mBank S.A. Group

IFRS Condensed Consolidated Financial Statements
for the first half of 2015

Contents

Selected financial data

The selected financial data are supplementary information to the condensed consolidated financial statements of mBank S.A. Group for the first half of 2015.

SELECTED FINANCIAL DATA FOR THE GROUP		in PLN'000		in EUR'000	
		1st Half of 2015 the period from 01.01.2015 to 30.06.2015	1st Half of 2014 the period from 01.01.2014 to 30.06.2014	1st Half of 2015 the period from 01.01.2015 to 30.06.2015	1st Half of 2014 the period from 01.01.2014 to 30.06.2014
I.	Interest income	**1 781 151**	**1 928 465**	**430 844**	**461 532**
II.	Fee and commission income	**680 017**	**722 940**	**164 490**	**173 018**
III.	Net trading income	**137 930**	**202 320**	**33 364**	**48 420**
IV.	Operating profit	**857 201**	**849 143**	**207 349**	**203 222**
V.	Profit before income tax	**857 201**	**849 143**	**207 349**	**203 222**
VI.	Net profit attributable to Owners of mBank S.A.	**672 259**	**662 597**	**162 613**	**158 577**
VII.	Net profit attributable to non-controlling interests	**1 794**	**2 452**	**434**	**587**
VIII.	Net cash flows from operating activities	**483 258**	**3 113 273**	**116 896**	**745 087**
IX.	Net cash flows from investing activities	**273 143**	**(101 015)**	**66 071**	**(24 176)**
X.	Net cash flows from financing activities	**433 921**	**(837 386)**	**104 961**	**(200 408)**
XI.	Net increase / decrease in cash and cash equivalents	**1 190 322**	**2 174 872**	**287 928**	**520 504**
XII.	Basic earnings per share (in PLN/EUR)	**15.93**	**15.71**	**3.85**	**3.76**
XIII.	Diluted earnings per share (in PLN/EUR)	**15.91**	**15.69**	**3.85**	**3.76**
XIV.	Declared or paid dividend per share (in PLN/EUR)	**-**	**17.00**	**-**	**4.07**

SELECTED FINANCIAL DATA FOR THE GROUP		in PLN'000			in EUR'000		
		As at			As at		
		30.06.2015	31.12.2014	30.06.2014	30.06.2015	31.12.2014	30.06.2014
I.	Total assets	**120 604 115**	**117 985 822**	**111 947 445**	**28 753 604**	**27 681 257**	**26 904 623**
II.	Amounts due to the Central Bank	**2**	**-**	**-**	**0**	**-**	**-**
III.	Amounts due to other banks	**15 675 917**	**13 383 829**	**22 297 031**	**3 737 344**	**3 140 049**	**5 358 704**
IV.	Amounts due to customers	**73 058 259**	**72 422 479**	**63 293 721**	**17 418 048**	**16 991 408**	**15 211 546**
V.	Equity attributable to Owners of mBank S.A.	**11 516 001**	**11 043 242**	**10 289 867**	**2 745 566**	**2 590 911**	**2 472 991**
VI.	Non-controlling interests	**31 532**	**29 738**	**29 548**	**7 518**	**6 977**	**7 101**
VII.	Share capital	**168 841**	**168 840**	**168 702**	**40 254**	**39 612**	**40 545**
VIII.	Number of shares	**42 210 157**	**42 210 057**	**42 175 558**	**42 210 157**	**42 210 057**	**42 175 558**
IX.	Book value per share (in PLN/EUR)	**272.83**	**261.63**	**243.98**	**65.05**	**61.38**	**58.64**
X.	Total capital ratio/capital adequacy ratio	**16.38**	**14.66**	**15.79**	**16.38**	**14.66**	**15.79**

The following exchange rates were used in translating selected financial data into euro:

- for items of the statement of financial position – exchange rate announced by the National Bank of Poland as at 30 June 2015: EUR 1 = PLN 4.1944, 31 December 2014: EUR 1 = PLN 4.2623 and 30 June 2014: EUR 1 = PLN 4.1609.

- for items of the income statement – exchange rate calculated as the arithmetic mean of exchange rates announced by the National Bank of Poland as at the end of each month of the first half of 2015 and 2014: EUR 1 = PLN 4.1341 and EUR 1 = PLN 4.1784 respectively.

IFRS Condensed Consolidated Financial Statements for the first half of 2015 PLN (000's)

Condensed consolidated income statement

	Note	Period from 01.01.2015 to 30.06.2015	Period from 01.01.2014 to 30.06.2014
Interest income	5	1 781 151	1 928 465
Interest expense	5	(588 164)	(720 219)
Net interest income		**1 192 987**	**1 208 246**
Fee and commission income	6	680 017	722 940
Fee and commission expense	6	(255 824)	(237 849)
Net fee and commission income		**424 193**	**485 091**
Dividend income	7	3 189	2 811
Net trading income, including:	8	137 930	202 320
Foreign exchange result		*144 687*	*134 893*
Other net trading income and result on hedge accounting		*(6 757)*	*67 427*
Gains less losses from investment securities, investments in subsidiaries and associates, including:	9	196 350	13 886
Gains less losses from investment securities		*6 174*	*13 886*
Gains less losses from investments in subsidiaries and associates		*190 176*	-
The share in the profits (losses) of joint ventures		(15)	-
Other operating income	10	134 312	199 103
Net impairment losses on loans and advances	11	(207 637)	(245 347)
Overhead costs	12	(841 841)	(791 450)
Amortisation		(96 298)	(94 444)
Other operating expenses	13	(85 969)	(131 073)
Operating profit		**857 201**	**849 143**
Profit before income tax		**857 201**	**849 143**
Income tax expense	24	(183 148)	(184 094)
Net profit		**674 053**	**665 049**
Net profit attributable to:			
- Owners of mBank S.A.		672 259	662 597
- Non-controlling interests		1 794	2 452

Net profit attributable to Owners of mBank S.A.		**672 259**	**662 597**
Weighted average number of ordinary shares	14	**42 210 143**	**42 175 481**
Earnings per share (in PLN)	14	**15.93**	**15.71**
Weighted average number of ordinary shares for diluted earnings	14	**42 257 173**	**42 237 339**
Diluted earnings per share (in PLN)	14	**15.91**	**15.69**

Notes presented on pages 11– 71 constitute an integral part of these Condensed Consolidated Financial Statements.

IFRS Condensed Consolidated Financial Statements for the first half of 2015 PLN (000's)

Condensed consolidated statement of comprehensive income

	Period from 01.01.2015 to 30.06.2015	Period from 01.01.2014 to 30.06.2014
Net profit	**674 053**	**665 049**
Other comprehensive income net of tax, including:	**(206 554)**	**107 916**
Items that may be reclassified subsequently to the income statement		
Exchange differences on translation of foreign operations (net)	(5 281)	130
Change in valuation of available for sale financial assets (net)	(193 276)	107 786
Cash flows hedges (net)	(7 997)	-
Items that will not be reclassified to the income statement		
Actuarial gains and losses relating to post-employment benefits (net)	-	-
Total comprehensive income (net)	**467 499**	**772 965**
Total comprehensive income (net), attributable to:		
- Owners of mBank S.A.	465 705	770 513
- Non-controlling interests	1 794	2 452

IFRS Condensed Consolidated Financial Statements for the first half of 2015 PLN (000's)

Condensed consolidated statement of financial position

ASSETS	Note	30.06.2015	31.12.2014	30.06.2014
Cash and balances with the Central Bank		3 187 463	3 054 549	1 418 016
Loans and advances to banks		2 071 953	3 751 415	4 933 231
Trading securities	15	2 597 284	1 163 944	2 812 471
Derivative financial instruments	16	3 345 943	4 865 517	3 017 875
Loans and advances to customers	18	77 241 598	74 582 350	70 137 177
Hedge accounting adjustments related to fair value of hedged items		256	461	778
Investment securities	19	29 515 812	27 678 614	27 128 055
Investments in joint ventures		985	-	-
Non-current assets held for sale	25	-	576 838	-
Intangible assets	20	469 853	465 626	460 135
Tangible assets	21	691 833	717 377	710 505
Current income tax assets		121	61 751	63 843
Deferred income tax assets	24	361 724	272 416	261 282
Other assets		1 119 290	794 964	1 004 077
Total assets		**120 604 115**	**117 985 822**	**111 947 445**

LIABILITIES AND EQUITY				
Liabilities				
Amounts due to the Central Bank		2	-	-
Amounts due to other banks		15 675 917	13 383 829	22 297 031
Derivative financial instruments	16	3 302 248	4 719 056	2 915 003
Amounts due to customers	22	73 058 259	72 422 479	63 293 721
Debt securities in issue		11 013 855	10 341 742	7 696 154
Hedge accounting adjustments related to fair value of hedged items		58 929	103 382	47 620
Liabilities held for sale	25	-	276 341	-
Other liabilities		1 848 017	1 349 654	1 839 044
Current income tax liabilities		33 257	1 969	4 779
Provisions for deferred income tax	24	1 085	9 785	3 615
Provisions	23	168 401	176 881	252 194
Subordinated liabilities		3 896 612	4 127 724	3 278 869
Total liabilities		**109 056 582**	**106 912 842**	**101 628 030**

Equity				
Equity attributable to Owners of mBank S.A.		**11 516 001**	**11 043 242**	**10 289 867**
Share capital:		**3 523 935**	**3 523 903**	**3 512 798**
- Registered share capital		168 841	168 840	168 702
- Share premium		3 355 094	3 355 063	3 344 096
Retained earnings:		**7 649 097**	**6 969 816**	**6 351 086**
- Profit from the previous years		6 976 838	5 683 148	5 688 489
- Profit for the current year		672 259	1 286 668	662 597
Other components of equity		**342 969**	**549 523**	**425 983**
Non-controlling interests		**31 532**	**29 738**	**29 548**
Total equity		**11 547 533**	**11 072 980**	**10 319 415**
Total liabilities and equity		**120 604 115**	**117 985 822**	**111 947 445**

Total capital ratio		**16.38**	**14.66**	**15.79**
Common Equity Tier 1 capital ratio		**13.45**	**12.24**	**13.20**
Book value		**11 516 001**	**11 043 242**	**10 289 867**
Number of shares		**42 210 157**	**42 210 057**	**42 175 558**
Book value per share (in PLN)		**272.83**	**261.63**	**243.98**

Notes presented on pages 11– 71 constitute an integral part of these Condensed Consolidated Financial Statements.

IFRS Condensed Consolidated Financial Statements for the first half of 2015 PLN (000's)

Condensed consolidated statement of changes in equity

Changes from 1 January to 30 June 2015

	Share capital		Retained earnings					Other components of equity						
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	Exchange differences on translation of foreign operations	Valuation of available for sale financial assets	Cash flows hedges	Actuarial gains and losses relating to post-employment benefits	Equity attributable to Owners of mBank S.A., total	Non-controlling interests	Total equity
Equity as at 1 January 2015	**168 840**	**3 355 063**	**4 413 825**	**101 252**	**1 041 953**	**1 412 786**	**-**	**(1 765)**	**549 621**	**4 056**	**(2 389)**	**11 043 242**	**29 738**	**11 072 980**
Total comprehensive income							**672 259**	**(5 281)**	**(193 276)**	**(7 997)**	**-**	**465 705**	**1 794**	**467 499**
Transfer to general banking risk reserve	-	-	-	-	53 500	(53 500)	-	-	-	-	-	-	-	-
Transfer to supplementary capital	-	-	435 764	-	-	(435 764)	-	-	-	-	-	-	-	-
Issue of shares	1	-	-	-	-	-	-	-	-	-	-	1	-	1
Other changes	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Stock option program for employees	-	31	-	7 022	-	-	-	-	-	-	-	7 053	-	7 053
- value of services provided by the employees	-	-	-	7 053	-	-	-	-	-	-	-	7 053	-	*7 053*
- settlement of exercised options	-	31	-	(31)	-	-	-	-	-	-	-	-	-	-
Equity as at 30 June 2015	**168 841**	**3 355 094**	**4 849 589**	**108 274**	**1 095 453**	**923 522**	**672 259**	**(7 046)**	**356 345**	**(3 941)**	**(2 389)**	**11 516 001**	**31 532**	**11 547 533**

Changes from 1 January to 31 December 2014

	Share capital		Retained earnings					Other components of equity						
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	Exchange differences on translation of foreign operations	Valuation of available for sale financial assets	Cash flows hedges	Actuarial gains and losses relating to post-employment benefits	Equity attributable to Owners of mBank S.A., total	Non-controlling interests	Total equity
Equity as at 1 January 2014	**168 696**	**3 343 642**	**4 118 312**	**100 057**	**989 953**	**1 190 615**	**-**	**(2 010)**	**320 561**	**-**	**(484)**	**10 229 342**	**27 096**	**10 256 438**
Total comprehensive income							**1 286 668**	**245**	**229 060**	**4 056**	**(1 905)**	**1 518 124**	**2 642**	**1 520 766**
Dividends paid	-	-	-	-	-	(716 984)	-	-	-	-	-	(716 984)	-	(716 984)
Transfer to general banking risk reserve	-	-	-	-	52 000	(52 000)	-	-	-	-	-	-	-	-
Transfer to supplementary capital	-	-	295 513	-	-	(295 513)	-	-	-	-	-	-	-	-
Issue of shares	144	-	-	-	-	-	-	-	-	-	-	144	-	144
Stock option program for employees	-	11 421	-	1 195	-	-	-	-	-	-	-	12 616	-	12 616
- value of services provided by the employees	-	-	-	12 616	-	-	-	-	-	-	-	12 616	-	*12 616*
- settlement of exercised options	-	11 421	-	(11 421)	-	-	-	-	-	-	-	-	-	-
Equity as at 31 December 2014	**168 840**	**3 355 063**	**4 413 825**	**101 252**	**1 041 953**	**126 118**	**1 286 668**	**(1 765)**	**549 621**	**4 056**	**(2 389)**	**11 043 242**	**29 738**	**11 072 980**

Notes presented on pages 11– 71 constitute an integral part of these Condensed Consolidated Financial Statements.

