retail customers 44
9.1.2. Retail Banking offer development 44
9.1.3. Branch network 47
9.2. Retail Banking in the Czech Republic and Slovakia 48
9.2.1. Retail customers 49
9.2.2. Retail Banking offer development 49
9.2.3. Branch network 50
10. Subsidiaries of mBank Group 51
11. Main directions of change and types of risk of the Group's activities 56
11.1. Main directions of change in the management of Risk Area 56
11.2. Main risks of the Group's business 56
11.3. Credit risk 56
11.3.1. Quality of the loan portfolio 57
11.4. Market risk 58
11.5. Liquidity risk 60
11.6. Operational risk 62
11.7. Capital adequacy 62
12. mBank's Authorities 63
13. Statements of the Management Board 65

1. Key highlights of mBank Group in H1 2014

1.1. H1 2014 in numbers

Profit growth	■ Profit before tax of PLN 849.1 million compared to PLN 757.6 million in H1 2013 ■ Net profit attributable to owners of mBank at PLN 662.6 million, up by 9.8% year on year
Growing revenues	■ Total revenues at PLN 1,980.4 million (up by 12.2% year on year)
Improving cost efficiency	■ Total costs (including amortisation and depreciation) at PLN 885.9 million, up by 8.1% year on year ■ Cost to income ratio at 44.7%, down from 46.5% a year ago
Conservative approach to provisioning	■ Net impairment losses on loans and advances of PLN 245.3 million compared to PLN 187.1 million in H1 2013
Continued organic growth and business expansion	■ Retail client base at 4,490 thousand clients (+122 thousand clients year to date) ■ Corporate client base at 17,006 clients (+673 clients year to date)
Growth of net loans	■ Net loans and advances to customers at PLN 70,137.2 million, up by 2.8% year to date
Growing customer deposits	■ Amounts due to customers at PLN 63,293.7 million, up by 2.6% year to date
Strong profitability	■ Gross ROE at 17.5% (16.3% at the end of H1 2013) ■ Net ROA at 1.21% (1.15% at the end of H1 2013)
Capital and liquidity ratios at a safe level	■ Total capital ratio at 15.79% ■ Common equity Tier 1 ratio at 13.20% ■ Loans to deposits ratio at 110.8%

1.2. Key projects of mBank Group in H1 2014

A number of strategically important projects were developed in H1 2014 including the following:

1.2.1. Strategic alliance with Orange

On March 22, 2014, mBank established a strategic alliance with Poland's leading telecom operator Orange Polska S.A. Its foremost goal is to provide modern and convenient financial services targeting clients who value easy access and convenient personal finance management regardless where they are.

The Bank's new offer available through the Orange network will target existing and prospective clients of Orange including individuals and SMEs. They will be offered a dedicated comprehensive range of financial products available on mobile devices and an online platform.

Teams from both organisations have been working since the signing of the agreement to develop a competitive and appealing offer. The venture will set new trends in electronic banking whereby the strengths of Poland's premier transactional and mobile bank are combined with the know-how and technology of a global telecom operator in a rapidly evolving market for financial services.

The project is currently in the testing phase with the expected official start scheduled for Q3 2014.

1.2.2. Rebranding of the Group and New mBank

On November 25, 2013, when BRE Bank and MultiBank brands were replaced with the mBank brand, was a milestone date for the rebranding process. Already in 2013 the rebranding process covered the majority of Group subsidiaries, whose logotypes and names were replaced with new ones with an "m" prefix. As part of this process, in Q1 2014 BRE Finance France changed its name to mFinance France.

In H1 2014 the rebranding process of all the branches of the Group was continued. The process will be completed during 2014. Additionally, in accordance with the One Bank Strategy, all retail and corporate branches of the Bank will be re-organized and repositioned by 2018 to provide a full range of services to the Group's clients (for more information please refer to section 1.2.3. Changes to mBank's branch network).

The rebranding also served as an opportunity to refresh the existing mBank brand. The new transactional platform of mBank, developed as part of the New mBank project, reflects the new brand concept and its color scheme.

In Q1 2014, the new transactional platform was successfully launched in mBank foreign branches located in the Czech Republic and Slovakia.

1.2.3. Changes to mBank's branch network

Under the Strategy approved in 2012, mBank is implementing the One Network Project to consolidate its sales network and to better service the needs of its retail and corporate customers. Separate retail and corporate branches will be replaced by advisory competence centres while so called light branches will open in shopping malls. Advisory centres will be available in all cities where mBank currently operates its branches. The change will be implemented gradually until the end of 2018.

Advisory centres will offer a complete range of retail and corporate banking services as well as products of selected mBank subsidiaries including mLeasing, mFaktoring and Dom Maklerski mBanku. There will be 89 such branches in operation. mBank's first universal branch opened in Szczecin on June 16, 2014.

According to the sales network reorganisation plan, there will be 44 light branches in Poland. They will offer fast and efficient basic customer service including cash transactions and core products such as bank accounts, payment cards, cash loans etc.

In addition, mBank's network will be supported by around 60 mKiosks operated by Aspiro.

1.2.4. Mobile Banking

A new mobile application was launched on February 19, 2014. Similar to the electronic platform the application has been built from scratch and is available on all major operating systems (Android, iOS, Windows Phone and Windows 8.1).

The project leverages the opportunities offered by smartphones and mobile systems. All versions of the mBank application offer full transactional functions and access to clients' personal finance from any place. The key solutions of mBank's new mobile banking application include:

- Poland's fastest mobile loans available within 30 seconds;
- Peer to peer (P2P) payments ordered with a text message using the phone's address book;
- personal financial management (PFM): classification of expenses;
- security assured by device pairing and a unique PIN;
- access to key information and offers without logging in;
- mobile mDeals and geolocation of discounts, branches and ATMs;
- option of push notifications: new operations, changes recorded on account, mDeals in proximity;
- modification of transaction limits.

At the end of March 2014, mBank's mobile banking offering attracted the highest number of users in Poland according to the PRNews.pl Report. At the end of June 2014 the number reached c. 775 thousand.

1.2.5. Euro Medium Term Note Programme

In 2012, BRE Finance France (currently mFinance France) as the issuer and the Bank as the issue underwriter had signed an agreement for a Euro Medium Term Note Programme (EMTN) for a total amount of up to EUR 2 billion. In March 2014, the EMTN Base Prospectus has been updated and the amount of the Programme has been increased up to EUR 3 billion. Under the EMTN Programme, the issuer will have a right to issue debt securities in multiple tranches, various currencies and with diverse interest structure.

The Programme currently bears ratings of "A" and "BBB+" from Fitch Ratings and Standard & Poor's Rating Services, respectively.

The first tranche of Eurobonds with a nominal value of EUR 500 million was issued in October 2012.

Two further EMTN issues with a nominal value of CHF 200 million and CZK 500 million, respectively, took place in Q4 2013.

On March 24, 2014, mFinance France issued another tranche of bonds with a nominal value of EUR 500 million, maturing in 2019. The interest on the bonds was set at 2.375% per annum.

On March 25, 2014, the newly issued tranche of Eurobonds was assigned with ratings by Fitch Ratings and Standard & Poor's Ratings Services in accordance with those assigned to the EMTN Programme and mBank's long-term rating.

1.3. Awards and distinctions

In H1 2014, mBank Group was awarded numerous prizes and distinctions. The most important awards include:

Product offer and quality of the customer service

mBank was named the "Best Trade Finance Bank" in Poland

mBank received the "Best Trade Finance Bank in Poland" award from Global Finance magazine. The winners were recognised for their customer service quality, scope of services, product innovations, price competitiveness, transaction volume and competencies of staff responsible for trade finance.

Złoty Bankier (Golden Banker)

In the fifth edition of the "Golden Banker" ranking organised by the financial portal Bankier.pl and the Polish online payment market leader PayU, mBank won for the fourth time and received awards for the best retail current account, the best corporate bank and the best social media bank. mBank also received the highest number of nominations in all seven categories of the ranking and thus collected the main award: the Golden Bank statue.

The goal of the competition is to name the best financial products on the Polish market. Internet users vote to select the winners through the dedicated website.

Service Quality Stars 2014 for traditional and online banking

mBank received two Service Quality Stars in the seventh edition of the ranking published by the online service jakoscobslugi.pl, which names the most friendly companies based on consumer opinions and the results of a CAWI survey (i.e. Computer-Assisted Web Interview, a methodology of collecting information in quantitative market and opinion research where respondents are requested to complete electronic questionnaires) covering 15 thousand respondents.

According to the research of the online service, 69.3% of clients are satisfied with the services of institutions in the "banking, finance, insurance" sector. mBank received two Service Quality Stars in this category: for the quality of service provided by its online banking and by its traditional banking (with service quality ratios at 74.6% and 85.0%, respectively). The quality of service as well as the looks and competency of mBank advisors have been awarded for a sixth time.

mBank is the leader in customer service quality for the third time

It is the third time that mBank topped the ranking "Quality You Can Bank On TNS Polska" organised by TNS Polska, Deloitte and Puls Biznesu. Mystery shoppers visited branches of 21 banks to assess the customer service standards (among others: the aesthetic qualities of the branches, the appearance of the employees and their work stations, and above all, the analysis of the customer's needs and the presentation of the offer). This year, pollsters were asking for a savings offer and verifying the way of welcoming clients, conducting an analysis of their needs, presenting the offer, the form of the entire meeting, as well as the knowledge of customer advisers. mBank received 76.4 percentage points (17.7 percentage points above market average).

Digital Model Bank 2014

Experts of the consultancy and research institution Celent Research which assists financial institutions in the development of comprehensive business and technology strategies placed mBank in the first position in the Digital Model Bank category.

The competition ranked over 80 banks around the world. Celent nominated the winner based on a review of the development of online and mobile banking as well as effective development of value-added services for clients.

Bank Innovation Awards 2014

The Bank Innovation Awards, organised for the second time by Bank Innovation, one of the leading American financial sites focusing on innovations in the banking industry, awarded mBank for its new transactional service (New mBank) launched in 2013. The competition awards innovative financial companies which distinguish themselves through a business approach reaching outside the tested methods, both for products, processes and operating methods. According to the jury, mBank's platform not only brings new quality for electronic banking users but also improves Bank's sales figures significantly.

Marketing activities of mBank

mBank Rebranding Team is the best

The mBank team responsible for rebranding, which consisted in merging the MultiBank, mBank and BRE Bank brands, was recognised in the competition of Mediarun. mBank was awarded a Grand Prix in the Marketing Director of 2013 competition.

The aim of the competition is to award the best marketing specialists in Poland who stand out from the rest through their effectiveness, professionalism and unconventional thinking. In its justification, the award committee stated that the mBank team not only had to change the image of the brand, but also faced the challenge of modifying the way people think about it, that is changing the brand philosophy.

Employer branding Oscars

mBank was among the best talent-hunting companies in the Employer Branding Stars contest, addressed to employees and to the job market, organised by HRstandard.pl, an HR web portal, and Employer Branding Institute (qualified participants were evaluated by a jury composed of experts in the following fields: HR, internal communication, PR, media, employer branding, advertising, marketing and social media). As part of the contest, actions connected with creating the image of the employer on the Polish market in 2013 were evaluated. mBank was distinguished for its campaign "Be in tune with your career", which promoted the Young Talents Development Programme.

mBank was ranked number one in the following categories: best career website (www.bankowetalenty.pl) and best recruitment materials.

Rebrand 100 Global Awards 2014

The concept of mBank's rebranding was considered one of 100 best in the world during the Rebrand 100 Global Awards 2014. mBank was rewarded for successfully combining visual communication of four

brands - mBank, MultiBank, BRE Bank and BRE Private Banking and Wealth Management - under one new brand.

Rebrand 100 is the most prestigious international contest assessing brand repositioning projects. Every year a jury composed of business experts, designers and managers of leading global companies choses examples of the most effective brand transformations.

Brokerage activities:

Forbes Magazine ranking

The research department of Dom Maklerski mBanku (mDM) once again ranked first in the annual ranking of the Forbes Magazine.

The ranking is based on opinions of institutional investors who evaluate the research departments of the brokerage houses they cooperated with in the past year. The score in each category is the weighted average of all points granted. The evaluation criteria include among others: comprehensive offer, professional service, quality and value of reports and newsletters.

Dom Maklerski mBanku: a leader on the Polish capital market according to the Warsaw Stock Exchange (WSE)

The Warsaw Stock Exchange recognized the leaders on the Polish capital market for the 24th time. Dom Maklerski mBanku was awarded in two categories: the highest number of companies introduced on the Main Market in 2013 and the highest share in session trading in shares and rights to shares on the NewConnect market.

In 2013, the year for which the WSE awards were granted, Dom Maklerski mBanku participated in 6 IPOs, including 3 IPOs as co-ordinator (IPOs of PHN , Tarczyński, Capital Park, ENERGA, Elemental Holding and Vistal Gdynia with an aggregate value of c. PLN 2.7 billion).

Złota Akcja biznes.pl. (Golden Stock)

A return rate of 327% on its stock over the last 10 years placed mBank in the first position of the ranking Złota Akcja biznes.pl (Golden Stock) organised by biznes.pl, one of Poland's most popular financial portals.

Złota Akcja biznes.pl is a prestigious ranking of the top companies listed on the Warsaw Stock Exchange and names those companies whose shareholders have made the largest gains on their investments.

Awards for the Management Board:

Banking & Insurance Leaders Competition

In the third edition of the Banking & Insurance Leaders competition, mBank was named the Top Innovative Bank 2013 while CEO Cezary Stypułkowski was named the Man of the Year.

mBank was acknowledged, among others, for the skilful unification of all brands and for the launching of the new electronic and mobile banking platform which offer solutions that were so far unavailable on the Polish market.

The Banking & Insurance Leaders competition is an idea developed by MMC Polska, a company specialised in the organisation of industry events such as the Banking Forum and the Insurance Forum. The competition awards individuals who have made an important contribution to the development of the banking and insurance sector as well as the most effective institutions and the most interesting financial solutions.

2. Composition of mBank Group

mBank Group is formed by mBank S.A. – the parent company and 17 subsidiaries, in which the Bank has a majority stake. In H1 2014 the major subsidiaries included: mLeasing, mBank Hipoteczny, Dom Maklerski mBanku, mFaktoring and BRE Ubezpieczenia.

As part of the rebranding process, in Q1 2014 BRE Finance France changed its name to mFinance France.

On April 3, 2014, the Management Board of mBank agreed to explore opportunities for establishing an optimal cooperation partner for the Bank in the area of insurance including holding of exploratory discussions with limited number of potential partners. The chart below presents the composition of mBank Group at the end of H1 2014:

Since the beginning of 2014, reporting of mBank Group business segments has changed. The Retail Banking segment, in addition to the results of mBank retail operations results in Poland, the Czech Republic and Slovakia, also includes the results of retail segments of mLeasing and Dom Maklerski mBanku, whereas the Corporates and Financial Markets segment was divided into two business lines: Corporate and Investment Banking (previously Corporates and Institutions) and Financial Markets (previously Trading and Investment Activity). From the beginning of 2014, the Corporate and Investment Banking area includes results from offering financial instruments (options, contracts) to enterprises and arranging the issuance of debt instruments for corporate clients. In addition, this area covers the results from corporate segments of mLeasing and Dom Maklerski mBanku. The Financial Markets area covers mainly operations concerning treasury, financial markets and liquidity, interest rate and foreign exchange risk as well as trade and investment portfolio management. The area also includes the results of mFinance France.