IFRS Condensed Consolidated Financial Statements for the first half of 2015 PLN (000's)

Changes from 1 January to 30 June 2014

	Share capital		Retained earnings					Other components of equity						
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year - restated	Exchange differences on translation of foreign operations	Valuation of available for sale financial assets	Cash flows hedges	Actuarial gains and losses relating to post-employment benefits	Equity attributable to Owners of mBank S.A., total	Non-controlling interests	Total equity
Equity as at 1 January 2014	**168 696**	**3 343 642**	**4 118 312**	**100 057**	**989 953**	**1 190 615**	**-**	**(2 010)**	**320 561**	**-**	**(484)**	**10 229 342**	**27 096**	**10 256 438**
Total comprehensive income							**662 597**	**130**	**107 786**	**-**	**-**	**770 513**	**2 452**	**772 965**
Dividends paid	-	-	-	-	-	(716 984)	-	-	-	-	-	(716 984)	-	(716 984)
Transfer to general banking risk reserve	-	-	-	-	52 000	(52 000)	-	-	-	-	-	-	-	-
Transfer to supplementary capital	-	-	285 109	-	-	(285 109)	-	-	-	-	-	-	-	-
Issue of shares	6	-	-	-	-	-	-	-	-	-	-	6	-	6
Stock option program for employees	-	454	-	6 536	-	-	-	-	-	-	-	6 990	-	6 990
- value of services provided by the employees	-	-	-	6 990	-	-	-	-	-	-	-	6 990	-	*6 990*
- settlement of exercised options	-	454	-	(454)	-	-	-	-	-	-	-	-	-	-
Equity as at 30 June 2014	**168 702**	**3 344 096**	**4 403 421**	**106 593**	**1 041 953**	**136 522**	**662 597**	**(1 880)**	**428 347**	**-**	**(484)**	**10 289 867**	**29 548**	**10 319 415**

Notes presented on pages 11– 71 constitute an integral part of these Condensed Consolidated Financial Statements.

IFRS Condensed Consolidated Financial Statements for the first half of 2015 PLN (000's)

Condensed consolidated statement of cash flows

	Period from 01.01.2015 to 30.06.2015	Period from 01.01.2014 to 30.06.2014
A. Cash flows from operating activities	**483 258**	**3 113 273**
Profit before income tax	**857 201**	**849 143**
Adjustments:	***(373 943)***	***2 264 130***
Income taxes paid	(100 368)	(179 496)
Amortisation, including amortisation of fixed assets provided under operating lease	119 018	119 704
Foreign exchange (gains) losses related to financing activities	1 924 476	238 598
(Gains) losses on investing activities	(196 449)	124
Impairment of investments in subsidiaries	(10)	-
Dividends received	(3 189)	(2 811)
Interest income (income statement)	(1 781 151)	(1 928 465)
Interest expense (income statement)	588 164	720 219
Interest received	1 633 447	1 970 051
Interest paid	(548 905)	(631 897)
Changes in loans and advances to banks	1 315 774	(848 360)
Changes in trading securities	(21 555)	(289 247)
Changes in assets and liabilities on derivative financial instruments	130 619	(195 382)
Changes in loans and advances to customers	(2 612 860)	(1 923 233)
Changes in investment securities	(2 031 355)	(1 624 421)
Changes in other assets	(312 361)	(52 321)
Changes in amounts due to other banks	480 052	5 133 371
Changes in amounts due to customers	422 592	1 069 559
Changes in debt securities in issue	(48 270)	85 809
Changes in provisions	(8 480)	23 966
Changes in other liabilities	676 868	578 362
Net cash generated from/(used in) operating activities	**483 258**	**3 113 273**
B.Cash flows from investing activities	**273 143**	**(101 015)**
Investing activity inflows	**445 133**	**20 087**
Disposal of shares in subsidiaries, net of cash disposed	427 424	-
Disposal of intangible assets and tangible fixed assets	14 520	17 276
Dividends received	3 189	2 811
Investing activity outflows	**171 990**	**121 102**
Purchase of intangible assets and tangible fixed assets	161 629	121 102
Other investing outflows	10 361	-
Net cash generated from/(used in) investing activities	**273 143**	**(101 015)**
C. Cash flows from financing activities	**433 921**	**(837 386)**
Financing activity inflows	**1 382 952**	**3 054 955**
Proceeds from loans and advances from other banks	180 475	-
Proceeds from other loans and advances	415 420	630 095
Issue of debt securities	787 056	2 424 854
Issue of ordinary shares	1	6
Financing activity outflows	**949 031**	**3 892 341**
Repayments of loans and advances from other banks	1 418	2 274 879
Repayments of other loans and advances	6 523	5 032
Redemption of debt securities	150 000	271 462
Decrease of subordinated liabilities	637 738	480 122
Payments of financial lease liabilities	243	210
Dividends and other payments to shareholders	-	716 984
Interest paid from loans and advances received from other banks, subordinated liabilities and long term issue	153 109	143 652
Net cash generated from/(used in) financing activities	**433 921**	**(837 386)**
Net increase / decrease in cash and cash equivalents (A+B+C)	**1 190 322**	**2 174 872**
Effects of exchange rate changes on cash and cash equivalents	4 658	12 945
Cash and cash equivalents at the beginning of the reporting period	4 711 505	3 685 640
Cash and cash equivalents at the end of the reporting period	**5 906 485**	**5 873 457**

Notes presented on pages 11– 71 constitute an integral part of these Condensed Consolidated Financial Statements.

Explanatory notes to the condensed consolidated financial statements

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

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

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

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

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

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

As at 30 June 2015, mBank S.A. Group covered by the condensed consolidated financial statements comprised the following companies:

mBank S.A., the parent entity

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

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

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

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

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

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

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

As at 30 June 2015 the headcount of mBank S.A. amounted to 5 062 FTEs (Full Time Equivalents) and of the Group to 6 446 FTEs (30 June 2014: Bank 4 709 FTEs, Group 6 136 FTEs).

As at 30 June 2015 the employment in mBank S.A. was 6 262 persons and in the Group 8 501 persons (30 June 2014: Bank 5 771 persons, Group 7 914 persons).

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

Corporates and Financial Markets Segment, including:

Corporate and Investment Banking

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

Financial Markets

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

Retail Banking Segment (including Private Banking)

- Aspiro S.A., subsidiary
- Dom Maklerski mBanku S.A., subsidiary (the retail segment of the company's activity)
- mBank Hipoteczny S.A., subsidiary (the retail segment of the company's activity)
- mLeasing Sp. z o.o., subsidiary (the retail segment of the company's activity)
- mWealth Management S.A., subsidiary

Other

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

Other information concerning companies of the Group

In accordance with the agreement concluded on 11 September 2014 between the Bank's subsidiary Aspiro S.A. ("Aspiro") and Avanssur S.A., the company belonging to AXA Group, on 27 March 2015 Aspiro sold 100% shares of BRE Ubezpieczenia TUiR S.A. The transaction has been described in detail in Note 25, and in the point 9 of the Selected Explanatory Information.

On 2 March 2015, the company Aspiro concluded the merger by acquisition of companies BRE Ubezpieczenia Sp. z o.o. and BRE Agent Ubezpieczeniowy Sp. z o.o. The activities of both companies were taken over and will be continued by Aspiro in the same extent. The acquired companies were resolved on 2 March 2015, the day of their deletion from the register which was also the date of register of the merger.

On 20 January 2015, the sale transaction of the company Transfinance a.s. was completed. The transaction has been described in Note 25 and in the point 9 of the Selected Explanatory Information.

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

2. Description of the relevant accounting policies

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

2.1. Accounting basis

The condensed consolidated financial statements of mBank S.A. Group have been prepared for the 6-month period ended 30 June 2015.

The presented condensed consolidated financial statements for the first half of 2015 fulfill the requirements of the International Accounting Standard (IAS) 34 "Interim Financial Reporting", concerning interim financial statements and adopted for application by the European Union.

The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and, therefore, the presented condensed consolidated financial statements for the first half of 2015 should be read in conjunction with the mBank S.A. Group Consolidated Financial Statements for the year ended 31 December 2014, which have been prepared in accordance with IFRSs adopted for application by the European Union, on 2 March 2015 approved by the Bank's Management Board. Accounting policies applied to the preparation of the condensed consolidated financial statements are consistent with those applied in the annual consolidated financial statements for the year ended 31 December 2014, with the exception of the application of new or amended standards and interpretations binding for annual periods beginning on or after 1 January 2015 and described in Note 2.33.

The data presented in the mBank S.A. Group condensed consolidated financial statements for the first half of 2015 and the first half of 2014 have been reviewed by the auditor, while the data for the year 2014 was audited by the auditor.

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

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

The Management Board of mBank S.A. approved these condensed consolidated financial statements for issue on 30 July 2015.

2.2. Consolidation

Subsidiaries

Subsidiaries comprise entities, regardless of the nature of the involvement with an entity (including special purpose vehicles) over which the Group controls the investee. The control is achieved when the Group has power over the investee, is exposed or has rights, to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. When the Group has less than a majority of the voting rights of an investee, it considers all relevant facts and circumstances in assessing whether it has power over the investee, including a contractual arrangements between the Group and other vote holders, rights arising from other contractual arrangements, the Group's voting rights and potential voting rights. If facts and circumstances indicate that there are changes in at least one of the three elements of control listed above, the Group reassess whether it controls an investee. The consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. The consolidated financial statements combine items of assets, liabilities, equity, income and expenses of the parent with those of its subsidiaries eliminating the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary. Thus arises goodwill. If goodwill has negative value, it is recognised directly in the income statement (see Note 2.20). The profit or loss and each component of other comprehensive income is attributed to the Group's owners and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. If the Group loses control of a subsidiary, it shall account for all amounts previously recognised in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Group had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group shall reclassify the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses control of the subsidiary. If a revaluation surplus previously recognised in other comprehensive income would be transferred directly to retained earnings on the disposal of the assets, the Group shall transfer the revaluation surplus directly to retained earnings when it loses control of the subsidiary.

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

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

IFRS Condensed Consolidated Financial Statements for the first half of 2015 PLN (000's)

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

The Group applies predecessor accounting method for combinations of businesses under common control. The method stipulates that assets and liabilities of the acquired arrangements are not measured at fair value, but the acquirer includes them in its financial statements based on the value of the acquired arrangements stemming from the consolidated financial statements of the consolidating entity that prepares the consolidated financial statements at the higher level and exercises the common control under which the transaction takes place. The result on combination of businesses under common control is presented in the equity position "Retained earnings from previous years" of the stand-alone financial statements of the acquirer.

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

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

Company	30.06.2015		31.12.2014		30.06.2014	
	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method
Aspiro S.A.	100%	full	100%	full	100%	full
AWL I Sp. z o.o.	-	-	100%	full	100%	full
BDH Development Sp. z o.o.	100%	full	100%	full	100%	full
BRE Agent Ubezpieczeniowy Sp. z o.o.	-	-	100%	full	100%	full
BRE Ubezpieczenia Sp. z o.o.	-	-	100%	full	100%	full
BRE Ubezpieczenia TUiR S.A.	-	-	100%	full	100%	full
Dom Maklerski mBanku S.A.	100%	full	100%	full	100%	full
Garbary Sp. z o.o.	100%	full	100%	full	100%	full
mBank Hipoteczny S.A.	100%	full	100%	full	100%	full
mCentrum Operacji Sp. z o.o.	100%	full	100%	full	100%	full
mFaktoring S.A.	100%	full	100%	full	100%	full
mLeasing Sp. z o.o.	100%	full	100%	full	100%	full
mWealth Management S.A.	100%	full	100%	full	100%	full
MLV 45 Sp. z o.o. spółka komandytowa	100%	full	100%	full	100%	full
Transfinance a.s.	-	-	100%	full	100%	full
mFinance France S.A.	99.98%	full	99.98%	full	99.98%	full
mLocum S.A.	79.99%	full	79.99%	full	79.99%	full

2.3. Associates and joint ventures

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

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

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

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

Group calculates impairment comparing the recoverable amount of the investment with its carrying value.