Consequently, at the end of H1 2014 the composition of mBank Group by business segments and areas was as follows:

mBank Group

Segment	Retail Banking	Corporates and Financial Markets	
		Corporate and Investment Banking	**Financial Markets**
Bank	■ Services for retail customers and microenterprises ■ Services for affluent retail customers ■ Services for private banking clients	■ Services for corporations (capital groups) and non-banking financial institutions (K1) ■ Services for large companies (K2) ■ Services for small and medium enterprises (K3)	■ Services for banks ■ Trading and sales for corporate clients ■ Risk and liquidity management
Consolidated subsidiaries	■ Retail part of Dom Maklerski mBanku S.A. ■ Retail part of mLeasing Sp. z o.o. ■ Aspiro S.A. ■ mBank Hipoteczny S.A. ■ mWealth Management S.A. ■ BRE Ubezpieczenia TUiR S.A. (an insurance company) ■ BRE Ubezpieczenia Sp. z o.o. ■ BRE Agent Ubezpieczeniowy Sp. z o.o. ■ AWL I Sp. z o.o.	■ Corporate part of Dom Maklerski mBanku S.A. ■ Corporate part of mLeasing Sp. z o.o. ■ mFaktoring S.A. ■ Garbary Sp. z o.o. (company in restructuring) ■ Transfinance a.s. (a factoring company operating in the Czech Republic) ■ MLV 45 Sp. z o.o. Sp. k.	■ mFinance France S.A. (special purpose entity reserved for financing activities of the Bank on the wholesale markets)
	Other subsidaries	■ mLocum Sp. z o.o. ■ mCentrum Operacji Sp. z o.o. ■ BDH Development Sp. z o.o.	

Under IFRS, all of the subsidiaries presented in the table are consolidated by way of acquisition accounting. The business of selected subsidiaries is briefly described in Chapter 10. Subsidiaries of mBank Group.

3. mBank Group Strategy for 2012-2016

The Group has pursued the objectives of the One Bank Strategy since July 2012. The underlying principles of the One Bank strategy provided for improvement of the long-term capacity of generating income and profits within a sound balance sheet with a strong technological support for client relationships and an enhanced integration backed by brand unification and a uniform branch infrastructure. Selected key achievements of the One Bank Strategy include:

- improved balance sheet of mBank, in particular (i) a reduced loan to deposit ratio and (ii) increasing diversification of funding supported by an EMTN issue programme and the strategic repositioning of mBank Hipoteczny in view of launching the programme of financing of retail housing loans with issues of covered bonds;
- providing all mBank clients in Poland, the Czech Republic and Slovakia with an innovative online banking well ahead of current customer experience stanards (New mBank) along with a top-class mobile banking application following the launch of New mBank;
- implementation of an organizational set up of Corporate and Investment Banking integrated around K2 client needs. This is a foundation for mBank long term focus on deepening relationships with K2 clients through offering a full range of corporate finance solutions within an integrated institution;
- targeted development of relations with the SME segment supported by an integration of competences related to SME services including sales management and business development within a specialized unit in the Bank's Retail Banking area;
- increasing integration focused on synergies across different parts of the banking business and Group subsidiaries, in particular: implementation of the uniform mBank brand across the Group, and a project under implementation to unify and reorganise the retail and corporate branch network covering the range of financial services provided by Group subsidiaries.

A number of steps initiated or completed in H1 2014 derived from the goals of the One Bank Strategy are summarised below:

H1 2014		
Milestones		**Summary**
	Rebranding Goal: Merger of the former BRE Bank Group under the mBank brand.	In Q1 2014 BRE Finance France changed its name to mFinance France. *(for more information please refer to 1.2.2. Rebranding of the Group and New mBank).*
	Launch of New mBank Goal: Launch of a new transactional platform for retail clients.	Launch of the New mBank platform for clients of the Czech and Slovak branches in February 2014. Launch of the new mobile application available for the top four operating systems. *(for more information please refer to 1.2. Key projects of mBank Group in H1 2014).*

Reorganization

Goal:
Introduction of a range of modifications to the Bank's organizational structure aimed i.e. at the development of a coherent offer for K2 segment clients and small and medium firms.

Introduction of a new responsibility split between the corporate and investment banking.

(for more information please refer to section 8. Corporates and Financial Markets).

Formation of a new unit of the Retail Banking Line responsible for developing a competitive product offer for SME clients.

One Network

Goal:
Consolidation and reorganization of mBank's sales network (to offer products of the entire mBank Group through universal branches).

The first mBank branch of the new type opened in Szczecin in June 2014: it is an advisory centre which offers a full range of retail and corporate banking services as well as products of selected mBank subsidiaries.

(for more information please refer to section 1.2.3. Changes to mBank's Branch Network).

Balance sheet management

Goal:
Optimizing the Bank's balance sheet form both the profitability and the structural perspective and diversification of the funding base.

Issue of another tranche of Eurobonds with a nominal value of EUR 500 million by mFinance France.

(for more information please refer to section 1.2.5. Euro Medium Term Note Programme).

Issue of four series of mortgage bonds denominated in EUR with a total value of EUR 50.5 million by mBank Hipoteczny.

(for more information please refer to section 10. Subsidiaries of mBank Group).

According to the Strategy, in the coming quarters the Group activities will primarily focus on the following areas:

- strengthening of mBank brand's positioning, awareness and attributes among banking clients;
- migration of former MultiBank customers to the New mBank platform;
- enhancing the acquisition of retail customers leveraging the strengths of the New mBank;
- further development of relations with the SME segment under both the retail and the corporate service model;
- reinforcing of relations with corporate clients, especially within the K2 segment, leveraging the integrated corporate finance offer and the industry expertise of corporate advisors.

Strategic financial targets

According to the Strategy, the Group's actions until 2016 will be organized around the following financial targets:

Strategy 2012-2016	
Financial Target	**As of June 30, 2014**
Loan to deposit ratio at c. 115% by 2016	110.8%
Net stable funding ratio (NFSR): minimum 110%	111%
Core Tier 1 ratio: c. 11% *	13.2% *
Cost/income ratio (C/I): maximum 48%	44.7%
Gross ROE: minimum 15%	17.5%
Net ROA: minimum 1.4%	1.2%

** Common Equity Tier 1 under Basel III rules.*

4. Economy and the banking sector in H1 2014

4.1. Questions about the Polish economy

Economic recovery which started in 2013 continued into H1 2014: GDP growth most likely exceeded 3% in the six months. At the same time, the results of growth became apparent elsewhere in the past months, especially on the labour market: the growth of salaries stepped up to more than 4% and the number of the unemployed dropped for the first time in more than two years to less than 2 million. Nevertheless, H1 was a time of increasing uncertainty about the short-term outlook of the Polish economy.

GDP growth

The Polish economy started the year on a strong note: according to the final data of the Central Statistical Office (GUS), GDP grew by 3.4% year on year in Q1 2014 and exceeded the most optimistic expectations. Nonetheless, a shadow was cast over the Polish economy and uncertainty about further acceleration increased significantly. Some forecasts for Q2 2014 (those of mBank) suggested a slow-down compared to the first three months of the year. The dip in the steady recovery was driven by a number of factors.

Contributors to GDP growth

First, the outbreak of the conflict between Ukraine and Russia, its political repercussions and the economic downturn in both countries started to affect Polish businesses. According to GUS, PLN-denominated exports to Central and Eastern European countries (including mainly Russia and Ukraine) decreased by 10% year on year in the first five months of 2014 while the value of goods exported from Poland to Ukraine dropped by 30%.

Second, economic activity in Q1 2014 was helped by auspicious weather conditions as construction work started early thanks to warm and dry winter. The shift was evident both in monthly statistics of construction work and the number of new apartments under construction and in the results of those industrial processing sectors which produce mainly for construction (cement, oil products, metals).

Third, the amended rules of VAT deductions on vehicles other than trucks in force in the first three months of the year boosted sales of vehicles recognised as fixed assets by businesses. This factor drove both private consumption and investments.

All of these factors overlapped with existing positive trends in the Polish economy, mainly the rising propensity of companies to invest (forced by growing demand and high production capacities) and the steadily improving consumer sentiment as households consume along rising disposable incomes (mainly salaries). Nevertheless, while Q1 brought positive surprises, the three months that followed abounded in relatively negative news. As the growth rate of industrial production and construction slowed down in Q2 2014 combined with the expiry of one-off factors, GDP growth in Q2 most likely slowed down to c. 3% year on year according to the Bank. The winding path of the Polish economy is also reflected in the deteriorating corporate sentiment, especially the PMI index.

Interest rates and monetary policy

In Q2 2014 inflation reached only 0.3% year on year on average, much below the expectations of the National Bank of Poland and economists. While the vast majority of the decrease was driven by record-low food prices and the volatility of some core categories (e.g. communication services prices), the stagnation of inflation around zero combined with the prospect of it temporary falling below the zero line in the summer caused a correction of market expectations of Poland's monetary policy. The uncertainty about the further evolution of the economy and the deterioration of many monthly statistics also bolstered expectations of more interest rate cuts.

CPI inflation and NBP reference rate

Monetary policy remained stable for much of the period under review and an optimistic assessment of the economic conditions under which it operates justified unchanged rates and their continued stability in the coming months (until the end of Q3 2014). While the idea of new rate cuts quite soon (as of mid-May) made certain appearance in the statements of some Monetary Policy Council members, the formal change of bias took longer. By first opening the door to rate cuts in June, the Council abandoned its forward guidance of stable rates referring to macroeconomic statistics as the driver of the monetary policy in the coming months. According to the Bank, a potential decrease of inflation below zero and,

most of all, weaker GDP growth mid-year will encourage the Council to correct the rates, most likely by cutting the rates by 50 basis points at the September meeting.

The zloty appreciated in Q2 2014: supported by a steady inflow of cash into the T-bond market, the Polish currency reached the highest level in more than a year in early June at PLN 4.08 to the euro and PLN 2.99 to the dollar. The bond market, in turn, was helped by an auspicious sentiment on the global market driven by the dovish bias of the major central banks. From the perspective of Poland, the activity of the European Central Bank was the most relevant: after the ECB announced a package of unconventional measures in June, the zloty appreciated the most and the yields on Polish bonds dropped to a record low. Growing expectations of a relaxed monetary policy in Poland also supported the bond market. In the context of the latter, it should be noted that interest rate derivatives prices suggest that market participants expect at least one cut of 25 basis points and believe that a scenario of the NBP reference rate falling to 2% is very likely.

4.2. Money supply and the banking sector mirroring the economy

The changes in the banking and financial sector mirror the trends observed in the last months in the real economy, presented in Section 4.1. Questions about the Polish economy. These include:

- protracted low interest rate environment;
- relaxed terms and criteria of bank lending;
- continued economic recovery and decreasing risk aversion of households and companies.

In H1 2014, the growth rate of household deposits remained low compared to historical performance and was 5.5% on average, reflecting the overall weakness of the nominal Polish economy (low inflation) and relaxed monetary policy. With low and stable interest rates and a remote prospect of their normalisation, the factor decisive to faster or slower investment of household savings into bank deposits is the relative attractiveness of different asset classes (continued search for alternative investment options). The higher growth rate of household deposits in the spring (from March to May) coincided with low yields on stocks listed on the Warsaw Stock Exchange (WSE); a slow-down in June overlapped with favourable performance of debt funds. At the same time, bank customers increasingly decide to open term accounts and deposits due to low inflation and resulting high real interest rates on deposits.

Household loans and deposits

In H1 2014, the growth rate of corporate deposits slowed down steadily. This could be due to deteriorating financial results of companies. According to the Bank, the deterioration could be prompted not only by lower sales on some markets, but also by increased investments as demonstrated among others by investment statistics of Q1 2014. According to the Bank, the continued acceleration of

economic activity in H2 2014 should be coupled with a recovery of free cash of businesses and increased investments in bank deposits.

A more optimistic interpretation is corroborated by a substantial increase of corporate lending in the period under review. In the first six months, corporate loans increased by 5.1% on average; the growth rate exceeded 6% in the last months, even net of the effect of currency volatility. Different to H2 2013, when corporate loans were mainly used for investments, lending now includes also working capital and real estate loans. In particular, the growth rate of investment loans is now greater than in the same phase of the previous economic recovery. The Bank expects a further increase of corporate lending (this stems not only from fundamentals but also from the intentions and expectations of banks responding to NBP surveys) which should reach 8-10% year on year at the end of 2014.

Corporate loans and deposits

Household loans in the period under review continued to exhibit a dichotomy between a stable but low growth rate of mortgage loans (c. 4.5%) and a fast, but more volatile growth in consumer lending (acceleration to 4.4% from 2.4% at the end of 2013). Consumer loans are driven on the one hand by improved consumer sentiment and on the other by much more relaxed criteria and terms of lending. The growth rate of mortgage loans remained relatively low in the period under review, which is attributable both to low volumes of new loans and growing repayments and provisions (due to a large volume of existing loans).

4.3. Changes in recommendations of the Polish Financial Supervision Authority (PFSA) and other regulations concerning banks

Recommendation U of the Polish Financial Supervision Authority (PFSA)

The Polish Financial Supervision Authority issued Recommendation U on good practice in bancassurance on June 24, 2014. The Recommendation is designed to improve the quality of co-operation between banks and insurers in offering insurance products by banks and to define conditions of a stable development of the bancassurance market in the long term. The work on the regulation started in 2013 and the first draft was presented by PFSA in October 2013.

The final version of the Recommendation which takes effect in June 2014 incorporates the comments and remarks of the market including the National Bank of Poland, commercial banks, the Polish Bank Association, the Polish Chamber of Insurance, auditors and organisations which represent bancassurance clients: the Ombudsman of the Insured, the Civic Rights Ombudsman, and the Office of Competition and Consumer Protection.

The key stipulations of Recommendation U include:

- free choice of the insurer for clients;
- fee of the bank for offered insurance products set in proportion to the amount of costs incurred by the bank;
- introduction of a reporting requirement whereby the bank clearly specifies its role in the offering of insurance services, i.e., defines itself as an insurance agent or direct insurer. Furthermore, where a client is the insured and a bank is the direct insurer, the bank is required to take actions which protect the interests of the client or the inheritors.

Recommendation U will take effect no later than March 31, 2015.

Basel III regulatory standards

The new macroprudential policy provisions set out in the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD IV), also known as Basel III, are effective in the European Union as of January 1, 2014.

The amendments introduced under Basel III include:

- stricter capital requirements including a universal definition and a structure of the bank's capital as well as a new counterparty capital requirement;
- relevant capital buffers, including a capital conservation buffer, a countercyclical buffer, a global systemically important financial institutions buffer and systemic risk buffer;
- liquidity requirements, measured by the Liquidity coverage ratio (LCR) and the Net stable funding ratio (NSFR);
- financial leverage requirements.

The regulatory amendments are mainly designed to protect the capital of banks against adverse effects of financial crises.

The new provisions of CRD IV must be implemented in a national legislation, while CRR takes effect as of January 1, 2014 without harmonisation with national laws.

Payment Services Act

An amendment of the Payment Services Act of August 30, 2013 effective as of January 1, 2014 requires the participants of the domestic payment transactions market to harmonise within 6 months.

The key stipulations of the amendment include:

- the maximum interchange fee rate set at 0.5% of a domestic card transaction amount (down from 1.2-1.3%);
- stricter disclosure requirements for card organisations, payment card issuers and clearing agents;
- improvement of competitiveness and facilitation of a market entry for new enterprises though invalidation of agreement rules among card organisations;
- uniform definitions for the payment cards market, including notions of an interchange fee, a payment card issuer, a payment card organisation and a domestic payment transaction.

New rules of the amendment took effect on July 1, 2014.

European Market Infrastructure Regulation (EMIR)

The European Market Infrastructure Regulation (EMIR) imposes the obligation of clearing transactions via central counterparties and reporting transactions to trade repositories. EMIR also imposes new risk mitigation requirements.

The obligation of reporting of all derivatives transactions to trade repositories, including both exchange-traded and OTC instruments, took full effect on February 12, 2014.

The reporting obligations include:

- universal trade identifiers;
- on-going communication with trade repositories or reporting entities;
- details of collateral against each derivatives transaction;
- identification of all intragroup trades;
- implementation of universal periods for creating confirmations and settlement of transactions imposed by the EMIR.

Foreign Account Tax Compliance Act (FATCA)

The US Foreign Account Tax Act (FATCA) took effect on January 1, 2013. FATCA requires the implementation of identification and monitoring processes of the status of banks' clients and reporting of assets and investments of US tax residents.

The US Internal Revenue Service (IRS) announced in May 2014 a transitional period of complete implementation of FATCA in 2014 and 2015. The transitional period should facilitate the implementation of the new rules by payers and Foreign Financial Institutions (FFI).

4.4. Factors impacting the banking sector in H2 2014

While the Bank expects economic recovery to continue in H2 2014, there is much more uncertainty about its pace. Nonetheless, the annual growth rate should reach 3.5%, with domestic demand remaining the key driver. In addition, public investments are expected to be back on track of growth in H2 2014 (after many quarters of a decline) thanks to the planned launch of investments financed under the new EU perspective, as demonstrated by tenders opened in H1 2014.

Sustained strength of domestic demand (linked to the improvement on the labour market) is a viable prognostic for the banking sector as it suggests continued high demand for loans, especially consumer lending to households as well as corporate loans (investment loans in particular). This also entails more space to rebuild the deposit base in the banking sector. The Bank expects the growth rate of retail and corporate deposits to accelerate to 8% and 12% year on year, respectively, at the end of 2014. However, the low interest rates will make alternative investment options (especially investment funds) more attractive as compared to bank deposits.

5. Rating of mBank and Group subsidiaries

5.1. Fitch rating

On March 27, 2014, Fitch Ratings affirmed the long-term foreign currency Issuer Default Rating of mBank at the "A" level, changing its outlook from stable to negative. The adjustment of mBank's rating outlook resulted from changing of Commerzbank's long-term rating outlook from stable to negative, due to a global review of assessments of state support to European banks conducted by Fitch. Commerzbank was among eighteen European commercial banks, whose rating outlook was downgraded to negative by Fitch on March 26, 2014.

On May 19, 2014, Fitch reaffirmed the long-term foreign currency Issuer Default Rating of mBank at the "A" level with a negative outlook. According to the agency, the long-term rating of mBank reflects a very high probability that the Bank would be supported by Commerzbank, if required.

mBank's viability rating reflects mBank's position in the Polish banking sector, limited risk appetite, solid financial results and high capitalization as well as favourable macroeconomic environment. The still high, although gradually decreasing, share of mortgage loans in foreign currencies in mBank's loan portfolio and substantial refinancing needs in foreign currencies in the next years are considered by the agency as risk factors.

Fitch Ratings – ratings of mBank	
Long–term IDR	A (negative outlook)
Short-term IDR	F1
Viability rating	bbb-
Support rating	1
Rating of senior unsecured debt issued under the Euro Medium Term Note Programme (EMTN)	A; F1
Tranches of bonds issued by mFinance France: EUR 500 million (October 2012), CHF 200 million (October 2013) and EUR 500 million (March 2014)	A

Ratings of mBank Hipoteczny S.A. and mLeasing Sp. z o.o.

At the end of H1 2014, Fitch ratings assigned to mBank Hipoteczny and mLeasing were as follows:

Fitch Ratings – ratings of mBank Hipoteczny and mLeasing	
Long–term IDR	A (negative outlook)
Short-term IDR	F1
Support rating	1

The ratings were affirmed on May 19, 2014. Furthermore, Fitch Ratings assigned an „A" rating to mortgage and public sector covered bonds issued by mBank Hipoteczny.

5.2. Standard & Poor's rating

Since June 6, 2013, mBank receives a solicited rating assigned by Standard & Poor's Rating Services (S&P's): long-term credit rating "BBB+", short-term credit rating "A-2" and stand-alone credit profile (SACP) „bbb-". The long-term rating carries a negative outlook due to a negative outlook for Commerzbank's rating. In the first half of 2014, mBank's ratings and the rating outlook remained unchanged.

According to S&P's credit opinion dated June 6, 2014, mBank's rating reflects the reference level ("anchor") "bbb-" applied to all commercial banks in Poland and the agency's opinion concerning "adequate" business position of the Bank, "adequate" capital position and earnings, "adequate" risk position and liquidity. A good risk-adjusted profitability and an established market position with a balanced contribution of retail and corporate banking are considered by the agency to be the most significant strengths of mBank. S&P's emphasized that potential support given from Commerzbank to mBank as its "strategically important" subsidiary has a positive impact on its long-term rating. According to S&P's, mBank's rating level is constrained by the following factors: foreign currency denominated mortgages, higher-than-peers loan to deposit ratio and reliance on wholesale market.

Standard & Poor's – ratings of mBank	
Long-term deposits rating	BBB+ (negative outlook)
Short-term rating	A-2
Stand-alone credit profile (SACP)	bbb-
Rating of the Euro Medium Term Note Programme (EMTN)	BBB+
Tranches of bonds issued by mFinance France: EUR 500 million (October 2012), CHF 200 million (October 2013) and EUR 500 million (March 2014)	*BBB+*

5.3. Moody's rating based on publicly available information

Moody's ratings for mBank are based solely on publicly available information. mBank does not take part in the rating process and has the status of a „non-participating issuer". On May 29, 2014, Moody's lowered the long-term rating outlook to negative for more than eighty European banks, including Commerzbank and mBank. the above was Moody's reaction to the official adoption by the Council of the European Union of the BRRD (Bank Recovery and Resolution Directive) and SRM (Single Resolution Mechanism), which could have implications for the support rating.

Moody's – ratings of mBank based on publicly available information	
Long-term deposits rating	Baa3 (negative outlook)*
Short-term rating	Prime-3
Bank's Financial Strength Rating (BFSR)	D /ba2/ (stable outlook)

** "Non-participating issuer", rating based solely on publicly available information.*

5.4. Ratings of Poland, mBank and Commerzbank – comparison

The table below compares the long-term ratings for Poland, mBank and Commerzbank as of June 30, 2014.

Rating agency	Poland	mBank S.A.	Commerzbank AG
Fitch Ratings	A- (stab.)	A (neg.)	A+ (neg.)
Standard & Poor's	A- (stab.)	BBB+ (neg.)	A- (neg.)
Moody's	A2 (stab.)	Baa3 (neg.)*	Baa1 (neg.)

Rating outlook in brackets: stab. – stable, neg.- negative
** "Non-participating issuer", rating based solely on publicly available information.*

6. mBank shareholders and share price on the WSE

6.1. mBank shares as of June 30, 2014

As of June 30, 2014, the Bank's share capital had the following key characteristics:

- total number of mBank shares: 42,175,558 ordinary shares;
- no preferred shares, each share represents one vote at the General Meeting;
- nominal value per share: PLN 4.00;

- registered share capital: PLN 168,702 thousand, fully paid up;
- listing on the Warsaw Stock Exchange (WSE) since 1992;
- membership in the following WSE indices: WIG, WIG-Poland, WIG20, WIG30 and WIG-Banks; the shares participate also in the derivative indices based on WIG20 and WIG30.

In H1 2014, the total number of shares increased by 1,545 issued as a part of an incentive programme for key employees of mBank.

Commerzbank AG is mBank's strategic shareholder. At the end of H1 2014, Commerzbank AG held 69.6% of shares and votes at the General Meeting.

Moreover, according to publicly available information, ING Otwarty Fundusz Emerytalny (ING OFE) and AVIVA Otwarty Fundusz Emerytalny Aviva BZ WBK held the stakes of at least 5% of shares and votes at the General Meeting. The Bank does not hold any detailed information on the share of the above mentioned shareholders and the number of votes at the General Meeting as of June 30, 2014. According to information that was available earlier, the share of ING OFE in the structure of the shareholders calculated on the basis of the annual ING OFE asset structure as of December 31, 2013 (taking into account the price at closing at the WSE as of December 30, 2013) stood at 5.76%. Whereas, on the basis of a list of shareholders of the Bank participating in 27th General Meeting, which took place on March 31, 2014, the share of AVIVA OFE Aviva BZ WBK stood at 5.0%.

The 27th General Meeting mentioned above decided on the allocation of 2013 net profit, assigning PLN 716,984,486, constituting 67% of the Banks' profit, as dividend for mBank's shareholders (PLN 17 per share). The dividend day was set for May 5, 2014 and the dividend payment day for May 19, 2014.

6.2. mBank stock performance

The closing price for mBank shares at the last session of H1 2014 (June, 30) stood at PLN 505, which means that, in comparison to the price of the last 2013 working day (December 30), it increased by 1.0%, and compared to the rate adjusted for the dividend paid in May 2014 it increased by 4.5%. Over that period, the main WSE indices: WIG, WIG30 and WIG-Banks displayed slight increases - by 0.9%, 1.9% and 1.9% respectively.

P/BV (price/book value) ratio for mBank shares stood at 2.1x at the end of June 2014 compared to 1.7x a year ago. P/E (price/earnings) ratio stood at 16.1x after the first half of 2014 compared to 13.4x a year earlier.

mBank's market capitalization as of June 30, 2014, reached PLN 21.3 billion (EUR 5.1 billion) compared to PLN 21.1 billion at the end of 2013.

mBank's share price performance during H1 2014

7. Financial results of mBank Group in H1 2014

7.1. Profit and Loss Account of mBank Group

In H1 2014, mBank Group reported a profit before tax of PLN 849.1 million, compared to PLN 757.6 million in H1 2013 (+PLN 91.5 million or 12.1%). Net profit attributable to the shareholders of mBank reached PLN 662.6 million, compared to PLN 603.6 million in H1 2013 (+PLN 59.0 million or 9.8%).

mBank Group's profit

The main drivers of mBank Group's financial results in H1 2014 included:

- **increase of total income** to PLN 1,980.4 million. The Group reported an increase of net interest income, net fee and commission income and net trading income;
- **increase of operating expenses** (including depreciation and amortisation) compared to H1 2013 to PLN 885.9 million mainly due to increased costs of marketing;
- **improved effectiveness** measured by the cost to income ratio which stood at 44.7% at the end of H1 2014 compared to 46.5% at the end of H1 2013;
- **increase of net impairment of loans and advances** amounting to PLN 245.3 million;

- **continued organic growth and business expansion** as demonstrated by:
  - growing retail customer base in Poland, the Czech Republic and Slovakia which reached 4,490 thousand (+122 thousand customers year to date);
  - growing number of corporate customers, which reached 17,006 clients (+673 customers year to date).

Net loans and advances increased by 2.8% in H1 2014 while customer deposits increased by 2.6%. Consequently, the loans to deposits ratio remained stable at 110.8%.

The changes in the Group's results translated into the following profitability ratios:

- Gross ROE of 17.5% (16.3% at the end of H1 2013);
- Net ROE of 13.6% (13.0% at the end of H1 2013).

The Group's capital ratios remained high. Total capital ratio stood at 15.79% at the end of June 2014, compared to 19.38% at the end of 2013. Common Equity Tier 1 ratio reached 13.20% compared to 14.21% (Core Tier 1 under Basel 2.5 rules) at the end of 2013. The change of the capital ratios was driven by the implementation of the Basel III framework as described in detail in section 11.7.

mBank Group's income

In H1 2014, total income generated by mBank Group amounted to PLN 1,980.4 million compared to PLN 1,764.3 million in H1 2013, an increase of PLN 216.1 million or 12.2%. The increase was predominantly driven by improvement of core income with both net interest income and net fee and commission income registering substantial growth rates. In addition, net trading income showed a visible increase in the same period.

mBank Group's income

Net interest income was the Group's largest revenue source in H1 2014 (61.0% of total income). It reached PLN 1,208.2 million compared to PLN 1,067.7 million in H1 2013 (+PLN 140.5 million or +13.2%). The interest rate cuts imposed by the Monetary Policy Council in H1 2013 led to both lower interest income and reduction in interest expenses in H1 2014 compared to H1 2013. In addition, the more pronounced reduction in interest expense, which decreased by 26.4% compared to H1 2013 was mainly driven by the Bank's effective pricing policy for customer deposit and the growth of balances on clients' current accounts. The lower interest income (-5.7%), predominantly driven by market interest rate cuts conducted in 2013, was offset to a large extent by higher loan volumes and further changes in the asset mix toward higher margin products.

Consequently, the Group's net interest margin registered an improvement. Its level calculated as net interest income over average interest-earning assets, stood at 2.3% in H1 2014 compared to 2.1% in H1 2013.

Loans and advances to customers remained the main source of the Group's interest income (72.2%). With falling market interest rates, interest income from loans and advances decreased by PLN 74.6 million or 5.1%. Despite a higher volume of investment securities, interest income derived from that asset category decreased by PLN 43.6 million or 9.6% in H1 2014. Income from debt securities held for trading remained stable. Finally, income from cash and short term deposits decreased by PLN 9.5 million or 20.2%.

Interest income structure

Decrease of interest expenses in H1 2014 was mainly driven by lower costs on amounts due to customers (a decrease of PLN 259.7 million or 37.5%). In H1 2014 market interest rates were lower compared to H1 2013. Interest expenses on amounts due to banks decreased by PLN 31.5 million or 23.8% mainly as a result of repayment of loans granted to the Bank by Commerzbank Group. Interest expenses on debt securities in issue increased by PLN 2.1 million or 2.1% as the Group continued to diversify its funding base through the use of its EMTN programme.

Net fee and commission income, accounting for 24.5% of the Group's income, increased significantly year on year. In H1 2014, net fee and commission income amounted to PLN 485.1 million constituting an increase by PLN 90.0 million or 22.8% compared to H1 2013.

Fee and commission income structure

PLN M

Fee and commission income increased by PLN 95.6 million or 15.2% year on year. Fees and commissions from payment cards grew by 22.2% due to a higher volume of non-cash transactions with debit and credit cards as the Bank benefited from continued increase of transactional activity by its clients. Commissions from bank accounts increased (+10.2%) benefiting from the steady growth of the client base. Credit-related fees and commissions increased by 5.6%, mainly due to higher sales of non-mortgage loans and a rebound in corporate lending. Higher transactional activity of clients bolstered commissions on money transfers (+6.3%). In addition, fees from brokerage activity increased by 5.2% driven by higher income from IPO activity.

Dividend income amounted to PLN 2.8 million in H1 2014, similar to H1 2013. In the period the Bank received dividends from the Credit Information Bureau (BIK) and the National Clearing House (KIR) in which the Group retains minority stakes.