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

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

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

2.4. Interest income and expenses

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

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

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

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

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

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

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

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

Interest income related to the interest measurement component of derivatives concluded as hedging instruments under cash flow hedge are presented in the interest result in the position interest income on derivatives under the cash flow hedge accounting.

2.5. Fee and commission income

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

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

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

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

Income on account of services provided as an insurance agent is recognised at the time of performance of the services in the net amount.

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

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

The Group treats insurance products sold before 31 March 2015 as bundled with loans, in particular when insurance product was offered to the customer only with the loan, i.e. it was not possible to purchase from the Group the insurance product which is identical in a legal form, content and economic conditions without purchasing the loan.

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

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

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

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

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

2.7. Insurance premium revenue

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

2.8. Compensations and benefits, net

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

2.9. Segment reporting

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

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

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

2.10. Financial assets

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

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

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

Financial assets valued at fair value through the income statement

This category comprises two subcategories: financial assets held for trading and financial assets designated at fair value through the income statement upon initial recognition. A financial asset is classified in this category if it was acquired principally for the purpose of short-term resale or if it was classified in this category by the companies of the Group. Derivative instruments are also classified as "held for trading", unless they were designated for hedging according to IAS 39.

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

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

- assets/liabilities are classified as held for trading i.e. they are acquired or incurred principally for the purpose of selling or repurchasing them in the near term, they are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit making or they are derivatives (except for derivatives that are designated as and being effective hedging instruments and financial guarantee contracts),
- upon initial recognition, assets/liabilities are designated by the entity at fair value through the income statement according to IAS 39.

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

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

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

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

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

Interest income/expense on financial assets/financial liabilities designated at fair value (Note 2.4), except for derivatives the recognition of which is discussed in Note 2.17, is recognised in net interest income. The valuation and result on disposal of financial assets/financial liabilities designated at fair value is recognised in trading income.

<u>Loans and receivables</u>

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

<u>Investments held to maturity</u>

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

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

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

<u>Financial assets available for sale</u>

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

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

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

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

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

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

2.11. Reinsurance assets

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

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

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

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

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

2.12. Offsetting financial instruments

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

2.13. Impairment of financial assets

Assets carried at amortised cost

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

The Group measures impairment of loan exposures in accordance with the International Accounting Standard 39. The classification of customers to default portfolio and calculation of impairment write-off is as follows:

a) identifying impairment indicator on individual basis (loss events) and if they exist, classifying a customer to a default category;
b) assessing estimated future cash flows (repayments) both from collateral and from repayments by a customer;
c) calculating impairment losses taking into account the future amount of estimated discounted cash flows using the effective interest rate;
d) booking of impairment losses.

Loss events were divided into definite ("hard") loss events of which occurrence requires the client to be classified into the default category, and indefinite ("soft") loss events of which occurrence may imply that there is a need to classify the client into the default category. In the case of indefinite loss events, credit analyst assesses additionally whether the event impacted adversely the obligor's creditworthiness. Indefinite loss events have been introduced in order to signal situations that may potentially increase the credit risk of the debtor, which may result in the loss of the debtor's ability to repay loan the Bank.

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

1. The number of days from which any exposure being the obligor's credit obligation becomes overdue is above 90 days and the overdue amount exceeds PLN 3 000.
2. The Bank has sold exposures with a significant economic loss related to the change of the debtor creditworthiness.
3. The Bank performed enforced restructuring of the exposure, which resulted in the change of the loan/transaction service schedule due to the lack of possibility of the obligor to meet his obligations under loan/transaction agreement, as initially stipulated, which resulted in:
   a) reduction of financial obligations by remitting part of these obligations, or
   b) postponing the repayment of the substantial part of the principal, interest or (if it refers to) commission; provided that the lack of approval for restructuring would cause more than 90 calendar days delay in repayment of substantial part of the obligation.
4. Filing by the Bank, the parent or subsidiary entity of the Bank a bankruptcy motion against debtor or filing similar motion in respect of credit obligations of the debtor towards the Bank, the parent or subsidiary entity of the Bank.
5. Bankruptcy of debtor or acquiring by him a similar legal protection resulting in his evasion of or delay in repayment of credit obligations towards the Bank, the parent or subsidiary entity of the Bank.
6. Termination of part or whole credit agreement by the Bank and the beginning of restructuring/collection procedures.
7. Client's fraud.

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

a) governments and central banks,
b) banks,
c) corporations, including specialised lending,
d) local government units,
e) insurers,
f) pension fund managing companies, investment fund managing companies.

Defining separately the conditions for indefinite loss events for particular types of entities aimed at reflecting specificity of particular types of entities in identification of loss events.

In order to assess if the impairment loss has occurred, identification of credit exposures with premises for impairment is carried out. Subsequently the comparison of the gross balance sheet credit exposure with the value of estimated future cash flows discounted at the original effective interest rate is carried out, which leads to the conclusion whether the impairment loss has occurred. If the discounted value of future cash flow is higher than the gross balance sheet value, the impairment charge is not recognised.

In case of specific situation, when the future cash flows are clearly dependent on individual events with binary character of occurrence, the Bank estimates the probability of such events as the basis for calculating the impairment charge.

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

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

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

If a loan or held to maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

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

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

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

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

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

Assets measured at fair value available for sale

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

Renegotiated agreements

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

2.14. Financial guarantee contracts

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

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

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

2.15. Cash and cash equivalents

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

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

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

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

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

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

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

2.17. Derivative financial instruments and hedge accounting

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

The best fair value indicator for a derivative instrument at the time of its initial recognition is the price of the transaction (i.e., the fair value of the paid or received consideration). If the fair value of the particular instrument may be determined by comparison with other current market transactions concerning the same instrument (not modified) or relying on valuation techniques based exclusively on market data that are available for observation, then the Group recognises the respective gains or losses from the first day in accordance with the principles described under Note 2.18.

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

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

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

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

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

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

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

Fair value hedges

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

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

Cash flow hedges

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

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

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

Derivative instruments not fulfilling the criteria of hedge accounting

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

The Group holds the following derivative instruments in its portfolio:

Market risk instruments:

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

Interest rate risk instruments:

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

Foreign exchange risk instruments:

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

2.18. Gains and losses on initial recognition

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

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

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

2.19. Borrowings and deposits taken

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

2.20. Intangible assets

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

Goodwill

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

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

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

Computer software

Purchased computer software licences are capitalised in the amount of costs incurred for the purchase and adaptation for use of specific computer software. These costs are amortised on the basis of the expected useful life of the software (2-11 years). Expenses attached to the maintenance of computer software are expensed when incurred. Expenses directly linked to the development of identifiable and unique proprietary computer programmes controlled by the Group, which are likely to generate economic benefits in excess of such costs expected to be gained over a period exceeding one year, are recognised as intangible assets. Direct costs comprise personnel expenses directly related to the software.

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

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

Development costs

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

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

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

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

2.21. Tangible fixed assets

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

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

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

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

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

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

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

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

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

2.22. Inventories

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

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

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

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

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

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

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

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

2.24. Deferred income tax

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

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

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

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

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

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

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

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

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

2.25. Assets repossessed for debt

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

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

2.26. Prepayments, accruals and deferred income

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

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

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

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

2.27. Leasing

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

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

<u>mBank S.A. Group as a lessor</u>

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

Revenue from leasing agreements is recognised as follows:

- Interests on finance lease

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

- Net revenue from operating lease

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

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

mBank S.A. Group as a lessee

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

2.28. Provisions

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

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

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

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

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

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

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

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

2.29. Post-employment employee benefits and other employee benefits

Post-employment employee benefits

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

Equity-settled share-based payment transactions

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

Cash-settled share-based payment transactions

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

Other employee benefits

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

2.30. Equity

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

Registered share capital

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

- Own shares

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

Share premium

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

- Share issue costs

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

Retained earnings

Retained earnings include:

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

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

Moreover, other reserve capital comprises valuation of employee options.

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

Other components of equity

Other components of equity result from:

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

2.31. Valuation of items denominated in foreign currencies

Functional currency and presentation currency

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

Transactions and balances

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

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

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

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

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

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

Companies belonging to the Group

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

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

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

Leasing business

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

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

2.32. Trust and fiduciary activities

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

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

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

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

2.33. New standards, interpretations and amendments to published standards

These condensed consolidated financial statements comply with all the International Accounting Standards and the International Financial Reporting Standards endorsed by the European Union, and the interpretations related to them, except for those standards and interpretations listed below which await endorsement of the European Union or which have been endorsed by the European Union but entered or will enter into force after the balance sheet date.

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

Standards and interpretations approved by the European Union:

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

  The Group believes that the application of IFRIC 21 has no impact on the total level of recognised fees of the financial year, but has an impact on the level of this type of costs recognised in each quarter of the financial year.

  In accordance with the recommendation received by the Bank from the Polish Financial Supervision Authority (KNF) described under the item 30 of Selected explanatory information, the Group has applied IFRIC 21 in such way, that costs of fees payable to the Bank Guarantee Fund (BFG) and income related to these costs will be recognised over time throughout the year 2015, the same way as in 2014.

  Had the Group applied IFRIC 21 in a way that the costs of fees payable to BFG and income related to these costs were included in full in the costs and income of the first quarter of 2015, the Group's consolidated net profit for the first half of 2015 and consolidated equity as at 30 June 2015 presented in these consolidated financial statements would have been lower by PLN 38 305 thousand.

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

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

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

Standards and interpretations approved by the European Union:

- IAS 19 (Amended), *Defined Benefit Plans: Employee Contributions*, published by the International Accounting Standards Board on 21 November 2013, approved by European Union on 17 December 2014 and binding for annual periods starting on or after 1 July 2014, in EU effective at the latest for financial years beginning on or after 1 February 2015.

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

- Improvements to IFRSs 2010 - 2012, published by the International Accounting Standards Board on 12 December 2013, approved by European Union on 17 December 2014, in majority binding for annual periods starting on or after 1 July 2014 and some effective prospectively for transactions occurring on or after 1 July 2014, in EU effective at latest for financial years beginning on or after 1 February 2015.

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

Standards and interpretations not yet approved by the European Union:

- IFRS 9, *Financial Instruments*, published by the International Accounting Standards Board on 24 July 2014, represents the final version of the standard, replaces earlier versions of IFRS 9 and completes the International Accounting Standards Board's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard addresses classification and measurement of financial assets and financial liabilities, impairment methodology and hedge accounting. IFRS 9 does not include macro hedge accounting, which is a separate project of International Accounting Standards Board. The Group continues to apply IAS 39 accounting for macro hedges. The new standard is effective for annual periods beginning on or after 1 January 2018.

  The Group is of the opinion that the application of the standard will have an impact on the presentation and measurement of these instruments in the financial statements.

- IFRS 11 (Amended), *Accounting for acquisitions of interests in joint operations*, published by the International Accounting Standards Board on 6 May 2014, binding for annual periods beginning on or after 1 January 2016.

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

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

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

- IFRS 15, *Revenue from Contracts with Customers*, published by the International Accounting Standards Board on 28 May 2014, binding for annual periods beginning on or after 1 January 2018.

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

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

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

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

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

- Amendments to IAS 27, *Equity method in separate financial statements*, published by the International Accounting Standards Board on 12 August 2014, binding for annual periods beginning on or after 1 January 2016.

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

- Amendments to IFRS 10 and IAS 28, *Sale or contribution of assets between an investor and its associate or joint venture*, published by the International Accounting Standards Board on 11 September 2014, binding for annual periods beginning on or after 1 January 2016, wherein the term has been initially postponed by the International Accounting Standards Board.

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

- Annual Improvements to IFRSs 2012-2014 Cycle, changing 4 standards, published by the International Accounting Standards Board on 25 September 2014, binding for annual periods beginning on or after 1 January 2016.

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

- Amendments to IAS 1, *Disclosure initiative*, published by the International Accounting Standards Board on 18 December 2014, binding for annual periods starting on or after 1 January 2016.

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

- Amendments to IFRS 10, IFRS 12 and IAS 28, *Investment entities: applying the consolidation exception,* published by the International Accounting Standards Board on 18 December 2014, binding for annual periods starting on or after 1 January 2016.