Net trading income amounted to PLN 202.3 million in H1 2014 and was higher by PLN 24.0 million or 13.5% compared to H1 2013. The increase in income was driven by higher other trading income (+PLN 32.6 million or 93.7%) owing to improved interest rate swaps valuation. The FX result decreased by PLN 8.6 million or 6.0%, mainly due to lower trading activity by corporate clients and narrowing market spreads.

Gains less losses from investment securities amounted to PLN 13.9 million in H1 2014, a decrease of PLN 23.0 million or 62.3% compared to H1 2013. In H1 2014, the Group realised gains on the sale of minority interests in two companies listed on the Warsaw Stock Exchange as part of the management of the Bank's non-core participations.

Net other operating income (other operating income less other operating expenses) amounted to PLN 68.1 million in H1 2014, a decrease of PLN 15.9 million or 18.9% compared to H1 2013. Other operating income increased in H1 2014 mainly thanks to stronger sales of apartments by mLocum. In the same period, other operating costs increased by 43.2%. The change was mainly driven by additional provisions set aside for various legal risks within the Group.

Net impairment losses on loans and advances

Net impairment losses on loans and advances in the Group amounted to PLN 245.3 million in H1 2014 compared to PLN 187.1 million in H1 2013, an increase of PLN 58.2 million or 31.1%.

Loan loss provisions in Retail Banking in Poland increased by PLN 5.1 million or 3.9% driven by a gradual change of the structure of loans in favour of consumer loans over the past several quarters as well as continued repayments of the FX mortgage loans with historically low delinquency rates.

Net impairment losses on loans and advances by segments

PLN M

Net impairment losses on loans and advances in the Corporates and Financial Markets area amounted to PLN 109.0 million in H1 2014 compared to PLN 55.9 million in H1 2013. The change was partly driven by a low base effect following a release in loan loss provisions booked in Q1 2013 as well as proactive provisioning of certain export-oriented credit exposures.

Overhead costs of mBank Group

Throughout the period, the Group maintained its focus on improving efficiency while continuing to invest in strategic growth areas that will support revenue growth in the coming years. Total overhead costs of the Group (including depreciation and amortisation) reached PLN 885.9 million, an increase of PLN 66.3 million or 8.1% year on year.

Overhead costs and amortization

PLN M

Personnel costs stood at PLN 414.3 million in H1 2014 constituting an increase of PLN 15.1 million or 3.8% year on year. The change was driven by higher variable components of employee remuneration linked to higher income earned by mBank Group. The number of FTEs increased from 6,107 at the end of June 2013 to 6,136 FTEs at the end of June 2014.

Material costs increased by PLN 37.7 million or 13.5% in H1 2014. The Group reported higher marketing expenses in H1 2014 mainly as a result of advertising campaigns targeting retail customers in promoting the mBank brand as well as "mobility". The cost of IT and logistics also increased in H1 2014 reflecting the ongoing strategic investments of the Bank across a number of businesses.

The cost of contributions and transfers to the Bank Guarantee Fund increased in H1 2014 due to a new prudential fee imposed at 0.037% of risk weighted assets and amounted to PLN 35.4 million compared to PLN 26.8 million in H1 2013.

Amortization and depreciation costs increased in H1 2014 due to higher amortisation of intangible assets and was related to increased expenditures in IT infrastructure in the past quarters.

A more dynamic increase of income relative to costs allowed the Group to improve its efficiency measured by the cost/income ratio which stood at 44.7% at the end of H1 2014 compared to 46.5% at the end of H1 2013.

7.2. Segments and business lines

Contribution of segments and business lines to the financial results

The figure below presents the contribution of the business lines to the Group's profit before tax:

Profit (loss) before income tax by business line of mBank Group

The Retail Banking segment made the biggest contribution to the profit before tax of the Group at 70.5% in H1 2014, compared to 31.9% for the Corporates and Financial Markets segment including Corporate and Investment Banking (26.7%) and Financial Markets (5.2%).

The pre-tax loss of PLN 20.9 million in Other segment was mainly driven by additional provisions set aside for various legal risks within the Group.

Retail Banking

In H1 2014, Retail Banking generated a profit before tax of PLN 598.8 million, which represents an increase of PLN 146.5 million or 32.4% year on year.

Retail Banking - gross profit decomposition

The profit before tax of Retail Banking in H1 2014 was driven by the following factors:

- **increase of total income** by PLN 183.8 million or 17.5% year on year to PLN 1,231.8 million. Net interest income increased by PLN 126.5 million or 17.8% and net fee and commission income increased by PLN 79.0 million or 36.7% mainly driven by higher payment-card and credit-related commission income;
- **increase of operating costs (including depreciation and amortisation)** by PLN 32.2 million or 6.9% year on year due to higher marketing costs;
- **increase of net impairment losses on loans and advances** by PLN 5.1 million or 3.9% year on year driven by a gradual change of the structure of loans in favour of consumer loans over the past several quarters as well as continued repayments of the FX mortgage loans with historically low delinquency rates.

Corporates and Financial Markets

Corporate and Investment Banking

In H1 2014, the Corporate and Investment Banking segment generated a profit before tax of PLN 227.0 million, which represents a decrease of PLN 79.8 million or 26.0% year on year.

Corporate and Investment Banking - gross profit decomposition

The profit before tax of Corporate and Investment Banking in H1 2014 was driven by the following factors:

- **stable total income** year on year. Decrease of net interest income by PLN 29.4 million or 8.1%, which was offset by an increase of net fee and commission income by PLN 11.1 million or 6.3% and an increase of income on investment securities;
- **increase of operating costs (including depreciation and amortisation)** by PLN 26.4 million or 9.0% year on year due to higher material costs mainly related to trainings;
- **increase of net impairment losses on loans and advances** by PLN 53.1 million or 95.0% year on year. The change was driven by a low base effect following a release in loan loss provisions booked in Q1 2013 as well as proactive provisioning of certain export-oriented credit exposures.

Financial Markets

In H1 2014, the Financial Markets segment generated a profit before income tax of PLN 44.2 million compared to a loss before tax of PLN 11.0 million in H1 2013.

The profit before tax of the Financial Markets segment in H1 2014 was driven by the following factors:

- **increase of total income** by PLN 61.2 million or 194.9% year on year to PLN 92.6 million due to higher net interest income and an increase in net trading income on interest rate instruments;
- **increase of operating costs (including depreciation and amortisation)** by PLN 6.0 million or 14.2% due to higher material costs;
- **no impairment losses on loans and advances**.

7.3. Financial results of mBank Group subsidiaries

In H1 2014, the consolidated profits before income tax generated by mBank Group subsidiaries based on a comparable number of subsidiaries amounted to PLN 116.9 million compared to PLN 96.8 million in H1 2013 (excluding dividends paid by mBank Group subsidiaries, which in H1 2013 stood at PLN 40.7 million in MLV 35 and in H1 2014 stood at 113.8 million in Aspiro).

In particular, the following subsidiaries improved their results in comparison to H1 2013: mBank Hipoteczny, mLocum, mWealth Management, Dom Maklerski mBanku, mFaktoring and BRE Ubezpieczenia.

The graph below presents the profit before income tax of the subsidiaries in H1 2014 compared to H1 2013.

Profit before income tax of consolidated subsidiaries

7.4. Changes in the consolidated statement of financial position

Changes in assets of mBank Group

In H1 2014, the assets of the Group increased by PLN 7,664.6 million or 7.3% to PLN 111,947.4 million as at 30 June 2014.

The table below presents changes in the assets of mBank Group:

	31.12.2013		30.06.2014		Δ in PLN M	Change
ASSETS	**PLN M**	**in %**	**PLN M**	**in %**		
Cash and balances with Central Bank	1,650.5	1.6%	1,418.0	1.3%	(232.5)	(14.1%)
Loans and advances to banks	3,471.2	3.3%	4,933.2	4.4%	1,462.0	42.1%
Trading securities	763.1	0.7%	2,812.5	2.5%	2,049.4	268.6%
Derivative financial instruments	2,349.6	2.3%	3,017.9	2.7%	668.3	28.4%
Loans and advances to customers	68,210.4	65.4%	70,137.2	62.7%	1,926.8	2.8%
Investment securities	25,341.8	24.3%	27,128.1	24.2%	1,786.3	7.0%
Intangible assets	455.3	0.4%	460.1	0.4%	4.8	1.1%
Tangible fixed assets	709.6	0.7%	710.5	0.6%	0.9	0.1%
Other	1,331.3	1.3%	1,329.9	1.2%	(1.4)	(0.1%)
Total assets	**104 282.8**	**100.0%**	**111 947.4**	**100.0%**	**7 664.6**	**7.3%**

Loans and advances to customers maintained the largest share in the balance sheet of the Group at the end of H1 2014 and represented 62.7% of total assets as of June 30, 2014 compared to 65.4% at the end of 2013. The net volume of loans and advances to customers increased by PLN 1,926.8 million or 2.8% compared to the end of 2013.

Gross loans and advances to retail customers increased by PLN 1,356.3 million or 3.5% in H1 2014. The volume of mortgage and housing loans increased by PLN 476.2 million or 1.7% mainly due to growing sales which reached PLN 1,518.6 million in H1 2014 compared to PLN 856.5 million in H1 2013. The Group sold PLN 2,158.1 million of non-mortgage loans, which implies an increase in the volume of sales by 13.7% compared to H1 2013. Net of the FX effect, loans and advances to retail customers increased by c. 2.9%.

At the same time, gross loans and advances to corporate customers increased by PLN 1,089.2 million or 3.7%. Net of reverse repo/buy sell back transactions and the FX effect, loans and advances to corporate customers increased by c. 6.4% compared to 31 December 2013. Gross loans and advances to the public sector decreased by PLN 296.4 million or 13.6%.

Loans and advances to customers (gross)

PLN M

Investment securities constituted the Group's second largest asset category (24.2% of total assets). In H1 2014, their value increased by PLN 1,786.3 million or 7.0% which was in line with the increase of total assets of the Bank. The government bonds portfolio increased by 17.3% year to date while the portfolio of debt instruments issued by the central bank decreased by 23.0%.

In H1 2014 trading securities increased by PLN 2,049.4 million as a result of higher government bond portfolio held for trading.

Changes in liabilities of mBank Group

The table below presents changes in the equity and liabilities of mBank Group in H1 2014:

	31.12.2013		30.06.2014		Δ in PLN M	Change
Equity and liabilities	**PLN M**	**in %**	**PLN M**	**in %**		
Amounts due to other banks	19,224.2	18.4%	22,297.0	19.9%	3,072.8	16.0%
Derivative financial instruments	2,459.7	2.4%	2,915.0	2.6%	455.3	18.5%
Amounts due to customers	61,673.5	59.1%	63,293.7	56.5%	1,620.2	2.6%
Debt securities in issue	5,402.1	5.2%	7,696.2	6.9%	2,294.1	42.5%
Other liabilities	1,504.1	1.4%	2,147.2	1.9%	643.1	42.8%
Subordinated liabilities	3,762.8	3.6%	3,278.9	2.9%	(483.9)	(12.9%)
Total liabilities	**94,026.4**	**90.2%**	**101,628.0**	**90.8%**	**7,601.6**	**8.1%**
Total equity	**10,256.4**	**9.8%**	**10,319.4**	**9.2%**	**63.0**	**0.6%**
Total equity and liabilities	**104,282.8**	**100.0%**	**111,947.4**	**100.0%**	**7,664.6**	**7.3%**

Amounts due to customers, which accounted for 56.5% of equity and liabilities as at the end of June 2014 compared to 59.1% at the end of 2013, remained the dominant funding source of the Group.

Amounts due to customers

PLN M

Amounts due to customers increased by PLN 1,620.2 million or 2.6% and reached PLN 63,293.7 million in H1 2014.

The increase was observed mainly in amounts due to retail customers which increased by PLN 1,522.9 million or 4.5%. The volume of customers' balances on current accounts increased by 6.4% while term deposits remained stable year to date.

Amounts due to corporate clients decreased by PLN 157.8 million or 0.6%. Net of repo transactions, amounts due to corporate clients increased by PLN 1,077.6 million or 4.9% including mainly term deposits.

Amounts due to other banks increased by PLN 3,072.8 million or 16.0% year to date and reached PLN 22,297.0 million at the end of H1 2014. The change was mainly driven by an increasing volume of repo/sell buy back transactions. In H1 2014, the Group repaid CHF 500 million and USD 100 million to Commerzbank.

The share of debt securities in issue in the Group's financing increased from 5.2% at the end of 2013 to 6.9% at the end of June 2014. The main driver of the change was an issue of EUR 500 million Eurobonds under the EMTN programme with settlement in April 2014.

Subordinated liabilities decreased by PLN 483.9 million or 12.9% in H1 2014 following the early repayment of some subordinated liabilities to Commerzbank.

The share of equity in equity and liabilities of the Group was 9.2% at the end of H1 2014 compared to 9.8% at the end of 2013.

7.5. Performance indicators

In H1 2014 mBank Group achieved a higher return on equity compared to H1 2013. Compared to the first half of 2013 net profit and average equity were higher.

The increase of net profit in H1 2014 had a positive impact on improving the return on assets. The Group also registered the improvement in efficiency measured by of Cost/Income ratio and the increase of net interest margin.

The key performance indicators of mBank Group were as follows:

	H1 2013	H1 2014
Net ROA	1.15%	1.21%
Gross ROE	16.3%	17.5%
Net ROE	13.0%	13.6%
Cost/Income ratio	46.5%	44.7%
Net interest margin	2.1%	2.3%
Core Tier 1 ratio / Common Equity Tier 1 capital ratio	13.10%	13.20%
Capital adequacy ratio / Total capital ratio	18.18%	15.79%

Net ROA = net profit attributable to shareholders / average total assets;
Gross ROE = profit before income tax / average total equity;
Net ROE = net profit attributable to shareholders / average total equity;
Cost/Income ratio = overhead costs + depreciation / total income (including net other operating income);
Core Tier 1 ratio = core funds after deductions / risk weighted assets;
Common Equity Tier 1 capital ratio = Common Equity Tier I capital (after deductions) / total risk exposure amount;
Capital adequacy ratio = own funds (core funds and supplementary funds after deductions)/ risk weighted assets;
Total capital ratio = own funds (Tier 1 and Tier 2 capital) / total risk exposure amount.

7.6. Financial results of mBank Group in Q2 2014

In Q2 2014, the mBank Group reported a profit before tax of PLN 412.6 million, compared to PLN 436.5 million in Q1 2014. The net profit attributable to the shareholders of mBank reached PLN 324.8 million, compared to PLN 337.8 million in Q1 2014.

PLN thousand	Q1 2014	Q2 2014	Δ in PLN'000	Δ in %
Interest income	957,742	970,723	12,981	1.4%
Interest expense	(366,728)	(353,491)	13,237	(3.6%)
Net interest income	**591,014**	**617,232**	**26,218**	**4.4%**
Fee and commission income	353,775	369,165	15,390	4.4%
Fee and commission expense	(112,369)	(125,480)	(13,111)	11.7%
Net fee and commission income	**241,406**	**243,685**	**2,279**	**0.9%**
Dividend income	-	2,811	2,811	-
Net trading income including:	92,118	110,202	18,084	19.6%
FX result	*65,151*	*69,742*	*4,591*	*7.0%*
Other trading income and hedge accounting	*26,967*	*40,460*	*13,493*	*50.0%*
Income on investment securities and investment in subsidiaries and affiliates	9,845	4,041	(5,804)	(59.0%)
Other operating income	73,271	125,832	52,561	71.7%
Net impairment losses on loans and advances	**(89,487)**	**(155,860)**	**(66,373)**	**74.2%**
Overhead costs	**(384,785)**	**(406,665)**	**(21,880)**	**5.7%**
Depreciation and amortisation	**(45,832)**	**(48,612)**	**(2,780)**	**6.1%**
Other operating expenses	(51,034)	(80,039)	(29,005)	56.8%
Profit before tax	**436,516**	**412,627**	**(23,889)**	**-5.5%**
Income tax	(97,767)	(86,327)	11,439	(11.7%)
Net profit	**338,749**	**326,300**	**(12,450)**	**(3.7%)**
- attributable to the shareholders of mBank S.A.	**337,770**	**324,827**	**(12,944)**	**(3.8%)**
- minority interests	979	1,473	494	50.5%

The main drivers of the Group's financial results in Q2 2014 included:

- **increase of net interest income** by PLN 26.2 million or 4.4% driven by an increase of interest income by 1.4% and a decrease of interest cost by 3.6%;
- **increase of net fee and commission income** by PLN 2.3 million or 0.9% mainly driven by an increase of payment-card and credit-related commissions;
- **increase of net trading income** by PLN 18.1 million or 19.6% quarter on quarter mainly driven by an increase of other trading income by PLN 13.5 million or 50.0% owing to an improved IRS (Interest Rate Swap) valuation. The FX result increased by PLN 4.6 million or 7.0%;
- **increase of operating costs (including depreciation and amortisation)** by PLN 24.7 million or 5.7% quarter on quarter driven by an increase of material costs of marketing and logistics and an increase of amortisation of intangible assets;

- **increase of net impairment losses on loans and advances** (by PLN 66.4 million) driven by an increase of provisions in Corporations and Financial Markets to PLN 72.7 million compared to PLN 36.4 million in Q1 2014 and an increase of provisions in Retail Banking to PLN 83.2 million.

The total assets of mBank Group stood at PLN 111,947.4 million at June 30, 2014 compared to PLN 107,143.3 million at the end of March 2014.

Net loans and advances to customers decreased by PLN 785.8 million in Q2 2014 mainly due to a decrease of gross loans and advances to corporate customers by 4.1% (excluding the FX effect and reverse repo/buy sell back transactions, loans and advances to corporate customers increased by c. 3.6% quarter on quarter). Gross loans and advances to retail customers increased by 1.8% quarter on quarter, including an increase of mortgage loans by 0.5%.

At the same time, amounts due to customers decreased by PLN 302.7 million quarter on quarter, including a decrease of amounts due to corporate customers by 5.2% (excluding repo transactions, amounts due to corporate clients decreased by 2.2%) and an increase of amounts due to retail customers by 2.7%.

8. Corporates and Financial Markets

8.1. Corporate and Investment Banking (mBank)

H1 2014 was a time of economic recovery, translating into growing business activity and investment demand from the side of large corporates. The condition of the economy had a positive impact on the volume of corporate loans. From the beginning of 2014 the corporate loans market grew by 6.2%, whereas the market of deposits for companies fell by 3.7%.

Since the beginning of 2014 the Bank intensified its sales efforts, which resulted in record-high acquisition of corporate clients. In H1 2014, mBank acquired 673 new clients thus increasing its corporate clients base to 17,006 entities. The biggest acquisition was observed in small and medium companies segment, which was the result of the strategy aimed at increasing the Bank's share in this sector.

The acquisition of new clients positively impacted the value of funds deposited in current accounts; at the end of June 2014, the deposited amount reached PLN 5,519 million, which represents an increase of 25.4% year on year. A high volume of current deposits underpins continuous development of transactional banking, which is of vital importance to the Bank due to its growth potential and closer cooperation with clients.

Consolidation of the Corporate and Investment Banking in the beginning of 2014 translated into an increase in the activity of the Bank's debt issuance market for companies. In addition, the activities focus was on intensifying cooperation with non-banking financial institutions.

8.1.1. Corporate clients

The total number of clients reached 17,006 companies at the end of June 2014 (+673 compared to the end of 2013). The biggest increase was observed in K3 segment (+523 companies).

In January 2014, as a result of a reclassification, all non-banking financial institutions were shifted and moved to the K1 segment (the change concerned 419 clients, including 396 clients from K2 segment and 23 clients from K3 segment).

K1 represents the segment of largest corporations with annual sales of over PLN 500 million, public sector entities and all non-banking financial institutions; K2 is the

Corporate clients

segment of medium-sized corporations with annual sales between PLN 30 and 500 million and K3 is the segment of small and medium-sized companies with annual sales up to PLN 30 million.

8.1.2. Product and service offer

Deposits of corporate clients

Deposits placed by corporate customers with mBank (excluding repo transactions) stood at PLN 21,307 million at the end of June 2014 and were up by 4.6% compared to the end of 2013 (PLN 20,311 million) and up by 2.9% year on year (PLN 20,711 million a year earlier).

Deposits on current accounts of mBank's corporate clients stood at PLN 5,519 million at the end of June 2014 and were down by 6.3% compared to the end of 2013 (PLN 5,890 million) and up by 25.4% year on year (PLN 4,400 million a year earlier).

Corporate deposits reached PLN 16,845 million at the end of June 2014 and were down by 6.3%, compared to the end of 2013 (PLN 17,972 million) and down 2.2% year on year (PLN 17,223 million a year earlier. The market of corporate deposits decreased by 3.7% compared to the end of 2013 and increased by 5.0% year on year. The share of mBank in the corporate deposits market fell to 8.1% at the end of June 2014, compared to 8.3% at the end of 2013.

Deposits placed by local governments stood at PLN 396.6 million at the end of June 2014 compared to PLN 179.4 million at the end of 2013 and PLN 127.6 million a year earlier.

Loans to corporate clients

The value of loans granted to mBank's corporate clients (excluding reverse repo transactions) amounted to PLN 26,009 million at the end of June 2014 and was up by 7.8% compared to the end of 2013 (PLN 24,124 million) and up by 2.9% year on year (PLN 25,287 million a year earlier).

Loans granted to enterprises amounted to PLN 17,236 million at the end of June 2014 and were up by 9.3% compared to the end of 2013 (PLN 15,765 million) and up by 1.1% year on year (PLN 17,049 million at the end of H1 2013). At the same time, the market for loans to enterprises was up by 6.2% and 4.5% respectively. The market share of mBank's lending to enterprises stood at 6.1% at the end of June 2014, compared to 5.9% a the end of 2013 and 6.3% a year earlier. At the end of June 2014, the loan to deposit ratio for enterprises in the Bank stood at 102.3% and was considerably lower compared to the market average of 136.1%.

Loans granted to local governments amounted to PLN 1,277 million at the end of June 2014, compared to PLN 1,469 million at the end of 2013 (-13.1%).

Structured finance, project finance and syndicated loans

The Structured Finance area in Corporate Banking includes M&A finance, project finance, mezzanine and syndicated finance. In H1 2014, the Bank remained a major player on the market and participated in 22 syndicated and bilateral loan transactions. The total exposure of the Bank in respect of syndicated and bilateral loans stood at PLN 1,656 million compared to PLN 1,796 million at the end of 2013.

European Funding Programmes

On March 11, 2014, the Bank signed another credit line facility agreement with the European Investment Bank (EIB) worth EUR 100 million, which provides for the financing of investment projects of small and medium-sized enterprises (companies employing up to 250 people) and mid-caps (companies employing from 250 to 3 thousand people).

Guarantee Line de minimis

On June 27, 2014, the Bank signed a supplement to the Portfolio De Minimis Guarantee Line Agreement (PLD) with Bank Gospodarstwa Krajowego (BGK), changing, among others, the rules of calculating de minimis aid. The Agreement was concluded in 2013 as part of the government programme "Support for Entrepreneurship using BGK sureties and guarantees" financing guarantees for the repayment of revolving loans assumed by micro-enterprises as well as small and medium-sized enterprises. Under the PLD Agreement the guarantee limit for mBank is worth PLN 900 million. As of June 30, 2014 PLN 419 million was used.

Debt securities issue for corporate clients

From the beginning of 2014, activities connected with organising issues of debt securities for corporate banking clients and banks, as well as trading in and sales of these securities were transferred from Financial Markets area to Corporate and Investment Banking.

In H1 2014, mBank organised or co-organised a number bond issues on the domestic market for corporate issuers and banks, in particular for:

- Eurocash – PLN 500 million short-term bond issue programme
- Amica Wronki – PLN 200 million bond issue programme
- Getin Noble Bank – PLN 2 billion debt securities issue programme
- CCC – PLN 500 million bond issue programme
- Enea – PLN 5 billion bond issue programme
- Polnord – PLN 300 million bond issue programme
- Best – PLN 300 million bond issue programme.

Market share of mBank in the non-treasury debt market is presented below.

mBank in the Non-Treasury Debt Market

The value of unredeemed banks' debt securities (excluding the road bonds issued by BGK) arranged or co-arranged by mBank amounted to c. PLN 8.6 billion, compared to PLN 6.2 billion at the end of H1 2013. The largest issues in H1 2014 were the PLN 685 million bond issues for BGK and PLN 350 million bond issue for Getin Noble Bank arranged by mBank. Other major deals included a EUR 50.5 million covered bond issue for mBank Hipoteczny and bond issues for Credit Agricole Bank Polska (PLN 171 million) and Santander Bank (PLN 60 million).

With a market share of 13.6%, mBank became the third player on the dynamically growing corporate bonds market. mBank organised a number of new major issues, including CCC S.A (PLN 210 million, Echo-Investment S.A. (PLN 170.5 million) and Magellan S.A. (PLN 100 million). At the end of June 2014, the issued and unredeemed corporate bonds totalled approximately PLN 5.7 billion compared to PLN 5.0 billion a year earlier.

Development of transactional banking

Cash management is the area of Corporate Banking, which offers innovative solutions facilitating planning, monitoring and management of the funds with the highest liquidity, cash processing and electronic banking. These solutions facilitate everyday financial operations, increase the efficiency of cash flows management and help to optimize costs and interest income.

mBank's comprehensive cash management offer, supporting the Bank's long-term relationships with corporate clients, was reflected in the following figures:

- the number of domestic transfers made by corporate clients in H1 2014 increased by 14.3% year on year;

- the number of foreign transfers made by corporate customers in H1 2014 increased by 24.9% year on year; the most dynamic growth was observed in the case of SEPA transfers (Single Euro Payments Area), which increased by 30.9% year on year;

- the total number of corporate cards issued in H1 2014 reached 1,132.2 thousand, representing an increase by 72.3% year on year; the most dynamic growth was observed in prepaid cards (+74.4% year on year);

- over 994 thousand cards were issued as Electronic Money Instrument (the number of cards issued at the end of H1 2014);

- the number of mBank CompanyNet clients increased by 14.3% year on year. Currently, there are 73,995 active authorisations allowing the entitled employees of mBank's clients to use the system.

Development of the Corporate Banking offer

New functionalities of mBank CompanyMobile application. In Q1 2014, the functionality of the mBank CompanyMobile application was extended to offer new services of foreign exchange mPlatform. In the new version of the application, smartphone and tablet users are offered the following functionalities:

- placing of offers for the purchase or sales of foreign currencies at a defined exchange rate;

- reviewing of the list of concluded transactions and the list of deposits;

- receiving individual quotations of currency exchange rates as part of the Dialog with the Dealer in the case of Rapid FX transactions, above the set thresholds;

- briefing of the most important news presented so far at mBank CompanyNet;

- new Archive module providing information on archival orders and turnover.

Open deposit at the post office - In Q2 2014, mBank provided a new service to corporate clients which enables them to deposit their daily takings and transfer them to mBank accounts via Polish Post outlets throughout the country. Deposited funds are available to clients on the next business day after making the deposit.

8.1.3. Branch network

The Bank serves its corporate customers through a network of 28 branches, 18 corporate bureaus and 1 advisory centre opened within the One Network Project. On June 16, 2014, mBank's first universal branch was opened in Szczecin offering a complete range of retail and corporate banking services as well as products of selected mBank subsidiaries (for more information please refer to 1.2.3. Changes to mBank's branch network).

The following map presents Corporate Banking branch network (the colour intensity reflects the number of outlets in a particular region):

8.2. Financial Markets

8.2.1. Activities within Financial Markets area

Starting from January 2014, Financial Markets area comprised:

- direct sale of financial market products to corporate banking clients and non-banking financial institutions (such as insurance companies, pension and investment funds and assets management companies) and selected private banking clients;
- management of mBank's liquidity as well as its assets and liabilities (including deposit and loan portfolio interest risk management). In order to manage its liquidity enters into money market transactions, currency swaps, interest rate derivative transactions, T-bond, T-bill and NBP bill purchase transactions, repo transactions and other;
- management of mBank's interest rates and currency risk, trading in FX interbank instruments (spot transactions and derivatives), trading in interest rate instruments (T-bonds and T-bills, interest rate derivatives), commodity derivatives, shares, equity and stock index derivatives; trading in non-Treasury securities;
- depositary and trustee services in particular for non-banking financial institutions;
- supervision over brokerage house operations in the scope of cooperating with financial institutions.

Activities connected with organising issues of debt securities for corporate banking clients and banks, as well as trading in and sales of these securities were transferred to Corporate and Investment Banking (previously Corporates and Institutions). For more information please refer to section 8.1.2.

In H1 2014 mBank once again was ranked first in the NBP Dealer Activity Index ranking and held the status of Treasury Securities Dealer.

mBank's market shares in selected fixed income market segments are presented below.

Enhancement of sales of financial markets products

In H1 2014 the activities of the Financial Markets area focused on further growth or keeping the position in particular product segments. The key initiatives which had impact on transaction volumes and net income generated from cooperation with clients included:

- actions aimed at increasing income from cooperation with corporate banking clients in the scope of FX transactions. Growth of FX turnover with clients was reported, despite strong margin pressure and low volatility on the market;
- increase of the number of serviced clients and acquisition of clients ensuring better financial results than in the previous years by structured finance projects and commodities teams established in 2013;
- implementation of a new cooperation model with non-banking financial institutions. The main assumption of the new approach to cooperation is focusing on the client's needs instead of focusing on particular products;
- actions aimed to improve the quality of processes related to services offered, increasing automation and minimising the number of operational errors in the Custody Services Department which was incorporated to the structure of the Financial Markets area.

8.2.2. Financial Institutions

Relations with financial institutions are managed by the Financial Markets business line. The activities include funding from other banks and placements with other banks.

As of June 30, 2014, the Bank had 21 active loans amounting to the equivalent of PLN 22,320 million, of which PLN 15,398 million were drawn. In H1 2014, 2 loans in CHF and 1 loan in USD, amounting to PLN 2,051 million in total, were repaid at maturity. Additionally, the Bank contracted 1 new loan in EUR, with an equivalent amount of PLN 417 million. mBank's total exposure under loans from other banks was lower by PLN 1,305 million than at the end of 2013. At 2013 exchange rates, the decrease would amount to PLN 68 million.

The Bank's exposure under loans granted to other banks reached the equivalent of PLN 593.0 million as of June 30, 2014. The Bank's portfolio included 24 active short-term and long-term loans granted to other banks.