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

2.34. Comparative data

Data prepared as at 30 June 2014 as well as data presented in the statement of financial position prepared as at 31 December 2014 are totally comparable with data introduced in the current financial period so they were not adjusted with the exception of notes regarding business segments of the Group, which was described in detail under Note 4.

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

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

Impairment of loans and advances

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

Fair value of derivatives and other financial instruments

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

Impairment of available for sale financial assets

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

Deferred tax assets

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

Revenue and expenses from sale of insurance products bundled with loans

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

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

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

Liabilities due to post-employment employee benefits

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

Leasing classification

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

4. Business segments

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

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

From the beginning of 2015, the Group has adjusted the assignment of two subsidiaries to segments: mLeasing Sp. z o.o. and mBank Hipoteczny S.A. From the results of mLeasing Sp. z o.o., previously assigned, according to split of customers, to Corporate and Investment Banking sub-segment and Retail Banking segment, activities regarding funding were excluded and assigned to Financial Markets sub-segment. The results of mBank Hipoteczny S.A., previously assigned to the Retail Banking segment, were divided into the Corporate and Investment Banking sub-segment and Retail Banking segment (according to split of customers into corporate and retail) as well as to the Financial Markets sub-segment, to which activities regarding funding, including issuance of covered bonds, were assigned.

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

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

- The Retail Banking segment, which divides its customers into mBank customers and Private Banking customers and which offers a full range of the Bank's banking products and services as well as specialized products offered by a number of subsidiaries belonging to the Retail Banking segment. The key products in this segment include current and savings accounts (including accounts in foreign currencies), term deposits, lending products (retail mortgage loans and non-mortgage loans such as cash loans, car loans, overdrafts, credit cards and other loan products), debit cards, insurance products, investment products, brokerage and leasing services offered to both individual customers and to micro-businesses. The results of the Retail Banking segment include the results of foreign branches of mBank in the Czech Republic and Slovakia. The Retail Banking segment also includes the results of: mWealth Management S.A., Aspiro S.A., as well as the results of retail segments of mLeasing Sp. z o.o., Dom Maklerski mBanku S.A. and mBank Hipoteczny S.A. Moreover this segment includes the result of BRE Ubezpieczenia TUiR S.A. and AWL I Sp. z o.o. until the date of their sale as well as the result of BRE Ubezpieczenia Sp. z o.o. and BRE Agent Ubezpieczeniowy Sp. z o.o. until the date of their merger with Aspiro. In 2015, this segment also includes the Group's result on sale of BRE Ubezpieczenia TUiR.
- The Corporates and Financial Markets segment, which is divided into two sub-segments:
    - *Corporate and Investment Banking* sub-segment (business line), which targets small, medium and large-sized companies and public sector entities. The key products offered to these customers include transactional banking products and services including current account products, multi-functional internet banking, tailor-made cash management and trade finance services, term deposits, foreign exchange transactions, a comprehensive offer of short-term financing and

investment loans, cross-border credit, project finance, structured and mezzanine finance services, investment banking products including foreign exchange options, forward contracts, interest rate derivatives and commodity swaps and options, structured deposit products with embedded options (interest on structured deposit products are directly linked to the performance of certain underlying financial instruments such as foreign exchange options, interest rate options and stock options), debt origination for corporate clients, treasury bills and bonds, non-government debt, medium-term bonds, buy sell back and sell buy back transactions and repo transactions, as well as leasing, factoring and brokerage services. The Corporate and Investment Banking sub-segment includes the results of the following subsidiaries: mFaktoring S.A., MLV 45 Sp. z o.o. spółka komandytowa, Garbary Sp. z o.o. as well as the results of corporate segments of mLeasing Sp. z o.o., Dom Maklerski mBanku S.A. and mBank Hipoteczny S.A. Moreover this segment includes the result of Transfinance a.s. until the date of sale of the company.

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

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

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

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

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

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

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

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

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

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

Business segment reporting on the activities of mBank S.A. Group
for the period from 1 January to 30 June 2015
(PLN'000)

	Corporates & Financial Markets		Retail Banking (including Private Banking)	Other	Total figure for the Group	Statement of financial position reconciliation/ income statement reconciliation
	Corporate and Investment Banking	Financial Markets				
Net interest income	**362 486**	**66 961**	**765 188**	**(1 648)**	**1 192 987**	**1 192 987**
- sales to external clients	377 143	261 561	554 188	95	1 192 987	
- sales to other segments	(14 657)	(194 600)	211 000	(1 743)	-	
Net fee and commission income	**183 891**	**(850)**	**232 887**	**8 265**	**424 193**	**424 193**
Dividend income	**31**	**98**	**14**	**3 046**	**3 189**	**3 189**
Trading income	**107 724**	**(16 867)**	**47 669**	**(596)**	**137 930**	**137 930**
Gains less losses from investment securities, investments in subsidiaries and associates	**2 067**	**3 834**	**194 348**	**(3 899)**	**196 350**	**196 350**
Other operating income	**31 556**	**222**	**36 029**	**66 505**	**134 312**	**134 312**
Net impairment losses on loans and advances	**(84 760)**	**(453)**	**(116 418)**	**(6 006)**	**(207 637)**	**(207 637)**
Overhead costs	**(312 828)**	**(46 589)**	**(464 186)**	**(18 238)**	**(841 841)**	**(841 841)**
Amortisation	**(36 679)**	**(4 449)**	**(53 479)**	**(1 691)**	**(96 298)**	**(96 298)**
Other operating expenses	**(16 262)**	**(114)**	**(20 585)**	**(49 008)**	**(85 969)**	**(85 969)**
Operating profit	**237 226**	**1 793**	**621 467**	**(3 270)**	**857 216**	**857 216**
The share in the profits (losses) of joint ventures	**-**	**-**	**-**	**(15)**	**(15)**	**(15)**
Gross profit of the segment	**237 226**	**1 793**	**621 467**	**(3 285)**	**857 201**	**857 201**
Income tax					(183 148)	(183 148)
Net profit attributable to Owners of mBank S.A.					672 259	672 259
Net profit attributable to non-controlling interests					1 794	1 794
Assets of the segment	**34 562 915**	**39 865 430**	**45 413 820**	**761 950**	**120 604 115**	**120 604 115**
Liabilities of the segment	**26 810 521**	**38 720 678**	**42 677 144**	**848 239**	**109 056 582**	**109 056 582**
Other items of the segment						
Expenditures incurred on fixed assets and intangible assets	58 155	1 852	48 739	1 884	110 630	

Business segment reporting on the activities of mBank S.A. Group
for the period from 1 January to 31 December 2014
(PLN'000)

	Corporates & Financial Markets		Retail Banking (including Private Banking)	Other	Total figure for the Group	Statement of financial position reconciliation/ income statement reconciliation
	Corporate and Investment Banking	Financial Markets				
Net interest income	**746 495**	**139 698**	**1 611 284**	**(6 819)**	**2 490 658**	**2 490 658**
- sales to external clients	741 668	542 826	1 207 278	(1 114)	2 490 658	
- sales to other segments	4 827	(403 128)	404 006	(5 705)	-	
Net fee and commission income	**387 861**	**(5 989)**	**506 058**	**13 760**	**901 690**	**901 690**
Dividend income	**17 223**	**191**	**78**	**2 500**	**19 992**	**19 992**
Trading income	**184 109**	**69 739**	**115 119**	**189**	**369 156**	**369 156**
Gains less losses from investment securities, investments in subsidiaries and associates	**10 074**	**45 299**	**(700)**	**(2 747)**	**51 926**	**51 926**
Other operating income	**98 128**	**865**	**114 477**	**133 452**	**346 922**	**346 922**
Net impairment losses on loans and advances	**(211 584)**	**(1 065)**	**(303 285)**	**31**	**(515 903)**	**(515 903)**
Overhead costs	**(598 456)**	**(87 297)**	**(858 616)**	**(36 174)**	**(1 580 543)**	**(1 580 543)**
Amortisation	**(73 752)**	**(8 814)**	**(104 255)**	**(3 201)**	**(190 022)**	**(190 022)**
Other operating expenses	**(40 573)**	**273**	**(63 226)**	**(137 650)**	**(241 176)**	**(241 176)**
Gross profit of the segment	**519 525**	**152 900**	**1 016 934**	**(36 659)**	**1 652 700**	**1 652 700**
Income tax					(363 390)	(363 390)
Net profit attributable to Owners of mBank S.A.					1 286 668	1 286 668
Net profit attributable to non-controlling interests					2 642	2 642
Assets of the segment	**32 399 510**	**43 101 622**	**41 637 447**	**847 243**	**117 985 822**	**117 985 822**
Liabilities of the segment	**25 731 503**	**40 092 161**	**40 384 484**	**704 694**	**106 912 842**	**106 912 842**
Other items of the segment						
Expenditures incurred on fixed assets and intangible assets	165 487	9 711	120 867	1 586	297 651	

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

	Corporates & Financial Markets		Retail Banking (including Private Banking)	Other	Total figure for the Group	Statement of financial position reconciliation/ income statement reconciliation
	Corporate and Investment Banking	Financial Markets				
Net interest income	**363 048**	**47 778**	**801 454**	**(4 034)**	**1 208 246**	**1 208 246**
- sales to external clients	373 674	247 414	587 838	(680)	1 208 246	
- sales to other segments	(10 626)	(199 636)	213 616	(3 354)	-	
Net fee and commission income	**188 833**	**(3 061)**	**291 290**	**8 029**	**485 091**	**485 091**
Dividend income	**158**	**149**	**28**	**2 476**	**2 811**	**2 811**
Trading income	**90 668**	**54 791**	**56 940**	**(79)**	**202 320**	**202 320**
Gains less losses from investment securities, investments in subsidiaries and associates	**8 046**	**5 840**	**-**	**-**	**13 886**	**13 886**
Other operating income	**59 624**	**387**	**55 075**	**84 017**	**199 103**	**199 103**
Net impairment losses on loans and advances	**(120 303)**	**(31)**	**(125 038)**	**25**	**(245 347)**	**(245 347)**
Overhead costs	**(297 233)**	**(44 594)**	**(431 472)**	**(18 151)**	**(791 450)**	**(791 450)**
Amortisation	**(36 376)**	**(4 211)**	**(52 304)**	**(1 553)**	**(94 444)**	**(94 444)**
Other operating expenses	**(19 725)**	**(54)**	**(20 239)**	**(91 055)**	**(131 073)**	**(131 073)**
Gross profit of the segment	**236 740**	**56 994**	**575 734**	**(20 325)**	**849 143**	**849 143**
Income tax					(184 094)	(184 094)
Net profit attributable to Owners of mBank S.A.					662 597	662 597
Net profit attributable to non-controlling interests					2 452	2 452
Assets of the segment	**30 798 934**	**40 605 527**	**39 706 055**	**836 929**	**111 947 445**	**111 947 445**
Liabilities of the segment	**21 253 010**	**42 634 909**	**36 920 580**	**819 531**	**101 628 030**	**101 628 030**
Other items of the segment						
Expenditures incurred on fixed assets and intangible assets	67 587	2 427	46 691	1 174	117 879	

IFRS Condensed Consolidated Financial Statements for the first half of 2015 PLN (000's)

Geographical areas reporting on the activities of mBank S.A. Group for the period	from 1 January to 30 June 2015			from 1 January to 31 December 2014			from 1 January to 30 June 2014		
	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total
Net interest income	1 132 549	60 438	**1 192 987**	2 369 399	121 259	**2 490 658**	1 149 316	58 930	**1 208 246**
Net fee and commission income	413 628	10 565	**424 193**	875 745	25 945	**901 690**	470 229	14 862	**485 091**
Dividend income	3 189	-	**3 189**	19 992	-	**19 992**	2 811	-	**2 811**
Trading income	135 626	2 304	**137 930**	363 388	5 768	**369 156**	199 512	2 808	**202 320**
Gains less losses from investment securities, investments in subsidiaries and associates	196 350	-	**196 350**	51 926	-	**51 926**	13 886	-	**13 886**
Other operating income	132 328	1 984	**134 312**	345 279	1 643	**346 922**	198 138	965	**199 103**
Net impairment losses on loans and advances	(202 445)	(5 192)	**(207 637)**	(480 714)	(35 189)	**(515 903)**	(239 078)	(6 269)	**(245 347)**
Overhead costs	(788 049)	(53 792)	**(841 841)**	(1 473 145)	(107 398)	**(1 580 543)**	(734 924)	(56 526)	**(791 450)**
Amortisation	(94 369)	(1 929)	**(96 298)**	(185 911)	(4 111)	**(190 022)**	(92 458)	(1 986)	**(94 444)**
Other operating expenses	(83 417)	(2 552)	**(85 969)**	(238 129)	(3 047)	**(241 176)**	(129 204)	(1 869)	**(131 073)**
Operating profit	845 390	11 826	**857 216**	1 647 830	4 870	**1 652 700**	838 228	10 915	**849 143**
The share in the profits (losses) of joint ventures	(15)	-	**(15)**	-	-	**-**	-	-	**-**
Gross profit of the segment	845 375	11 826	**857 201**	1 647 830	4 870	**1 652 700**	838 228	10 915	**849 143**
Income tax			(183 148)			(363 390)			(184 094)
Net profit attributable to Owners of mBank S.A.			672 259			1 286 668			662 597
Net profit attributable to non-controlling interests			1 794			2 642			2 452
Assets of the segment, including:	117 161 382	3 442 733	**120 604 115**	114 548 848	3 436 974	**117 985 822**	109 093 235	2 854 210	**111 947 445**
- tangible assets	1 151 354	10 332	1 161 686	1 171 783	11 220	1 183 003	1 155 888	14 752	1 170 640
- deferred income tax assets	358 693	3 031	361 724	266 382	6 034	272 416	244 717	16 565	261 282
Liabilities of the segment	103 010 023	6 046 559	**109 056 582**	101 151 600	5 761 242	**106 912 842**	91 146 257	10 481 773	**101 628 030**

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5. Net interest income

the period	from 01.01.2015 to 30.06.2015	from 01.01.2014 to 30.06.2014
Interest income		
Loans and advances including the unwind of the impairment provision discount	1 268 294	1 391 744
Investment securities	382 785	409 805
Cash and short-term placements	26 480	37 526
Trading debt securities	20 843	23 721
Interest income on derivatives classified into banking book	52 772	57 726
Interest income on derivatives concluded under the hedge accounting	21 415	3 893
Interest income on derivatives concluded under the cash flow hedge	6 221	-
Other	2 341	4 050
Total interest income	**1 781 151**	**1 928 465**
Interest expense		
Arising from amounts due to banks	(55 623)	(101 008)
Arising from amounts due to customers	(345 121)	(432 772)
Arising from issue of debt securities	(137 648)	(104 396)
Arising from subordinated liabilities	(44 543)	(39 819)
Other	(5 229)	(42 224)
Total interest expense	**(588 164)**	**(720 219)**

Interest income related to impaired financial assets amounted to PLN 61 889 thousand (30 June 2014: PLN 81 146 thousand).

6. Net fee and commission income

the period	from 01.01.2015 to 30.06.2015	from 01.01.2014 to 30.06.2014
Fee and commission income		
Payment cards-related fees	160 113	228 723
Credit-related fees and commissions	131 719	126 785
Commissions for agency service regarding sale of insurance products of external financial entities	66 221	60 095
Fees from brokerage activity and debt securities issue	63 757	54 135
Commissions from bank accounts	82 217	83 534
Commissions from money transfers	51 007	45 424
Commissions due to guarantees granted and trade finance commissions	23 687	22 351
Commissions for agency service regarding sale of other products of external financial entities	54 018	44 100
Commissions on trust and fiduciary activities	11 533	10 068
Fees from portfolio management services and other management-related fees	7 560	7 074
Fees from cash services	18 664	16 844
Other	9 521	23 807
Total fee and commission income	**680 017**	**722 940**

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Fee and commission expense		
Payment cards-related fees	(98 365)	(97 211)
Commissions paid to external entities for sale of the Bank's products	(48 179)	(38 583)
Commissions paid for agency service regarding sale of insurance products of external financial entities	(2 554)	(4 035)
Discharged brokerage fees	(14 988)	(15 353)
Cash services	(14 103)	(13 813)
Fees to NBP and KIR	(4 414)	(4 406)
Other discharged fees	(73 221)	(64 448)
Total fee and commission expense	**(255 824)**	**(237 849)**

Decrease of payment cards related fees for the first half of 2015 in relation to the first half of 2014 was mainly caused by double reduction of the interchange fees introduced on 1 July 2014 and 29 January 2015.

the period	from 01.01.2015 to 30.06.2015	from 01.01.2014 to 30.06.2014
Commissions for agency service regarding sale of insurance products of external financial entities		
- Income from insurance intermediation	62 091	50 167
- Income from insurance policies administration	4 130	9 928
Total commissions for agency service regarding sale of insurance products of external financial entities	**66 221**	**60 095**

7. Dividend income

the period	from 01.01.2015 to 30.06.2015	from 01.01.2014 to 30.06.2014
Trading securities	112	152
Securities available for sale	3 077	2 659
Total dividend income	**3 189**	**2 811**

8. Net trading income

the period	from 01.01.2015 to 30.06.2015	from 01.01.2014 to 30.06.2014
Foreign exchange result	**144 687**	**134 893**
Net exchange differences on translation	152 644	197 431
Net transaction gains/(losses)	(7 957)	(62 538)
Other net trading income and result on hedge accounting	**(6 757)**	**67 427**
Interest-bearing instruments	(7 433)	55 821
Equity instruments	2 756	389
Market risk instruments	1 025	(1 383)
Result on fair value hedge accounting, including:	1 020	12 600
- Net profit on hedged items	44 249	(52 162)
- Net profit on fair value hedging instruments	(43 229)	64 762
Ineffective portion of cash flow hedge	(4 125)	-
Total net trading income	**137 930**	**202 320**

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

The Group applies fair value hedge accounting and cash flow hedge accounting. Detailed information on the hedge applied by the Group are included in Note 17 "Hedging derivatives".

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

the period	from 01.01.2015 to 30.06.2015	from 01.01.2014 to 30.06.2014
Sale/redemption of financial assets available for sale	6 174	13 886
Gains less losses related to sale of subsidiaries and associates	190 165	-
Impairment of investments in subsidiaries	11	-
Total gains less losses from investment securities and investments in subsidiaries and associates	**196 350**	**13 886**

In 2015, the position "Gains less losses related to sale of subsidiaries and associates" includes mainly the Group's result on sale of 100% shares of BRE Ubezpieczenia TUiR S.A. in the amount of PLN 194 348 thousand.

10. Other operating income

the period	from 01.01.2015 to 30.06.2015	from 01.01.2014 to 30.06.2014
Income from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories	73 402	94 960
Income from insurance activity net	23 898	45 802
Income from services provided	11 760	13 425
Net income from operating lease	4 584	6 084
Income due to release of provisions for future commitments	1 862	5 157
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	1 353	1 037
Income from compensations, penalties and fines received	58	167
Other	17 395	32 471
Total other operating income	**134 312**	**199 103**

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

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

In 2015, income from insurance activity include income realised by BRE TUiR .SA. in the first quarter of 2015 it means until the sale of the company BRE TUiR S.A. by mBank S.A. Group.

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

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

Net income from insurance activity generated for the first half of 2015 and the first half of 2014 is presented below.

the period	from 01.01.2015 to 30.06.2015	from 01.01.2014 to 30.06.2014
Income from premiums		
- Premiums attributable	65 764	94 291
- Change in provision for premiums	(17 358)	208
Premiums earned	**48 406**	**94 499**
Reinsurer's shares	-	-
- Gross premiums written	(16 307)	(34 024)
- Change in unearned premiums reserve	(66)	(699)
Reinsurer's share in premiums earned	**(16 373)**	**(34 723)**
Net premiums earned	**32 033**	**59 776**

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Claims and benefits		
- Claims and benefits paid out in the current year including costs of liquidation before tax	(14 809)	(31 735)
- Change in provision for claims and benefits paid out in the current year including costs of liquidation before tax	(7 996)	(9 272)
- Reinsurer's share in claims and benefits paid out in the current year including costs of liquidation	11 047	23 559
- Change in provision for reinsurer's share of claims and benefits paid out in the current year including costs of liquidation	4 396	5 215
Claims and benefits net	**(7 362)**	**(12 233)**
- Other costs net of reinsurance	(746)	(1 818)
- Other operating income	5	208
- Costs of expertise and certificates concerning underwriting risk	(32)	(131)
Total net income from insurance activity	**23 898**	**45 802**

Net income from operating lease for the first half of 2015 and the first half of 2014 is presented below.

the period	from 01.01.2015 to 30.06.2015	from 01.01.2014 to 30.06.2014
Net income from operating lease, including:		
- Income from operating lease	27 304	31 344
- Depreciation cost of fixed assets provided under operating lease	(22 720)	(25 260)
Total net income from operating lease	**4 584**	**6 084**

11. Net impairment losses on loans and advances

the period	from 01.01.2015 to 30.06.2015	from 01.01.2014 to 30.06.2014
Net impairment losses on amounts due from other banks	(19)	(3 970)
Net impairment losses on loans and advances to customers	(211 201)	(250 231)
Net impairment losses on off-balance sheet contingent liabilities due to customers	3 583	8 854
Total net impairment losses on loans and advances	**(207 637)**	**(245 347)**

12. Overhead costs

the period	from 01.01.2015 to 30.06.2015	from 01.01.2014 to 30.06.2014
Staff-related expenses	(427 190)	(414 310)
Material costs, including:	(322 303)	(317 667)
- logistics cost	(168 322)	(166 501)
- IT costs	(60 546)	(56 067)
- marketing costs	(60 141)	(59 615)
- consulting costs	(27 656)	(32 933)
- other material costs	(5 638)	(2 551)
Taxes and fees	(20 655)	(20 628)
Contributions and transfers to the Bank Guarantee Fund	(68 219)	(35 353)
Contributions to the Social Benefits Fund	(3 474)	(3 255)
Other	-	(237)
Total overhead costs	**(841 841)**	**(791 450)**

The increase in fees payable to the Bank Guarantee Fund results from an increase of rates of charges for the year 2015 compared with the year 2014.

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Staff-related expenses for first half of 2015 and first half of 2014 are presented below.

the period	from 01.01.2015 to 30.06.2015	from 01.01.2014 to 30.06.2014
Wages and salaries	(343 329)	(332 304)
Social security expenses	(58 013)	(55 255)
Remuneration concerning share-based payments, including:	(11 374)	(10 560)
- share-based payments settled in mBank S.A. shares	(7 053)	(6 990)
- cash-settled share-based payments	(4 321)	(3 570)
Other staff expenses	(14 474)	(16 191)
Staff-related expenses, total	**(427 190)**	**(414 310)**

13. Other operating expenses

the period	from 01.01.2015 to 30.06.2015	from 01.01.2014 to 30.06.2014
Costs arising from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories	(52 687)	(68 382)
Provisions for future commitments	(3 981)	(37 974)
Donations made	(2 562)	(2 601)
Compensation, penalties and fines paid	(2 285)	(1 490)
Costs arising from provisions created for other receivables (excluding loans and advances)	(2 285)	(683)
Costs of sale of services	(1 161)	(924)
Costs arising from receivables and liabilities recognised as prescribed, remitted and uncollectible	(120)	(3)
Other operating costs	(20 888)	(19 016)
Total other operating expenses	**(85 969)**	**(131 073)**

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

Costs of services provided concern non-banking services.

14. Earnings per share

Earnings per share for 6 months

the period	from 01.01.2015 to 30.06.2015	from 01.01.2014 to 30.06.2014
Basic:		
Net profit attributable to Owners of mBank S.A.	672 259	662 597
Weighted average number of ordinary shares	42 210 143	42 175 481
Net basic profit per share (in PLN per share)	**15.93**	**15.71**
Diluted:		
Net profit attributable to Owners of mBank S.A., applied for calculation of diluted earnings per share	672 259	662 597
Weighted average number of ordinary shares	42 210 143	42 175 481
Adjustments for:		
- share options	47 030	61 858
Weighted average number of ordinary shares for calculation of diluted earnings per share	42 257 173	42 237 339
Diluted earnings per share (in PLN per share)	**15.91**	**15.69**

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15. Trading securities

	30.06.2015			31.12.2014			30.06.2014		
	Trading securities without pledge	Pledged trading securities	Total trading securities	Trading securities without pledge	Pledged trading securities	Total trading securities	Trading securities without pledge	Pledged trading securities	Total trading securities
Debt securities:	**2 094 800**	**485 236**	**2 580 036**	**547 962**	**598 035**	**1 145 997**	**1 085 293**	**1 689 282**	**2 774 575**
Issued by government	1 630 764	485 236	2 116 000	19 871	598 035	617 906	505 615	1 689 282	2 194 897
- government bonds	1 630 764	485 236	2 116 000	19 871	598 035	617 906	505 615	1 689 282	2 194 897
Other debt securities	464 036	-	464 036	528 091	-	528 091	579 678	-	579 678
- bank's bonds	338 305	-	338 305	473 097	-	473 097	557 840	-	557 840
- deposit certificates	15 102	-	15 102	-	-	-	-	-	-
- corporate bonds	110 629	-	110 629	54 994	-	54 994	21 838	-	21 838
Equity securities:	**17 248**	**-**	**17 248**	**17 947**	**-**	**17 947**	**37 896**	**-**	**37 896**
- listed	11 639	-	11 639	10 431	-	10 431	16 137	-	16 137
- unlisted	5 609	-	5 609	7 516	-	7 516	21 759	-	21 759
Total debt and equity securities:	**2 112 048**	**485 236**	**2 597 284**	**565 909**	**598 035**	**1 163 944**	**1 123 189**	**1 689 282**	**2 812 471**

16. Derivative financial instruments

	30.06.2015		31.12.2014		30.06.2014	
	assets	liabilities	assets	liabilities	assets	liabilities
Held for trading derivative financial instruments classified into banking book	129 069	216 832	93 811	165 367	80 009	40 739
Held for trading derivative financial instruments classified into trading book	3 031 844	3 064 992	4 617 313	4 549 407	2 850 772	2 872 402
Derivative financial instruments held for fair value hedging	144 316	17 675	102 226	3 592	87 094	1 862
Derivative financial instruments held for cash flow hedging	40 714	2 749	52 167	690	-	-
Total derivative financial instruments assets/liabilities	**3 345 943**	**3 302 248**	**4 865 517**	**4 719 056**	**3 017 875**	**2 915 003**

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

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

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

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

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

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

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17. Derivatives held for hedges

The Group applies fair value hedge accounting for:

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

In all cases described above, the risk of changes in interest rates is the only type of risk hedged within hedge accounting applied by the Group. The result of the valuation of hedged items and hedging instruments is presented in the position "Other net trading income and result on hedge accounting" in Note 8.