8.2.3. mBank's custody services

mBank's custody clients comprise local and foreign financial institutions, banks which offer custodian and investment services, pension funds and investment funds, insurance companies, asset management institutions, and non-financial institutions.

mBank provides services including settlement of transactions in securities registered in local and foreign markets, safe-keeping of clients' assets, maintenance of securities accounts and registers of securities in non-public trading, maintenance of asset registers of pension funds and investment funds, monitoring of the valuation of their assets and the processing of corporate actions.

H1 2014 was very successful for mBank in the area of custody services. The number of cleared transactions increased by 13.3% in H1 2014.

9. Retail Banking Area

9.1. Retail Banking in Poland (including Private Banking)

H1 2014 brought about several significant enhancements impacting the development of mBank's retail banking and retail customer service. The first of those was the alliance established with one of Poland's biggest telecom operators, Orange, and the development of a product offer for existing and prospective clients of Orange (for more information see section 1.2.1. Strategic alliance with Orange).

As a part of the implementation of the New mBank project and the development of a new transactional platform, retail customers were offered a mobile application featuring personal finance management and full transactional functionalities (for more information see section 1.2.4. Mobile banking).

The process of opening access to the new transactional service was supported by an educational campaign mainly involving dedicated websites offered as a knowledge repository about mBank's electronic banking in its new format.

Under the One Bank Strategy, the Bank is also implementing the One Network project developing universal branches – advisory centres open to both retail and corporate clients as well as "light" branches where retail customers can use quick and efficient core services (for more information see section 1.2.3. Changes in mBank's branch network).

From the perspective of the Retail Banking segment these initiatives bring a greater cross-selling potential, new opportunity for optimisation of the sales process, and a more effective utilisation of the electronic infrastructure and the branch network.

9.1.1. Retail customers

The Bank has remained among the market leaders in acquiring new retail customers for several years. At the end of H1 2014, the number of retail banking clients in Poland increased by 91 thousand or 2.5% compared to the end of 2013 and by 165 thousand or 4.6% year on year, and stood at 3.8 million.

Customers served in Poland include individuals as well as microenterprises. There were 455 thousand microenterprises at the end of June 2014, including 19 thousand acquired in 2014.

9.1.2. Retail Banking offer development

Loans of retail clients

In H1 2014, the Bank took initiatives aimed at increasing the exposure of retail clients under non-mortgage loans. Such loans are granted mainly through a personalised credit offer targeting selected clients. In addition, thanks to improvement of credit processes, the time of granting loans over the electronic channel was streamlined from 15 minutes down to 30 seconds and requires no forms or documents. The quick lending offer is available for two products: cash loans and revolving loans.

In early May 2014, mBank launched a new type of loans, mRaty, for online and e-service shopping. mRaty is an instalment loan for the online purchase of any product or service up to PLN 20 thousand.

Clients can immediately get additional cash online and the decision is made based on the client's declared income.

In June 2014, mBank opened its instalment loans to clients of the biggest auctioning platform Allegro.pl. Instalments are processed by the biggest fast payment operator PayU. The cooperation with Allegro createss great opportunity for mBank clients' financing as the annual turnover on the platform is PLN 16 billion and it represents more than 50% of Poland's e-commerce market.

The value of mortgage loans sold in H1 2014 was PLN 1,156.6 million, an increase of 140.0% year on year. The sales of non-mortgage loans in H1 2014 increased by 9.2% to PLN 1,974.2 million at the end of June 2014. As a result, the value of gross loans granted to Retail Banking clients in Poland stood at PLN 36,952.8 million at the end of June 2014 compared to PLN 36,009.6 million at the end of 2013, an increase of PLN 943.2 million or 2.6% and PLN 36,869.5 million at the end of H1 2013 (+PLN 83.3 million or 0.2%).

Loans to retail clients in Poland

The figure below presents the structure of the Retail Banking loan portfolio in Poland at the end of H1 2014:

Loan portfolio structure

The balance sheet value of the retail mortgage loans reached PLN 29,381.4 million at the end of H1 2014, an increase of PLN 291.7 million or 1.0% compared to the end of 2013. The main parameters of the retail mortgage loan portfolio excluding Private Banking were as follows:

Retail mortgage loans (excl. Private Banking)	30.06.2013	30.06.2014
Balance sheet value (PLN billion)	27.6	**26.7**
Average maturity (years)	21.2	**20.5**
Average value (PLN thousand)	286.5	**271.8**
Average LTV (%)	81.9%	**80.1%**
NPL (%)	1.9%	**4.7%***

** In Q4 2013 the Group modified its impairment credit risk parameters as part of its AIRB measurement methodology. The modified approach introduces a "client view" of recognizing default cases in lieu of a previously applied "product view" (resulting in more conservative client-oriented approach and therefore an increase of NPL ratio). The NPL ratio under the previous "product methodology" is estimated by the Bank at 2.3% at the end of H1 2014.*

The non-mortgage loan portfolio increased by PLN 651.5 million or 9.4% in H1 2014 compared to the end of 2013. The fastest-growing loans included cash loans and credit lines owing to rising utilisation of global limits granted to clients.

Deposits and investment funds

In H1 2014, mBank further developed its offer of bank accounts. A new bank account package was launched for self-employed professionals who require comprehensive and convenient one-stop-shop finance management: "I, Professional" which combines the corporate mBusiness Professional account and the personal Aquarius or Aquarius Intensive mAccount.

At the end of June 2014, retail deposits stood at PLN 30,082.9 million compared to PLN 29,047.7 million at the end of 2013, which represents an increase of PLN 1,035.2 million or 3.6%. The deposits increased by PLN 1,845 million or 6.5% year on year.

The growth of the retail deposit base was accompanied by an increase of assets in investment funds. These stood at PLN 4,874.4 million at the end of June 2014, an increase of PLN 1,316.7 million or 37.0% year on year.

Deposits of retail clients in Poland

PLN M

Mutual Funds

PLN M

mBank's offer includes an open platform of investment funds – the Investment Funds Supermarket, which allows clients to buy participation units in Polish and foreign investment funds.

Since early 2014, the Investment Funds Supermarket has been offered to mBank's clients in a new format. The modifications included a new layout of the platform, the addition of charts useful in tracking and analysing investments, and a new fund browser.

In H1 2014, 24 new investment funds from Ipopema TFI, Skarbiec TFI and two new investment fund companies Altus TFI and Aviva TFI enhanced the offer.

Furthermore, the Bank strengthened its position in investments and savings by diversifying the solutions offered to clients including in particular:

- introduction of subscriptions for investment certificates of a closed-ended investment fund;
- enabling clients to invest in new subscriptions for structured deposits;
- launch of a public offering of bonds for retail clients;
- addition of deposits covering new cash to the Bank's regular offer.

Cards

The number of debit cards issued in the Retail Banking Area in Poland reached 6,006.1 thousand, which represents an increase of 567.7 thousand cards or 10.4% year on year.

The number of issued credit cards stood at 785.2 thousand at the end of June 2014, representing an increase of 53.9 thousand or 7.4% year on year.

Following the entry into force on July 1, 2014, of an amendment of the Act on Payment Services and a reduction of the interchange fee to 0.5%, the Bank's activity in the development of payment cards in H1 2014 focused on increasing the number of mBank payment card transactions in terms of a share of all transactions in the market. Furthermore, thanks to co-operation between mBank and PaySquare, an international clearing centre which offers a comprehensive service package of non-cash payments with cards, the Bank reduced the commissions on payment card transactions. The Bank enables small companies to use payment terminals on attractive terms, which is reflected in the increase of the number of card transactions.

Brokerage and insurance services

The number of Bank clients using brokerage services was stable in H1 2014. Clients held 210.1 investment accounts with mBank's eBroker service, 6.1 thousand more than at the end of June 2013. Clients of former MultiBank held 34 thousand accounts with the Brokerage Service, i.e., 1.3 thousand more than at the end of H1 2013.

In H1 2014, Dom Maklerski mBanku (mDM) launched new tools by offering Poland's only stock exchange trading application dedicated to iPads as well as a refreshed iPhone version. Furthermore, since June 2014, investors active on the derivatives market can use a solution offering lower day-trading deposits for WIG20 index futures.

The sale of insurance (motor, travel, property insurance) is operated by the subsidiary BRE Ubezpieczenia TUiR. In addition to standard insurance products, it also offers bancassurance products (insurance of mortgage loans, cash loans, car loans, insurance packages attached to credit cards and current accounts), which are very popular among customers. In H1 2014, new products were added including Online Payment Insurance.

In H1 2014, income from bancassurance premiums written increased, predominantly driven by credit insurance and account insurance as well as from co-operation with mLeasing ("Leasing in Retail" programme dedicated to micro-, small- and medium enterprises who may enter into leasing contracts for vehicles up to 3.5 t).

9.1.3. Branch network

The size and scope of the Bank's retail branch network reflects its focus on areas with high growth potential as well as the bank's focus on other distribution channels (including internet, mobile and telephone banking) which continue to attract a rapidly growing number of client interactions effectively supporting the traditional branch based service offering.

As of June 30, 2014, part of mBank network, managed through Aspiro, covered 91 locations (24 Financial Centres, 62 mKiosks and 5 partner mKiosks) and 21 Agent Service Points across Poland.

Moreover, mBank branch network operates through 131 outlets of former MultiBank (69 Financial Service Centres and 62 Partner Outlets) and 1 advisory centre opened within "One Network" Project. On June 16, 2014, mBank's first universal branch was opened in Szczecin offering a complete range of retail and corporate banking services as well as products of selected mBank subsidiaries (for more information please refer to 1.2.3. Changes to mBank's branch network).

The following map presents mBank branch network in Poland (the colour intensity reflects the number of outlets in particular region).

9.2. Retail Banking in the Czech Republic and Slovakia

The activities of mBank in the Czech Republic and Slovakia in H1 2014 were focused around the principles of the One Bank Strategy, mainly the launch of New mBank and rebranding. The new platform was launched in February 2014 in both countries. Currently, the majority of transactions made by the clients is carried out on the new platform.

Moreover, mBank's foreign branches widened their product offer – an innovative savings product – mSaver – which not only generates the balances on client accounts, but also attracts more payment card transactions, was added to the offer in May.

The abovementioned activities as well as marketing campaigns led to an increase in the number of clients, which exceeded 700 thou. in June 2014, including more than 500 thou. in the Czech Republic and more than 200 thou. in Slovakia. It strengthened mBank's position as the 5th largest bank in terms of number of clients in the Czech Republic. Moreover, the sales of non-mortgage loans recorded more than two times growth – in H1 2014 the sales reached PLN 183.9 million compared to PLN 90.4 million in H1 2013.

The activities of mBank in the Czech Republic and Slovakia in H1 2014 were awarded with a number of distinctions, including Best Mortgage in Slovakia from a financial site Finparada, Silver Crown for mKonto business in the Czech Republic from the financial site Zlota koruna as well as the first place in the independent mystery shopping review for the best loan in the Czech market by the financial site bankovnipoplatky.com and a consulting agency Mindbridge.

9.2.1. Retail customers

mBank in the Czech Republic and Slovakia had 704,3 thousand clients at the end of June 2014 (503.4 thousand at mBank CZ and 200.9 thousand at mBank SK). In H1 2014 the Bank acquired 31.1 thousand new clients.

The graph presents the change in the number of retail clients In H1 2014 and 2013.

Customers

thousand

9.2.2. Retail Banking offer development

Loans and deposits

At the end of June 2014, the value of loans granted by mBank in the Czech Republic and Slovakia stood at PLN 2,429.7 million (mBank CZ - PLN 1,917.4 million, mBank SK - PLN 512.3 million), which represents an increase by PLN 300.5 million or 14.1% compared to the end of 2013.

At the end of H1 2013 and 2014 and at the end of 2013, the structure of the Bank's retail loans was as follows:

Loans

PLN M

At the end of June 2014, the value of deposits collected by mBank in the Czech Republic and Slovakia totalled PLN 5,255.6 million (mBank CZ - PLN 3,401.6 million, mBank SK - PLN 1,854.0 million), which represents an increase by PLN 405.4 million or 8.4% compared to the end of 2013.

At the end of H1 2013 and 2014 and at the end of 2013, the structure of the Bank's retail deposits was as follows:

Deposits

PLN M

Cards

At the end of June 2014, the total number of debit and credit cards issued in the Czech Republic and Slovakia reached 1,107.2 thousand (+19.6% year on year) and 41.5 thousand (+ 19.9% year on year) respectively .

9.2.3. Branch network

The number of foreign mBank outlets remained unchanged compared to the end of 2013 and H1 2013. In the Czech Republic, the network consists of 26 outlets (9 Financial Centres and 17 mKiosks), and 9 in Slovakia (4 Financial Centres and 5 mKiosks).

The following map presents mBank branch network in the Czech Republic and Slovakia (the colour intensity reflects the number of outlets in particular regions):

The Czech Republic:

Slovakia:

10. Subsidiaries of mBank Group

BRE Ubezpieczenia

mBank's in-house built insurance operations
Offering bancassurance and stand-alone products
Strong degree of integration with mBank

In the area of direct insurance, the premiums written decreased by 6.4 % year on year to PLN 72.1 million in H1 2014. Gross written premiums in the bancassurance area amounted to PLN 139.3 million (excluding investment products), which represents an increase of 10.1% compared to H1 2013. The increase was triggered by the growth in loan insurance and insurance linked to bank accounts (up by 12.0 % and 9.6% year on year respectively). Gross written premiums from the cooperation with mLeasing increased by 4.4% to PLN 51.6 million in H1 2014, driven by the increase of the value of leased properties.

In H1 2014 the company's product range was extended among others by the Internet Payments insurance.

BRE Ubezpieczenia Group generated a profit before tax of PLN 30.9 million, which represents an increase of PLN 1.1 million compared to H1 2013. The improved result was driven by a higher volume of investment premiums in the bancassurance area and a strict cost policy, especially in the area of marketing campaigns.

Dom Maklerski

Comprehensive brokerage and capital market services for individuals and institutions as well as issues

The largest number of brokerage accounts on the Polish market, handling nearly 300 thou. customers

Equities trading market share – 3.7% and 9th position on the market

Futures trading market share – 19.2% and 2nd position on the market

Options trading market share – 20.6% and 1st position on the market

At the end of H1 2014, the number of clients of Dom Maklerski mBanku (mDM) stood at 292.0 thousand and increased by 12.9 thousand compared to H1 2013.

In H1 2014, mDM participated in a consortium managing the IPO of Prime Car Management S.A. and arranged a bond issue of BEST S.A.

The company generated a profit before tax of PLN 9.5 million in H1 2014 compared to PLN 7.7 million in H1 2013 (+23.4% year on year). The improvement was mainly driven by the increase of commission income thanks to growing client business on the forex market and foreign markets.

Bank Hipoteczny

The largest mortgage bank in Poland

The offer includes financing of commercial projects, the public sector and individual clients, market analysis and advisory services for investors and operators on the commercial real estate market

The largest issuer of covered bonds in Poland – 70% market share; PLN 2.5 billion securities traded

The gross loan portfolio of mBank Hipoteczny (mBH) stood at PLN 4.2 billion in H1 2014, up 1.8% compared to the end of 2013.

In H1 2014, mBH issued 4 series of mortgage bonds denominated in euro with a total value of EUR 50.5 million (i.e. PLN 210.1 million according to the NBP exchange rate as of June 30, 2014). Compared to H1 2013, when only one series of mortgage bonds for the amount of PLN 80 million was issued, the Bank concentrated its issuing activity on foreign markets. Foreign institutional investors were the buyers of the new series of mortgage bonds.

In February 2014, mBH issued the first series of 15-year mortgage bonds in euro (HPE5 series). It is the longest maturity among corporate debt securities ever issued by Polish issuers. The success of this issue was not a one-time event as reflected by 2 subsequent issues of mortgage bonds with a 15-year maturity in March and May. The demand of foreign investors was growing with every issue, which has been proven by an increase in the nominal value of the issued mortgage bonds from EUR 7.5 million to EUR 20 million.

Contrary to the previous issues, the success of this transaction should be analysed in the context of a reduced margin and prolonged maturity achieved simultaneously, which had a great impact on the cost of financing and better adjustment of the term and currency structure of the Bank's assets and liabilities.

The issuing activities of mBH in H1 2014 are presented in the table below.

Series	Date of issue	Date of redemption	Currency	Value of the issue (million)	Interest rate	Fitch rating
HPE4	17.02.2014	15.02.2018	EUR	7.5	EURIBOR 6M + 0.80%	A
HPE5	28.02.2014	28.02.2029	EUR	8.0	Fixed 3.5%	A
HPE6	17.03.2014	15.03.2029	EUR	15.0	Fixed 3.5%	A
HPE7	30.05.2014	30.05.2029	EUR	20.0	Fixed 3.2%	A

Moreover, on April 28, 2014, mBH carried out an on-time redemption of the HPA9 series with the value of PLN 25 million.

In H1 2014, mBH reported a profit before tax of PLN 18.1 million compared to PLN 12.3 million a year earlier (+47.4%), driven by an increase of the total income as well as lower loan loss provisions.

Aspiro

The offer comprises loans, deposits, insurance products, investments and savings for both individual customers and companies

An open platform for financial services sale on the intermediaries market

Nearly 600 experienced client advisors

At the end of H1 2014, Aspiro offered products of 26 different financial companies, including mBank products. The offer covered in total 50 products, including mortgage loans, cash loans, insurance products, investment products, leasing and factoring.

Due to improving situation on the housing market as well as changes in mBank's mortgage loan distribution policy, Aspiro reported a growth in mortgage loans sales by nearly 240% in H1 2014 v. H1 2013. Start of the sale and implementation of the mBank Hipoteczny offer at the beginning of 2014 was reflected in the value of mortgage loans sales, which at the end of H1 2014 amounted to PLN 88.3 million.

In H1 2014, Aspiro generated a profit before tax amounting to PLN 117.3 million compared to PLN 0.3 million in H1 2013. The result in H1 2014 was driven by a dividend of PLN 113.7 million (excluding dividend, the profit before tax was PLN 3.5 million).

Wealth Management

Private Banking & Wealth Management services

Comprehensive asset management by the company's experts and specialists from cooperating companies

In H1 2014, the company continued the development of its comprehensive wealth management services, including investment advisory and asset management. The assets managed by the company increased by 7.6% year on year to PLN 4.9 billion at the end of June 2014.

The company continued the development of the investment advisory model. Compared to the end of H1 2013, assets under investment advisory increased by 23.3% and reached PLN 453.8 million.

In H1 2014, the company's revenues stood at PLN 18.0 million, i.e. increased by 35.3% year on year. The company's profit before tax reached PLN 9.1 million compared to PLN 5.9 million in H1 2013.

mLeasing

Financing offer in the form of leasing or rent, and car fleet management

1st position on the real estate leasing market *(at the end of Q1 2014)*

4th position on theoverall leasing market in Poland *(at the end of Q1 2014)*

The value of contracts concluded by mLeasing in H1 2014 stood at PLN 1.5 billion compared to PLN 1.3 billion a year earlier (+17.9%). The growing demand in H1 2014 was reflected in higher sales, mainly observed in the segment of vehicles, machinery and equipment.

In 2014, within the One Bank Strategy, in order to create a comprehensive offer for customers, mLeasing continued a "Leasing in Retail" programme, dedicated to micro-, small- and medium- enterprises, which may enter into a lease contract for vehicles of up to 3.5 tonnes.

The company's profit before tax reported in H1 2014 reached PLN 23.0 million, which represents an increase by 20.0% year on year excluding the VAT refund received by mLeasing in 2013 (including the one-off impact, profit before tax decreased by 7.5%)

mFaktoring

Domestic and export factoring with recourse, non-recourse factoring, import guarantees

7th position on the factoring market in Poland, with 7.8% market share

mFaktoring generated turnover of PLN 4,0 billion in H1 2014 (+13.3% year on year), which enabled the company to maintain its 7th position on the factoring market.

In 2013, the profit before income tax reported by mFactoring reached PLN 8.7 million compared to PLN 8.0 million a year earlier (+8.7%).

Transfinance

Domestic, import and export factoring

4th position place on the factoring market in the Czech Republic, with 17.3% market share

Focus on serving small and medium-sized enterprises and on international factoring

In H1 2014 Transfinance reported a turnover of PLN 2.0 billion compared to PLN 1.8 billion in H1 2013.

In H1 2014, Transfinance reported a profit before tax of PLN 1.2 million, compared to PLN 1.0 million a year earlier (+17.0% year on year), resulting from an increase in income, while maintaining a stable cost base.

Back-office processes for mBank Group

Settlements servicing and database administration

Documentation storage in electronic and paper form, confidential data protection

In H1 2014 mCentrum Operacji (mCO) continued cooperation with mBank Hipoteczny in handling mortgage loans to retail clients.

In H1 2014, the company generated a profit before tax of PLN 832.8 thousand compared to PLN 30.0 thousand a year earlier. The improved result was mainly driven by lower operating expenses (decrease of wages and salaries and third party services) while maintaining a stable level of sales.

A leading real estate developer

Development projects in Kraków, Łódź, Wrocław, Warszawa, Poznań and Sopot

Completion of 29 residential projects, covering 3,4 thousand flats

Member of Polish Developers Association

In H1 2014, the company sold 174 apartments, compared to 135 apartments a year earlier.

In H1 2014, mLocum reported a profit before tax of PLN 15.2 million, compared to PLN 7.0 million a year earlier driven by increased sales of apartments and higher margins.

mFinance France S.A. (mFF)

mFinance France is a special purpose vehicle set up for the purpose of acquiring funds on the international markets through the issue of Eurobonds. In April 2012, the Euro Medium Term Note Programme was renewed. In March 2014, mFinance France issued bonds with a nominal value of EUR 500 million, maturing in 2019.

In H1 2014, the company reported a profit before tax of PLN 25 thousand compared to PLN 52 thousands a year earlier.

BDH Development Sp. z o.o.

The company's core business is carrying out and completing construction projects connected with the residential real estate taken over by mBank Group subsidiaries in the process of restructuring and investment debt collection with the aim of the most effective value recovery of the estate taken over. In H1 2014 the company’s loss before tax amounted to PLN 1.1 million.

MLV 45 Sp. z o.o. Sp. k.

MLV 45 is a company established as a result of the transformation of BRE Holding Sp. z o.o. into a limited partnership company in Q3 2013. The assets of the company comprise shares in mBank Hipoteczny S.A., mFaktoring S.A., mLeasing S.A. and mLocum S.A.

In H1 2014, the company generated a pre-tax loss of PLN 53 thousand compared to a profit before tax of PLN 40.7 million a year earlier resulting from dividends.

11. Main directions of change and types of risk of the Group's activities

11.1. Main directions of change in the management of Risk Area

The main directions of change in the Risk area are pursued according to the Risk strategy defined in 2013.

The Risk Forum was established in early 2014 to ensure in-depth and systemic dialogue between Risk and other areas of the Bank. The efforts of the Risk Forum are currently organised around 3 key committees:

- Retail Banking Risk Committee (KRD)
- Corporate and Investment Banking Risk Committee (KRK)
- Financial Markets Risk Committee (KRF).

A platform was implemented in Retail Banking to automate post-sale processes (mService). Several core and resource-intensive processes were put in production while the implementation of other processes will continue in H2 2014.

Active contribution of the Risk area representatives to the Bank's strategic projects ensured a full coverage of the needs and requirements related to risk management.

11.2. Main risks of the Group's business

The Management Board of the Bank takes measures necessary to ensure that the Bank manages all significant risks arising from the implementation of the adopted business strategy.

Within the Group's risk inventory process implemented under the principles of ICAAP (i.e. Internal Capital Adequacy Assessment Process), the following risks were inherent to the operations of the Group in H1 2014:

- credit risk,
- operational risk,
- market risk,
- business risk (including strategic risk),
- reputational risk,
- liquidity risk,
- insurance risk,
- model risk.

The Bank monitors all the aforementioned risks within ICAAP. Due to the specificity and characteristics of the portfolio, the section presents the rules of monitoring credit risk, operational risk, liquidity risk, market risk of the trading book as well as interest rate risk of the banking book in mBank Group using risk measures applied by mBank and taking into account differences in the profile and scale of business of particular Group subsidiaries.

11.3. Credit risk

The Bank organises credit risk management processes in line with the principles and requirements set out in the resolutions and recommendations of PFSA which address issues related to credit risk management, in particular Recommendation S.

Strategies

In Q1 2014, the Bank finalised the review of the Group Credit Risk Management Strategy, in both corporate and retail banking area. The modified Strategies were approved by the Bank's Management

Board, received a positive opinion of Risk Committee of the Supervisory Board, and was finally approved by the Supervisory Board on June 13, 2014.

Corporate Banking

In Corporate and Investment Banking, the following modifications to credit risk management were put in place in H1 2014:

In January 2014, the simulation rating model SPL-TOP was implemented. It ensures determination of PD (i.e. Probability of Default) and LGD (i.e. Loss Given Default) in the assessment of project finance for commodities, facilities, projects, renewable energy, leveraged finance (other than real estate). The application of the new rating model will ensure superior quality of risk assessment in this segment of financing (including better predictive power of the model and greater granularity of assessment adequate to the scale of risk).

In Q1 2014, mBank Group Income-Generating Property Financing Policy was developed and approved, and maximum exposure limits were defined for 2014 for such exposures of the Group and individual companies (mBank, mBank Hipoteczny, mLeasing).

In H1 2014, efforts continued to harmonise the Bank's regulations with the new version of Recommendation S published by PFSA in June 2013, including amendment of provisions on stress testing, reporting, guidelines for claims recovery estimates, course of action taken in the event of unforeseeable events on the property market.

Retail Banking

In H1 2014, acquisition in the area of non-mortgage loans (NML) continued to rely mainly on loans granted to the Bank's existing customers (c. 80% of sales). As a result of the rising average number of products per existing customer, the Bank took measures to increase the volume of loans sold to new customers. The key initiatives implemented in H1 2014 include:

- loans offered to existing customers over the Bank's mobile application;
- loans offered for online shopping via online stores including Allegro.

To reduce operational risk of the implementation of new technological solutions and the expansion of the offer for prospective customers, both solutions were implemented as test loans.

At the same time, the Bank continues to focus on development of the antifraud system. For long-term loans (mortgage loan segment (ML)), the Bank maintains a conservative policy of borrower creditworthiness and credit rating. In particular, given the existing environment of extremely low interest rates, the Bank pays special attention to the use of long-term interest rate estimates in its creditworthiness assessment. Furthermore, in H1 2014, the Bank took measures to harmonise the credit policy with the guidelines published in Recommendation S, in particular by reducing the maximum LtV (i.e. Loan to Value) and introducing the requirement whereby the credit currency must match the currency of the borrower's income.

In H1 2014 the Group continued its programme (initiated in Q4 2013) of granting mortgage loans over mBank's sales channels on behalf of mBank Hipoteczny under the agent model. Such loans will be used to issue covered bonds which are to become the main source of long-term funding within the Group.

11.3.1. Quality of the loan portfolio

The share of default exposures in gross loans and advances to clients as of June 30, 2014, was 6.4% compared to 6.3% at the end of 2013 and 4.9% at the end of H1 2013.

Provisions for loans and advances increased from PLN 2,371.4 million at the end of 2013 to PLN 2,594.5 million at the end of June 2014, and the IBNI (i.e. Incurred But Not Identified) loss provision increased from PLN 256.6 million at the end of 2013 to PLN 269.8 million at the end of June 2014.

The ratio of provisions to default loans (coverage ratio) stood at 50.1% compared to 47.8% at the end of 2013 and 66.4% at the end of H1 2013.

The observed volatility of the growth rate of provisions set up at Bank level is determined both by factors related to retail banking and corporate banking. For retail banking, the drivers of provisions in H1 2014 included the dynamically growing loan volumes and the introduction of a new provision calculation methodology using AIRB parameters after the necessary elimination of discrepancies between IAS 39 and Basel 2 approach. The specificity of the new provision calculation approach stipulate using the AIRB parameters as well as switching the default recognition paradigm from transaction view to client view. The usage of AIRB parameters in the provision calculation methodology has been caused by the PFSA approval granted to mBank in the context of implementing the so called AIRB approach for RWA calculation purposes.

Furthermore, it should be noted that the Bank is in the course of improving the implementation and calibration of the new provision calculation model.

The table below presents the quality of the credit portfolio of the Group as of June 30, 2014, compared to December 31, 2013, and June 30, 2013.

Quality of mBank Group's Loan Portfolio	30.06.2013	31.12.2013	30.06.2014
	PLN M	PLN M	PLN M
Loans and advances to customers (gross)	**74,426.3**	**70,581.8**	**72,731.7**
Not impaired	70,781.2	66,158.1	68,095.6
Impaired	3,645.1	4,423.7	4,636.1
Impaired as % of gross exposure	**4.9%**	**6.3%**	**6.4%**
			-
Provisions for loans and advances to customers	**2,629.4**	**2,371.4**	**2,594.5**
Provisions for not impaired exposures	207.5	256.6	269.8
Provisions for impaired exposures	2,421.9	2,114.8	2,324.7
Coverage ratio impaired exposures	**66.4%**	**47.8%**	**50.1%**
Coverage ratio for gross portfolio	**3.5%**	**3.4%**	**3.6%**
	-		**-**
Loans and advances to individuals (gross)	**39,042.0**	**38,307.9**	**39,664.2**
Not impaired	37,669.0	35,949.1	37,055.3
Impaired	1,373.0	2,358.8	2,608.9
Impaired as % of gross exposure	**3.5%**	**6.2%**	**6.6%**
	-		
Loans and advances to corporate entities (gross)	**32,523.3**	**29,475.3**	**30,564.5**
Not impaired	30,251.2	27,410.4	28,537.3
Impaired	2,272.1	2,064.9	2,027.2
Impaired as % of gross exposure	**7.0%**	**7.0%**	**6.6%**
	-		**-**
Loans and advances - other customers (gross)	**2,861.0**	**2,798.6**	**2,503.0**
Not impaired	2,861.0	2,738.6	**2,503.0**
Impaired	0.0	0.0	0.0
Impaired as % of gross exposure	**0.0%**	**0.0%**	**0.0%**

11.4. Market risk

mBank organises market risk management processes in line with the principles and requirements set out in the resolutions and recommendations of PFSA which address issues related to market risk management.

Tools and measures

In H1 2014, the calculation of Value at Risk (VaR) included an additional risk factor while the methodology of valuation of floating rate government bonds was modified for the purpose of risk measurement.