Starting from the third quarter of 2014, the Group applies cash flow hedge accounting of the part of loans at a variable interest rate indexed to the market rate, granted by the Bank. An Interest Rate Swap is the hedging instrument changing the variable interest rate to a fixed interest rate. The interest rate risk is the hedged risk within applied by the Group cash flow hedge accounting. The ineffective portion of the gains or losses on the hedging instrument is presented in Note 8 "Other net trading income and result on hedge accounting". Portion of the gains or losses on the hedging instrument that is an effective hedge, is presented in the statement of comprehensive income as "Cash flow hedges (net)".

The period from October 2014 to December 2015 is the period in which the cash flows are expected, and when they are expected to have an impact on the result.

The fair value equal to book value of derivatives hedging both the fair value and cash flow was presented in Note 16 "Derivative Financial Instruments".

Total result on fair value hedge accounting recognised in the income statement

	30.06.2015	30.06.2014
Interest income on derivatives concluded under the fair value hedge (Note 5)	21 415	3 893
Net profit on hedged items (Note 8)	44 249	(52 162)
Net profit on fair value hedging instruments (Note 8)	(43 229)	64 762
Total result on fair value hedging instruments recognised in the income statement	**22 435**	**16 493**

The following note presents other comprehensive income due to cash flow hedges as at 30 June 2015 and as at 30 June 2014.

	30.06.2015	30.06.2014
Other comprehensive income from cash flow hedge at the beginning of the period (gross)	5 008	**-**
Gains/losses rocognised in the comprehensive income during the reporting period (gross)	(7 777)	-
Amount included as interest income in the income statement during the reporting period	6 221	-
Ineffective portion of cash flow hedge recognised in the income statement	(4 125)	-
Accumulated other comprehensive income at the end of the reporting period (gross)	(4 865)	-
Deferred tax due to accumulated other comprehensive income at the end of the reporting period	924	-
Accumulated net other comprehensive income at the end of the reporting period	(3 941)	-
Impact on other comprehensive income in the reporting period (gross)	(9 873)	-
Deferred tax on cash flow hedges	1 876	-
Impact on other comprehensive income in the reporting period (net)	(7 997)	-

Total result on cash flow hedge accounting recognised in the income statement

	30.06.2015	30.06.2014
Interest income on derivatives concluded under the cash flow hedge (Note 5)	6 221	-
Ineffective portion of cash flow hedge (Note 8)	(4 125)	-
Total result on cash flow hedging instruments recognised in the income statement	**2 096**	**-**

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18. Loans and advances to customers

	30.06.2015	31.12.2014	30.06.2014
Loans and advances to individuals:	**45 328 730**	**41 560 477**	**39 664 158**
- current receivables	5 800 143	5 442 653	5 343 170
- term loans, including:	39 528 587	36 117 824	34 320 988
housing and mortgage loans	33 521 442	30 510 513	29 169 136
Loans and advances to corporate entities:	**32 226 547**	**32 841 046**	**30 564 478**
- current receivables	4 218 458	3 701 490	4 203 981
- term loans:	25 752 358	23 977 679	22 283 841
corporate & institutional enterprises	5 843 425	5 751 583	5 396 534
medium & small enterprises	19 908 933	18 226 096	16 887 307
- reverse repo / buy-sell-back transactions	842 093	3 838 553	2 652 320
- other	1 413 638	1 323 324	1 424 336
Loans and advances to public sector	**1 661 475**	**1 924 395**	**1 881 573**
Other receivables	**1 043 880**	**1 047 273**	**621 462**
Total (gross) loans and advances to customers	**80 260 632**	**77 373 191**	**72 731 671**
Provisions for loans and advances to customers (negative amount)	(3 019 034)	(2 790 841)	(2 594 494)
Total (net) loans and advances to customers	**77 241 598**	**74 582 350**	**70 137 177**
Short-term (up to 1 year)	23 185 351	26 964 700	25 740 229
Long-term (over 1 year)	54 056 247	47 617 650	44 396 948

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

Loans to micro enterprises in the presented reporting periods amounted to respectively: 30 June 2015 – PLN 4 820 038 thousand, 31 December 2014 – PLN 4 472 041 thousand, 30 June 2014 – PLN 4 398 053 thousand.

Provisions for loans and advances

	30.06.2015	31.12.2014	30.06.2014
Incurred but not identified losses			
Gross balance sheet exposure	75 411 743	72 458 578	68 095 603
Impairment provisions for exposures analysed according to portfolio approach	(261 858)	(242 401)	(269 765)
Net balance sheet exposure	**75 149 885**	**72 216 177**	**67 825 838**
Receivables with impairment			
Gross balance sheet exposure	4 848 889	4 914 613	4 636 068
Provisions for receivables with impairment	(2 757 176)	(2 548 440)	(2 324 729)
Net balance sheet exposure	**2 091 713**	**2 366 173**	**2 311 339**

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

1. Earlier recognition of impaired status that gave larger amount of impaired portfolio,
2. Higher recovery out of such defined impairment due to higher natural cure rate for clients preventatively assessed as none performing.

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

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

The combined effect of all the above changes was immaterial for the overall level of loan loss provisions for the entire loan portfolio, however the implemented changes had an impact on the structure of these provisions as well as on the level of loans and advances for which impairment was recognised.

The table below presents the structure of concentration of mBank S.A. Group's exposures in particular sectors according to the rules for classification loans and advances to particular sector binding in the Group starting from the year-end 2014 financial statements.

No.	Sectors	Principal exposure (in PLN thousand) 30.06.2015	%	Principal exposure (in PLN thousand) 31.12.2014	%	Principal exposure (in PLN thousand) 30.06.2014	%
1.	Household customers	45 328 730	56.48	41 560 477	53.71	39 664 158	54.53
2.	Real estate management	4 838 856	6.03	4 901 307	6.33	4 798 751	6.60
3.	Construction	3 464 386	4.32	2 884 365	3.73	2 596 310	3.57
4.	Wholesale trade	3 192 562	3.98	2 977 441	3.85	2 762 833	3.80
5.	Retail trade	2 455 716	3.06	2 430 956	3.14	1 936 168	2.66
6.	Transport and logistics	1 839 980	2.29	1 819 827	2.35	1 994 328	2.74
7.	Food sector	1 787 981	2.23	1 705 944	2.20	1 674 191	2.30
8.	Fuels and chemicals	1 693 257	2.11	1 628 617	2.10	1 646 467	2.26
9.	Metals	1 431 327	1.78	1 266 991	1.64	1 183 012	1.63
10.	Forestry	1 363 099	1.70	1 286 566	1.66	1 222 401	1.68
11.	Public administration	1 321 869	1.65	1 574 513	2.04	1 556 514	2.14
12.	Power, power and heating distribution	1 279 049	1.59	1 422 625	1.84	1 415 098	1.95
13.	Information and communication	1 209 923	1.51	1 197 133	1.55	1 001 760	1.38
14.	Financial activities	824 714	1.03	427 299	0.55	525 532	0.72
15.	Hotels and restaurants	678 494	0.85	455 059	0.59	441 090	0.61
16.	Scientific and technical activities	654 964	0.82	586 923	0.76	443 790	0.61
17.	Services	505 055	0.63	453 169	0.59	221 218	0.30
18.	Motorization	488 944	0.61	452 873	0.59	451 774	0.62
19.	Industry	462 348	0.58	307 850	0.40	382 234	0.53
20.	Electronics and household equipment	434 185	0.54	408 000	0.53	483 198	0.66
21.	Arts, entertainment	409 171	0.51	439 693	0.57	435 073	0.60
22.	Municipal services	372 821	0.46	299 883	0.39	246 069	0.34

As at 30 June 2015, the total exposure of the Group in the above sectors (excluding household customers) amounted to 38.28% of the credit portfolio (31 December 2014 – 37.40%; 30 June 2014 – 37.70%).

19. Investment securities

	30.06.2015			31.12.2014			30.06.2014		
	Investment securities without pledge	Pledged investment securities	Total investment securities	Investment securities without pledge	Pledged investment securities	Total investment securities	Investment securities without pledge	Pledged investment securities	Total investment securities
Debt securities	**23 714 489**	**5 558 604**	**29 273 093**	**22 270 938**	**5 146 060**	**27 416 998**	**17 274 839**	**9 611 911**	**26 886 750**
Issued by government	18 848 712	5 558 604	24 407 316	17 440 062	5 146 060	22 586 122	12 189 849	9 611 911	21 801 760
- government bonds	18 848 712	5 558 604	24 407 316	17 440 062	5 146 060	22 586 122	12 189 849	9 611 911	21 801 760
Issued by central bank	4 349 396	-	4 349 396	4 479 540	-	4 479 540	4 863 698	-	4 863 698
Other debt securities	516 381	-	516 381	351 336	-	351 336	221 292	-	221 292
- bank's bonds	68 602	-	68 602	24 907	-	24 907	25 109	-	25 109
- corporate bonds	406 139	-	406 139	284 854	-	284 854	156 821	-	156 821
- communal bonds	41 640	-	41 640	41 575	-	41 575	39 362	-	39 362
Equity securities:	**242 719**	**-**	**242 719**	**261 616**	**-**	**261 616**	**241 305**	**-**	**241 305**
Listed	204 717	-	204 717	229 961	-	229 961	215 324	-	215 324
Unlisted	38 002	-	38 002	31 655	-	31 655	25 981	-	25 981
Total debt and equity securities:	**23 957 208**	**5 558 604**	**29 515 812**	**22 532 554**	**5 146 060**	**27 678 614**	**17 516 144**	**9 611 911**	**27 128 055**
Short-term (up to 1 year)	9 330 881	20 715	9 351 596	9 034 438	-	9 034 438	7 163 494	-	7 163 494
Long-term (over 1 year)	14 626 327	5 537 889	20 164 216	13 498 116	5 146 060	18 644 176	10 352 650	9 611 911	19 964 561

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

The value of equity securities presented above includes provisions for impairment of PLN 11 997 thousand (31 December 2014: PLN 12 007 thousand, 30 June 2014: PLN 11 297 thousand).

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As at 30 June 2015, listed equity securities include fair value of PZU shares in amount of PLN 204 717 thousand, (31 December 2014: PLN 229 961 thousand, 30 June 2014: PLN 209 969 thousand).