The expected resulting increase of the risk measure VaR was included in market risk limits approved for 2014 for the Group and the units covered by the market risk limit system. The approved limits also included the projected increase of risk measures due to the extension of the maturity of capital in the internal model from 3 to 5 years expected in 2014, as approved by the Financial Markets Risk Committee in April 2014.

Strategy

In Q1 2014, the Bank finalised the review of the Group Market Risk Management Strategy. The modified Strategy was approved by the Bank's Management Board on April 1, 2014, received a positive opinion of Risk Committee of the Supervisory Board, and was finally approved by the Supervisory Board on June 13, 2014.

Measuring mBank's risk

Value at Risk

Changes to Value at Risk (VaR) in H1 2014 were mainly driven by the fact that the calculation of risk included an additional risk factor as of the beginning of March 2014: credit spreads for corporate and government bonds (for government bonds, the spread is defined as the difference between the zero coupon rates of the bond curve and the swap curve). Furthermore, the methodology of valuation of floating rate government bonds for the purpose of risk management was modified in order to include the base risk between the rates of the bond curve and the swap curve in the valuation. As a result of these modifications, some risk (previously presented as interest rate risk) of the volatility of the spread between the curves is presented under VaR CS (credit spread risk) since March 2014.

The tables below present VaR statistics in H1 2014 compared to 2013 (the values presented in the table include the DFS (i.e. Structured and Mezzanine Finance Departament) investment portfolio, mainly PZU shares).

PLN thousand	2013				H1 2014			
	31.12.13	average	max	min	30.06.14	average	max	min
VaR IR	15,155	16,034	22,806	6,774	10,613	14,990	17,539	9,595
VaR FX	212	348	1,196	73	174	263	675	95
VaR EQ	7,268	5,659	7,451	4,551	6 786	6,783	7,647	6,066
VaR CS	n/a	n/a	n/a	n/a	28 889	27,104	29,388	25,049
VaR	**31,167**	**17,622**	**23,556**	**10,840**	**31,167**	**26,190**	**33,039**	**15,968**

VaR IR – interest rate risk

VaR FX - FX risk

VaR EQ – stock price risk

VaR CS – credit spread risk

Interest rate risk of the banking book

The table below presents the potential decrease in interest income over 12 months assuming an unfavourable 100 bps change of market interest rates in a given currency.

PLN M	2013				H1 2014			
	31.12.13	average	max	min	30.06.14	average	max	min
PLN	70.9	50.6	116.9	6.7	25.6	31.4	69.8	4.2
USD	1.0	1.2	2.3	0.1	1.2	1.4	4.0	0.8
EUR	7.2	6.5	10.0	1.8	5.0	9.1	12.6	5.0
CHF	0.5	0.4	0.6	0.2	0.2	0.4	0.6	0.2
CZK	4.6	5.6	7.4	3.0	3.7	4.5	5.3	3.4

Measuring mBank Group's market risk

The main sources of market risk of the Group are mBank's positions. The table below shows VaR statistics (at 97.5% confidence level for a one-day holding period) for the Group in H1 2014 for individual members of the Group in which market risk positions were identified (i.e., portfolios of mBank, mBank Hipoteczny, mLeasing, Dom Maklerski mBanku) and their decomposition to the VaRs corresponding to the main risk factor types – interest rate risk (VaR IR), foreign exchange risk (VaR FX), and stock prices / index value risk (VaR EQ). The table below presents VaRs for mBank at the end of H1 2014 including the positions of Treasury Department (DS), Financial Markets department (DFM), the Brokerage House (BM) and DFS.

PLN thousand	mBank Group	mBank	mBH	mLeasing	mDM
VaR IR	15,455	14,990	90	497	9
VaR FX	291	263	30	210	25
VaR EQ	6,805	6,783	-	-	134
VaR CS	27,104	27,104	-	-	-
VaR average	26,433	26,190	102	465	132
VaR max	33,382	33,039	179	627	171
VaR min	16,183	15,968	51	377	71
30.06.2014	**31,437**	**31,167**	**71**	**377**	**154**

For comparison, at the end of 2013, VaR for the Group was PLN 17,152 thousand, including VaR of mBank at PLN 16,910 thousand, mBank Hipoteczny – PLN 64 thousand, mLeasing – PLN 615 thousand, mBank Brokerage House – PLN 108 thousand. The significant increase of the Value at Risk is mainly due to an increase of the VaR of mBank's portfolio as explained above.

11.5. Liquidity risk

mBank organises liquidity risk management processes in line with the principles and requirements defined in PFSA Resolution No. 258/2011 of October 4, 2011, PFSA Resolution No. 386/2008 of December 17, 2008, on establishing liquidity measures binding on banks, and best practice, in particular PFSA recommendations on liquidity risk management (Recommendation P).

Tools and measures

In H1 2014, new liquidity limits for 2014 took effect, in particular new ANL limits (i.e. Available Net Liquidity) for the Group and the subsidiaries mBank Hipoteczny and mLeasing.

The ANL methodology was reviewed and updated, and approved by the Financial Markets Risk Committee in March 2014. The key elements to be modified included the rules of bringing to real terms the financing of the subsidiaries provided by mBank and third parties (through covered bonds). The new rules had a minor impact on the liquidity surplus at the Group level but they had a positive impact for the subsidiaries (mainly mBH) and negative for mBank.

The modifications to the methodology were reflected in the new ANL limits for 2014.

In H1 2014, the Bank continued harmonisation with the requirements of CRR to the extent of the liquidity measures LCR/NSFR. Implementation efforts, which took into account additional EBA guidelines published in March 2014, were finalised with the LCR/NSFR calculation methodology approved in June 2014 by the Financial Markets Risk Committee. As of Q2 2014, banks are required to report LCR to NBP. The first report as at the end of March, April and May 2014 under the new calculation methodology was completed by the Bank in June 2014.

Strategy

In Q1 2014, the Bank finalised a review of mBank Group Liquidity Risk Management Strategy. The modified Strategy was approved by the Bank's Management Board on April 1, 2014, received a positive opinion of the Risk Committee of the Supervisory Board, and was finally approved by the Supervisory Board on June 13, 2014.

Measuring mBank's liquidity risk

In 2014, the Bank continued the strategy of replacing funding from Commerzbank with funding provided by third parties. For this purpose, loans from Commerzbank (including subordinated loans), which reduce a gap for tenors up to 1M, were paid in an aggregate amount equivalent to c. PLN 3.3 billion (including repayments of c. PLN 2.5 billion in H1 2014, and the remaining amount equivalent to CHF 250 million of loans paid in July 2014), while EUR 500 million of non-secured EMTN were placed on the market.

The table below presents the ANL gap for tenors up to 1M and 1Y in 2014 as well as the regulatory measures M1, M2 and LCR:

Measure*	H1 2014			
	30.06.14	average	max	min
ANL 1M	1,142	6,724	10,065	1,142
ANL 1Y	5,502	8,277	12,410	3,939
M1	9,034	9,154	12,952	4,993
M2	1.40	1.37	1.58	1.17
LCR	1.22	1.41	1.51	1.22

(*) – ANL and M1 are shown in PLN million, M2 and LCR are relative measures presented as decimals.

The main driver of the reduction of LCR (previously calculated under the simplified approach) in H1 2014 was the harmonisation of the Bank's calculation algorithms with the criteria under CRR. The modified elements (compared to the simplified approach) which had the biggest individual impact on the reduction of LCR include mainly the fact that the calculation of deposit base outflows up to 1M include potential outflows due to potential termination of deposits with a residual term of more than 1M, the inclusion of EBA's new requirements of the impact of market risk stress testing on collateral for derivatives, and fine-tuned criteria used in the classification of retail deposits. The aggregate impact of the modifications to the methodology on LCR as at the end of March 2014 is estimated at c. 35 percentage points.

Measuring the Group's liquidity risk

The Group's liquidity risk is measured including mBank Hipoteczny and mLeasing. The Bank monitors liquidity risk of those subsidiaries (daily, as of September 2013) with ANL in order to protect liquidity also at mBank Group level in case of unfavourable events (crises).

The liquidity of the mBank Group in H1 2014 was safe, although the liquidity surplus significantly decreased at the end of June 2014 mainly due to negative trends of the loan to deposit ratio. Deposits were mainly affected by changes to corporate deposits which are much less stable, especially in June when the balances decreased by c. PLN 2.6 billion.

The table below presents the ANL gap for tenors up to 1M and 1Y in H1 2014 at mBank Group level:

PLN million	H1 2014			
	30.06.2014	average	max	min
ANL 1M	1,491	7,290	10,464	1,494
ANL 1Y	5,949	8,750	12,940	4,614

11.6. Operational risk

The Bank did not make any modifications to the organisation of operational risk management in H1 2014. The Group Operational Risk Management Strategy was modified and approved by the Supervisory Board. The Strategy covers the Bank's operational risk profile and appetite indicators and the operational risk management organisation and structure.

In 2014, the Bank started to implement the first stage of the Risk Management Effectiveness Self-Assessment in order to identify key risks embedded in the Bank's processes and to assess effectiveness of their management. The Self-Assessment results will be used to optimise and improve the Bank's operational risk management system.

11.7. Capital adequacy

Maintaining an adequate level of capital is one of the main tasks of managing the balance sheet of the Bank. The Management Board of mBank ensures consistency of the capital and risk management process by means of a system of strategies, policies, procedures and limits for the management of particular risks which constitute the ICAAP architecture. Furthermore, in line with the Capital Management Policy applicable at mBank, mBank maintains an optimum level and structure of own funds, guaranteeing maintenance of the capital adequacy ratio at a level higher than the statutory minimum, at the same time covering all significant risks identified in the Bank's operations. mBank's capital targets are being set based on the regulatory requirements and simulated capital needs to cover unfavourable changes in the external environment and within the Bank.

The Capital Management Policy at mBank is based on two main pillars:

- maintenance of an optimal level and structure of own funds, with the use of available methods and means (retained net profit, issue of shares, subordinated bonds, etc.);
- effective use of the existing capital by applying a system of capital utilisation measures resulting in reduction of the activity that is not generating the expected return and development of products with lower capital absorption.

The capital ratios of mBank Group in H1 2014 were driven by the following factors:

- addition of PLN 500 million to the calculation of the Group's Tier 2 capital: it is the Group's subordinated liability following the issuance of subordinated bonds (face value PLN 500 million, maturing in 2023) approved by PFSA on February 14, 2014;
- increase of the Group's equity as a result of the decision of the General Meeting on division the 2013 net profit;

- expansion of the application of the internal rating method to cover the calculation of the credit risk and counterparty credit risk requirement:
    - exposures of the subsidiary mLeasing to companies and retail clients;
    - exposures of the Bank under project finance of income-generating properties (IRB slotting approach);
    - exposures of mBank Hipoteczny under project finance of income-generating properties for more sub-portfolios (IRB slotting approach) following the approval of PFSA and BaFin in H1 2014;
- implementation of modifications to the calculation of capital requirements and the calculation of equity of the Group following the entry into force of the provisions of the Regulation No 575/2013 of the European Parliament and of the Council of June 26, 2013, on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, as amended (CRR).

12. mBank's Authorities

Supervisory Board of mBank

The 27th General Meeting of Shareholders held on March 31, 2014, appointed the Supervisory Board for a new three-year term. The Board is composed as follows:

1. Maciej Leśny – Chairman of the Supervisory Board (independent Member)
2. Martin Zielke – Deputy Chairman of the Supervisory Board
3. Martin Blessing – Member of the Supervisory Board
4. Andre Carls – Member of the Supervisory Board
5. Stephan Engels – Member of the Supervisory Board
6. Thorsten Kanzler – Member of the Supervisory Board
7. Teresa Mokrysz – Member of the Supervisory Board (independent Member)
8. Stefan Schmittmann – Member of the Supervisory Board
9. Waldemar Stawski – Member of the Supervisory Board (independent Member)
10. Jan Szomburg – Member of the Supervisory Board
11. Wiesław Thor – Member of the Supervisory Board
12. Marek Wierzbowski - Member of the Supervisory Board (independent Member).

The biographies of all members of mBank's authorities are available at www.mBank.pl.

The Supervisory Board has 4 Committees: the Executive Committee, the Risk Committee, the Audit Committee and the Remuneration Committee. As of June 30, 2014, Members of individual committees are presented be below:

Executive Committee	Risk Committee	Audit Committee	Remuneration Committee
Maciej Leśny	Stefan Schmittmann	Stephan Engels	Andre Carls
Martin Blessing	Thorsten Kanzler	Andre Carls	Maciej Leśny
Andre Carls	Maciej Leśny	Maciej Leśny	Marek Wierzbowski
Jan Szomburg	Teresa Mokrysz	Waldemar Stawski	Martin Zielke

Management Board of mBank

In H1 2014 the Management Board of mBank remained unchanged and as of June 30, 2014, the Board is composed as follows:

1. Cezary Stypułkowski - President of the Management Board, General Director of the Bank
2. Przemysław Gdański - Deputy President of the Management Board, Head of Corporate and Investment Banking
3. Lidia Jabłonowska-Luba - Deputy President of the Management Board, Chief Risk Officer
4. Jörg Hessenmüller – Deputy President of the Management Board, Chief Financial Officer
5. Hans-Dieter Kemler - Deputy President of the Management Bard, Head of Financial Markets
6. Cezary Kocik - Deputy President of the Management Board, Head of Retail Banking
7. Jarosław Mastalerz - Deputy President of the Management Board, Head of Operations and Information Technology.

The biographies of all members of mBank's authorities are available at www.mBank.pl.

13. Statements of the Management Board

True and fair picture in the presented reports

The Management Board of mBank S.A. declares that according to their best knowledge:

- IFRS Condensed Consolidated Financial Statements for the first half of 2014 and the comparative figures were prepared in compliance with the binding accounting principles and present a true, fair and clear picture of the financial position and the condition of the assets of mBank S.A. Group as well as its financial performance;
- Management Board Report on the Performance of mBank S.A. Group in H1 2014 presents a true picture of the developments, achievements, and situation of the mBank S.A. Group, including a description of the main risks and threats.

Appointment of the auditor

The Auditor authorised to audit financial statements and performing the review of the IFRS Condensed Consolidated Financial Statements of mBank S.A. Group for the first half of 2014 and IFRS Condensed Stand-alone Financial Statements of mBank S.A. for the first half of 2014 – Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością Sp. k. - was appointed in compliance with legal regulations. The audit company and its auditors fulfilled the conditions necessary for issue of a review report of these financial statements, in compliance with respective provisions of Polish law and professional standards.

Signatures of the Management Board of mBank S.A.

Date	First and last name	Position	Signature
30.07.2014	Cezary Stypułkowski	President of the Management Board, General Director of the Bank	
30.07.2014	Lidia Jabłonowska-Luba	Deputy President of the Management Board, Chief Risk Officer	
30.07.2014	Przemysław Gdański	Deputy President of the Management Board, Head of Corporate and Investment Banking	
30.07.2014	Jörg Hessenmüller	Deputy President of the Management Board, Chief Financial Officer	
30.07.2014	Hans-Dieter Kemler	Deputy President of the Management Board, Head of Financial Markets	
30.07.2014	Cezary Kocik	Deputy President of the Management Board, Head of Retail Banking	
30.07.2014	Jarosław Mastalerz	Deputy President of the Management Board, Head of Operations and Information Technology	