20. Intangible assets

	30.06.2015	31.12.2014	30.06.2014
Development costs	1	1	2
Goodwill	3 532	3 532	4 728
Patents, licences and similar assets, including:	347 057	361 214	358 031
- computer software	248 577	269 674	272 828
Other intangible assets	5 717	6 278	6 816
Intangible assets under development	113 546	94 601	90 558
Total intangible assets	**469 853**	**465 626**	**460 135**

21. Tangible assets

	30.06.2015	31.12.2014	30.06.2014
Tangible assets, including:	649 664	644 774	673 578
- land	1 335	1 335	1 267
- buildings and structures	199 420	202 454	212 777
- equipment	134 127	116 923	139 986
- vehicles	225 437	225 322	213 117
- other fixed assets	89 345	98 740	106 431
Fixed assets under construction	42 169	72 603	36 927
Total tangible assets	**691 833**	**717 377**	**710 505**

22. Amounts due to customers

	30.06.2015	31.12.2014	30.06.2014
Individual customers:	**41 411 278**	**39 284 776**	**35 725 983**
Current accounts	30 537 368	27 974 843	25 817 356
Term deposits	10 632 517	11 202 722	9 843 802
Other liabilities:	241 393	107 211	64 825
- liabilities in respect of cash collaterals	21 932	19 357	20 695
- other	219 461	87 854	44 130
Corporate customers:	**29 661 223**	**32 237 087**	**26 595 090**
Current accounts	15 795 237	13 516 365	12 773 309
Term deposits	8 765 735	11 128 087	7 161 514
Loans and advances received	3 583 354	3 218 105	2 725 524
Repo transactions	997 877	3 738 058	3 394 599
Other liabilities:	519 020	636 472	540 144
- liabilities in respect of cash collaterals	429 657	492 975	456 307
- other	89 363	143 497	83 837
Public sector customers:	**1 985 758**	**900 616**	**972 648**
Current accounts	451 896	627 765	620 813
Term deposits	1 532 082	250 263	347 868
Repo transactions	-	12 951	-
Other liabilities:	1 780	9 637	3 967
- liabilities in respect of cash collaterals	-	125	-
- other	1 780	9 512	3 967
Total amounts due to customers	**73 058 259**	**72 422 479**	**63 293 721**

Short-term (up to 1 year)	67 464 456	67 174 957	58 876 551
Long-term (over 1 year)	5 593 803	5 247 522	4 417 170

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

In the presented reporting periods the value of liabilities in respect of current accounts and term deposits accepted from micro enterprises amounted to respectively: 30 June 2015: PLN 3 312 910 thousand, 31 December 2014: PLN 3 258 296 thousand, 30 June 2014: PLN 2 638 350 thousand).

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23. Provisions

	30.06.2015	31.12.2014	30.06.2014
For off-balance sheet granted contingent liabilities *	45 976	49 613	47 244
For legal proceedings	93 319	96 933	85 990
Technical-insurance provisions	-	-	91 368
Other	29 106	30 335	27 592
Total provisions	**168 401**	**176 881**	**252 194**

* includes valuation of financial guarantees

As at 31 December 2014 technical-insurance provisions were presented as liabilities held for sale.

Movements in the provisions

	30.06.2015	31.12.2014	30.06.2014
As at the beginning of the period (by type)	**176 881**	**228 228**	**228 228**
For off-balance sheet granted contingent liabilities	49 613	56 068	56 068
For legal proceedings	96 933	56 275	56 275
Technical-insurance provisions	-	87 168	87 168
Other	30 335	28 717	28 717
Change in the period (due to)	**(8 480)**	**(51 347)**	**23 966**
- increase of provisions	73 129	254 601	117 060
- release of provisions	(81 561)	(151 067)	(84 656)
- write-offs	-	(19 548)	(8 470)
- reclassification	37	(135 555)	-
- foreign exchange differences	(85)	222	32
As at the end of the period (by type)	**168 401**	**176 881**	**252 194**
For off-balance sheet granted contingent liabilities	45 976	49 613	47 244
For legal proceedings	93 319	96 933	85 990
Technical-insurance provisions	-	-	91 368
Other	29 106	30 335	27 592

24. Assets and provisions for deferred income tax

Deferred income tax assets	30.06.2015	31.12.2014	30.06.2014
As at the beginning of the period	**645 554**	**614 352**	**614 352**
Changes recognized in the income statement	(15 662)	34 892	(41 261)
Changes recognized in other comprehensive income	53 341	443	685
Other changes	23	(4 133)	(239)
As at the end of the period	**683 256**	**645 554**	**573 537**

Provisions for deferred income tax	30.06.2015	31.12.2014	30.06.2014
As at the beginning of the period	**(382 923)**	**(246 485)**	**(246 485)**
Changes recognized in the income statement	58 323	(73 566)	(32 656)
Changes recognized in other comprehensive income	1 983	(65 440)	(34 649)
Other changes	-	2 568	(2 080)
As at the end of the period	**(322 617)**	**(382 923)**	**(315 870)**

Income tax	30.06.2015	31.12.2014	30.06.2014
Current income tax	(225 809)	(324 716)	(110 177)
Deferred income tax recognised in the income statement	42 661	(38 674)	(73 917)
Income tax recognised in the income statement	**(183 148)**	**(363 390)**	**(184 094)**
Recognised in other comprehensive income	89 901	(92 619)	(53 880)
Total income tax	**(93 247)**	**(456 009)**	**(237 974)**

25. Assets and liabilities held for sale

- On 11 September 2014, the Bank's subsidiary Aspiro S.A. ("Aspiro") being the shareholder of the company BRE Ubezpieczenia Towarzystwo Ubezpieczeń i Reasekuracji S.A. ("BRE TUiR"), concluded with Avanssur S.A., a company belonging to AXA Group, an agreement for sale of 100% shares in BRE TUiR

Therefore, starting from the financial statements as at 30 September 2014, according to the rules described under Note 2.23, the Group classified BRE TUiR and indirectly its subsidiary AWL I Sp. z o.o. as non-current assets (disposal groups) held for sale.

On 27 March 2015, after meeting specific conditions precedent, in particular: (i) obtain the consent of the Office of Competition and Consumer Protection and (ii) no objections raised by the Polish Financial Supervision Authority, Aspiro sold 100% shares of BRE TUiR to Avanssur S.A.

Detailed information regarding the result on the above transaction has been presented under the point 9 of Selected Explanatory information.

- On 8 December 2014, an agreement for the sale of 100% shares of Transfinance a.s. between mBank S.A. and UniCredit Bank Czech Republic and Slovakia a.s. was concluded.

  As at 31 December 2014, in accordance with the above mentioned the Group classified Transfinance a.s. as non-current assets (disposal groups) held for sale.

  On 20 January 2015, after the fullfilment of all contractual suspending conditions the transaction was finalized. The sale of Transfinance is the result of implementing the One Bank Strategy for 2012-2016 and is the last stage of restructuring of foreign factoring activities of the Group i.e. after the sale of Magyar Factor zRt and Intermarket Bank AG in 2011.

In connection with the settlement of the above mentioned sale transactions, starting from the financial statements as of 31 March 2015 the Group has not present any assets and liabilities held for sale.

26. Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction of selling the asset or transferring a liability occurs either on the main market for the asset or liability, or in the absence of a main market, for the most advantageous market for the asset or liability. The main and the most advantageous markets must be both available to the Group.

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

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

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

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

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	30.06.2015		31.12.2014		30.06.2014	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Financial assets						
Loans and advances to banks	**2 071 953**	**2 082 975**	**3 751 415**	**3 748 671**	**4 933 231**	**4 931 866**
Loans and advances to customers	**77 241 598**	**77 500 615**	**74 582 350**	**75 070 826**	**70 137 177**	**70 950 473**
Loans and advances to individuals	**43 691 256**	**44 343 966**	**40 080 064**	**40 874 882**	**38 381 768**	**39 298 139**
current accounts	5 121 211	5 133 293	4 848 799	4 927 627	4 859 503	4 961 300
term loans including:	38 570 045	39 210 673	35 231 265	35 947 255	33 522 265	34 336 839
- housing and mortgage loans	32 916 487	33 455 201	29 969 161	30 553 308	28 658 191	29 331 670
Loans and advances to corporate entities	**30 846 159**	**30 464 900**	**31 531 987**	**31 236 748**	**29 253 761**	**29 157 050**
current accounts	3 980 449	3 945 513	3 460 379	3 435 981	3 870 594	3 849 813
term loans	24 625 594	24 279 271	22 915 949	22 645 108	21 371 029	21 295 099
- corporate & institutional enterprises	5 647 715	5 588 041	5 557 635	5 516 855	5 199 120	5 197 339
- medium & small enterprises	18 977 879	18 691 230	17 358 314	17 128 253	16 171 909	16 097 760
reverse repo / buy sell back transactions	842 093	842 093	3 838 553	3 838 553	2 652 320	2 652 320
other	1 398 023	1 398 023	1 317 106	1 317 106	1 359 818	1 359 818
Loans and advances to public sector	**1 660 303**	**1 647 869**	**1 923 026**	**1 911 923**	**1 880 324**	**1 873 960**
Other receivables	**1 043 880**	**1 043 880**	**1 047 273**	**1 047 273**	**621 324**	**621 324**
Financial liabilities						
Amounts due to other banks	**15 675 917**	**15 478 077**	**13 383 829**	**13 508 323**	**22 297 031**	**22 653 899**
Amounts due to customers	**73 058 259**	**73 177 562**	**72 422 479**	**72 501 565**	**63 293 721**	**63 337 270**
Debt securities in issue	**11 013 855**	**10 975 585**	**10 341 742**	**10 425 444**	**7 696 154**	**7 796 376**
Subordinated liabilities	**3 896 612**	**3 887 433**	**4 127 724**	**4 105 811**	**3 278 869**	**3 299 668**

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

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

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

Financial liabilities. Financial instruments representing liabilities include the following:

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

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

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

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

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30.06.2015	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS				
TRADING SECURITIES	**2 597 284**	**2 128 633**	**5 592**	**463 059**
Debt securities	**2 580 036**	**2 116 994**	**-**	**463 042**
- government bonds	2 116 000	2 116 000	-	-
- deposit certificates	15 102	-	-	15 102
- banks bonds	338 305	994	-	337 311
- corporate bonds	110 629	-	-	110 629
Equity securities	**17 248**	**11 639**	**5 592**	**17**
- listed	11 639	11 639	-	-
- unlisted	5 609	-	5 592	17
DERIVATIVE FINANCIAL INSTRUMENTS	**3 345 943**	**-**	**3 345 287**	**656**
Derivative financial instruments held for trading	**3 160 913**	**-**	**3 160 257**	**656**
- interest rate derivatives	2 761 151	-	2 761 151	-
- foreign exchange derivatives	389 754	-	389 754	-
- market risks derivatives	10 008	-	9 352	656
Derivative financial instruments held for hedging	**185 030**	**-**	**185 030**	**-**
- derivatives designated as fair value hedges	144 316	-	144 316	-
- derivatives designated as cash flow hedges	40 714	-	40 714	-
INVESTMENT SECURITIES	**29 515 812**	**24 654 667**	**4 349 396**	**511 749**
Debt securities	**29 273 093**	**24 448 956**	**4 349 396**	**474 741**
- government bonds	24 407 316	24 407 316	-	-
- money bills	4 349 396	-	4 349 396	-
- banks bonds	68 602	-	-	68 602
- corporate bonds	406 139	-	-	406 139
- communal bonds	41 640	41 640	-	-
Equity securities	**242 719**	**205 711**	**-**	**37 008**
- listed	204 717	204 717	-	-
- unlisted	38 002	994	-	37 008
TOTAL FINANCIAL ASSETS	**35 459 039**	**26 783 300**	**7 700 275**	**975 464**

30.06.2015	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
FINANCIAL LIABILITIES				
Derivative financial instruments	**3 302 248**	**-**	**3 302 050**	**198**
Derivative financial instruments held for trading	**3 281 824**	**-**	**3 281 626**	**198**
- interest rate derivatives	2 858 593	-	2 858 593	-
- foreign exchange derivatives	413 208	-	413 010	198
- market risks derivatives	10 023	-	10 023	-
Derivative financial instruments held for hedging	**20 424**	**-**	**20 424**	**-**
- derivatives designated as fair value hedges	17 675	-	17 675	-
- derivatives designated as cash flow hedges	2 749	-	2 749	-
Total financial liabilities	**3 302 248**	**-**	**3 302 050**	**198**
TOTAL RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS	**35 459 039**	**26 783 300**	**7 700 275**	**975 464**
FINANCIAL LIABILITIES	**3 302 248**	**-**	**3 302 050**	**198**

Assets Measured at Fair Value Based on Level 3 - changes in the first half of 2015	Debt trading securities	Equity trading securities	Derivative financial instruments	Debt investment securities	Equity investment securities
As at the beginning of the period	**527 067**	**22**	**469**	**309 761**	**30 696**
Gains and losses for the period:	1 693	(5)	187	3 943	2 424
Recognised in profit or loss:	1 693	(5)	187	-	2 340
Net trading income	*1 693*	*(5)*	*187*	-	-
Gains less losses from investment securities, investments in subsidiaries and associates	-	-	-	-	*2 340*
Recognised in other comprehensive income:	-	-	-	*3 943*	*84*
Available for sale financial assets	-	-	-	*3 943*	*84*
Purchases	867 251	-	-	76 758	6 140
Redemptions	(103 316)	-	-	(49 980)	-
Sales	(4 916 736)	-	-	(169 437)	(2 753)
Issues	4 087 083	-	-	303 696	501
As at the end of the period	**463 042**	**17**	**656**	**474 741**	**37 008**

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With respect to financial instruments valuated in repetitive way to the fair value classified as level 1 and 2 in hierarchy of fair value, any cases in which transfer between these levels may occur, are monitored by Financial Market Risk Department on the basis of internal guidelines. There are two main cases which allow for a reclassification: change of availability of market parameters used to marked-to-market valuation for T-bonds or a change in liquidity of option on WIG20 index market. In case of T-bonds, if there is no market price for more than 2 business days, the methods of valuation is changed, i.e. change from marked-to-market valuation to marked-to-model valuation under the assumption that the valuation model for the respective type of fixed income securities has been already approved. Return to marked-to-market valuation takes place after 5 business days in which market prices are continuously available.

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

In the first half of 2015, there were no transfers of financial instruments between levels of the fair value hierarchy.

31.12.2014	Including:	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS				
TRADING SECURITIES	**1 163 944**	**629 361**	**7 494**	**527 089**
Debt securities	**1 145 997**	**618 930**	**-**	**527 067**
- government bonds	617 906	617 906	-	-
- banks bonds	473 097	1 024	-	472 073
- corporate bonds	54 994	-	-	54 994
Equity securities	**17 947**	**10 431**	**7 494**	**22**
- listed	10 431	10 431	-	-
- unlisted	7 516	-	7 494	22
DERIVATIVE FINANCIAL INSTRUMENTS	**4 865 517**	**-**	**4 865 048**	**469**
Derivative financial instruments held for trading	**4 711 124**	**-**	**4 710 655**	**469**
- interest rate derivatives	4 406 512	-	4 406 512	-
- foreign exchange derivatives	295 564	-	295 564	-
- market risks derivatives	9 048	-	8 579	469
Derivative financial instruments held for hedging	**154 393**	**-**	**154 393**	**-**
- derivatives designated as fair value hedges	102 226	-	102 226	-
- derivatives designated as cash flow hedges	52 167	-	52 167	-
INVESTMENT SECURITIES	**27 678 614**	**22 858 617**	**4 479 540**	**340 457**
Debt securities	**27 416 998**	**22 627 697**	**4 479 540**	**309 761**
- government bonds	22 586 122	22 586 122	-	-
- money bills	4 479 540	-	4 479 540	-
- banks bonds	24 907	-	-	24 907
- corporate bonds	284 854	-	-	284 854
- communal bonds	41 575	41 575	-	-
Equity securities	**261 616**	**230 920**	**-**	**30 696**
- listed	229 961	229 961	-	-
- unlisted	31 655	959	-	30 696
TOTAL FINANCIAL ASSETS	**33 708 075**	**23 487 978**	**9 352 082**	**868 015**

31.12.2014	Including:	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
FINANCIAL LIABILITIES				
Derivative financial instruments	**4 719 056**	**-**	**4 718 186**	**870**
Derivative financial instruments held for trading	**4 714 774**	**-**	**4 713 904**	**870**
- interest rate derivatives	4 390 412	-	4 390 412	-
- foreign exchange derivatives	305 857	-	305 443	414
- market risks derivatives	18 505	-	18 049	456
Derivative financial instruments held for hedging	**4 282**	**-**	**4 282**	**-**
- derivatives designated as fair value hedges	3 592	-	3 592	-
- derivatives designated as cash flow hedges	690	-	690	-
Total financial liabilities	**4 719 056**	**-**	**4 718 186**	**870**

TOTAL RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS	**33 708 075**	**23 487 978**	**9 352 082**	**868 015**
FINANCIAL LIABILITIES	**4 719 056**	**-**	**4 718 186**	**870**

IFRS Condensed Consolidated Financial Statements for the first half of 2015 PLN (000's)

Assets Measured at Fair Value Based on Level 3 - changes in 2014	Debt trading securities	Equity trading securities	Derivative financial instruments	Debt investment securities	Equity investment securities
As at the beginning of the period	**346 263**	**6**	**450**	**133 042**	**40 206**
Gains and losses for the period:	12 053	16	19	6 736	(696)
Recognised in profit or loss:	12 053	16	19	-	(710)
Net trading income	*12 053*	*16*	*19*	-	-
Gains less losses from investment securities, investments in subsidiaries and associates	-	-	-	-	*(710)*
Recognised in other comprehensive income:	-	-	-	*6 736*	*14*
Available for sale financial assets	-	-	-	*6 736*	*14*
Purchases	3 121 268	-	-	61 902	8 610
Redemptions	(344 563)	-	-	-	-
Sales	(11 866 323)	-	-	(198 072)	(15 947)
Issues	9 260 092	-	-	304 918	-
Settlements	(1 723)	-	-	1 235	(2 390)
Transfers into Level 3	-	-	-	-	913
As at the end of the period	**527 067**	**22**	**469**	**309 761**	**30 696**

Transfers between levels in 2014	Transfers into Level 1	Transfers out of Level 1	Transfers into Level 2	Transfers out of Level 2
INVESTMENT SECURITIES	**898**	**-**	**-**	**(1 811)**
Equity securities	898	-	-	(1 811)

In the period of four quarters of 2014 there have been observed three movements from level 2 to level 3 in the total amount of PLN 913 thousand and one movement from level 2 to level 1 in the amount of PLN 898 thousand. These transfers resulted from the effect of valuation techniques revision applied to minority stakes of low value held by the Group.

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

IFRS Condensed Consolidated Financial Statements for the first half of 2015 PLN (000's)

30.06.2014	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
FINANCIAL LIABILITIES				
Derivative financial instruments	**2 915 003**	**588**	**2 912 902**	**1 513**
Derivative financial instruments held for trading	**2 913 141**	**588**	**2 911 040**	**1 513**
- interest rate derivatives	2 801 206	-	2 801 206	-
- foreign exchange derivatives	102 161	-	102 161	-
- market risks derivatives	9 774	588	7 673	1 513
Derivative financial instruments held for hedging	**1 862**	**-**	**1 862**	**-**
- derivatives designated as fair value hedges	1 862	-	1 862	-
Total financial liabilities	**2 915 003**	**588**	**2 912 902**	**1 513**
TOTAL RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS	**32 958 401**	**24 522 259**	**7 901 225**	**534 917**
FINANCIAL LIABILITIES	**2 915 003**	**588**	**2 912 902**	**1 513**

Assets Measured at Fair Value Based on Level 3 - changes in the first half of 2014	Debt trading securities	Equity trading securities	Derivative financial instruments	Debt investment securities	Equity investment securities
As at the beginning of the period	**346 263**	**6**	**450**	**133 042**	**40 206**
Gains and losses for the period:	476	-	1 112	(2 652)	-
Recognised in profit or loss:	476	-	1 112	-	-
Net trading income	*476*	-	*1 112*	-	-
Recognised in other comprehensive income:	-	-	-	*(2 652)*	-
Available for sale financial assets	-	-	-	*(2 652)*	-
Purchases	1 833 128	-	-	27 571	-
Redemptions	(244 982)	-	-	-	-
Sales	(5 970 445)	-	-	(111 250)	(15 887)
Issues	4 482 533	-	-	10 503	-
Settlements	4 099	-	-	(101)	845
As at the end of the period	**451 072**	**6**	**1 562**	**57 113**	**25 164**

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

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

Level 1

As at 30 June 2015, at level 1 of the fair value hierarchy, the Group has presented the fair value of held for trading government bonds in the amount of PLN 2 116 000 thousand (see Note 15) and the fair value of investment government bonds in the amount of PLN 24 407 316 thousand (see Note 19) (31 December 2014 respectively: PLN 617 906 thousand and PLN 22 586 122 thousand; 30 June 2014 respectively: PLN 2 194 897 thousand and PLN 21 801 760 thousand). Level 1 also includes the fair value of local government bonds in the amount of PLN 41 640 thousand (31 December 2014: PLN 41 575 thousand; 30 June 2014: PLN 39 362 thousand), and the fair value of bonds issued by banks in the amount of PLN 994 thousand (31 December 2014: PLN 1 024 thousand; 30 June 2014: 126 015 thousand). As at 30 June 2014, level 1 included also the fair value of bonds issued by listed companies in the amount of PLN 127 408 thousand.

In addition, as at 30 June 2015 level 1 includes the value of the shares of listed companies in the amount of PLN 217 350 thousand, including the value of shares in PZU S.A. in the amount of PLN 204 717 thousand (31 December 2014 respectively: PLN 241 351 thousand and PLN 229 961 thousand; 30 June 2014: PLN 232 241 thousand and PLN 209 969 thousand).

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

Level 2

Level 2 of the fair vale hierarchy includes the fair values of short term bills issued by NBP in the amount of PLN 4 349 396 thousand (31 December 2014: PLN 4 479 540 thousand; 30 June 2014: PLN 4 863 698 thousand), whose valuation is based on a NPV model (discounted future cash flows) fed with interest rate curves generated by transformation of quotations taken directly from active and liquid financial markets.

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

As at 30 June 2015, 31 December 2014 and 30 June 2014, level 2 also includes the value of options referencing on the WIG 20 index, listed on the Stock Exchange.

Level 3

Level 3 of the hierarchy presents the fair values of commercial debt securities issued by local banks and companies (bonds and deposit certificates) in the amount of PLN 937 783 thousand (31 December 2014: PLN 836 828 thousand; 30 June 2014: PLN 508 185 thousand).

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

Moreover, level 3 covers mainly the fair value of equity securities amounting to PLN 37 025 thousand (31 December 2014: PLN 30 718 thousand; 30 June 2015: PLN 25 170 thousand) valuated using the market multiples method. The market multiples method, consists of valuating the equity capital of a company by using a relation between the market values of the own equity capital or market values of the total capital invested in comparable companies (goodwill) and selected economic and financial figures.

27. Prudential consolidation

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

Financial information presented below does not represent IFRS GAAP measures as defined by the standards.

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

Basis of the preparation of the consolidated financial data

mBank S.A. Group consolidated financial data based on the rules of prudential consolidation specified by the CRR Regulation ("Consolidated prudentially financial data") have been prepared for the 6-month period ended 30 June 2015.

The consolidated prudentially financial data have been prepared according to the provisions of CRR Regulation, based on the rules of prudential consolidation stipulated in the CRR Regulation. The consolidated interim profit presented in the consolidated prudentially financial data may be included in consolidated Common Equity Tier 1 for the purpose of the calculation of consolidated Common Equity Tier 1 capital ratio, consolidated Tier 1 capital ratio and consolidated total capital ratio with the prior permission of the Polish Financial Supervisory Authority or after approval by the General Meeting of shareholders.

The accounting policies applied for the preparation of the Group consolidated prudentially financial data are identical to those, which have been applied to the mBank S.A Group consolidated financial data for the first half of 2015, prepared in compliance with International Financial Reporting Standard ("IFRS"), except for the consolidation standards presented below.

IFRS Condensed Consolidated Financial Statements for the first half of 2015 PLN (000's)

Consolidation

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

Company	30.06.2015		30.06.2014	
	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method
Aspiro S.A.	100%	full	-	-
Dom Maklerski mBanku S.A.	100%	full	100%	full
mBank Hipoteczny S.A.	100%	full	100%	full
mCentrum Operacji Sp. z o.o.	100%	full	100%	full
mFaktoring S.A.	100%	full	100%	full
mLeasing Sp. z o.o.	100%	full	100%	full
MLV 45 Sp. z o.o. spółka komandytowa	100%	full	100%	full
Transfinance a.s.	-	-	100%	full
mFinance France S.A.	99.98%	full	99.98%	full

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

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

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

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

IFRS Condensed Consolidated Financial Statements for the first half of 2015 PLN (000's)

Consolidated prudentially income statement

	Period from 01.01.2015 to 30.06.2015	Period from 01.01.2014 to 30.06.2014
Interest income	1 777 968	1 912 806
Interest expense	(588 155)	(719 759)
Net interest income	**1 189 813**	**1 193 047**
Fee and commission income	672 017	699 573
Fee and commission expense	(254 445)	(228 335)
Net fee and commission income	**417 572**	**471 238**
Dividend income	18 100	12 952
Net trading income, including:	137 002	200 613
Foreign exchange result	*144 524*	*134 929*
Other net trading income and result on hedge accounting	*(7 522)*	*65 684*
Gains less losses from investment securities, investments in subsidiaries and associates	237 315	(9 545)
Gains less losses from investment securities	*6 174*	*(9 545)*
Gains less losses from investments in subsidiaries and associates	*231 141*	-
Other operating income	49 171	78 296
Net impairment losses on loans and advances	(207 637)	(245 347)
Overhead costs	(822 003)	(752 185)
Amortisation	(95 894)	(92 663)
Other operating expenses	(41 938)	(73 205)
Operating profit	**881 501**	**783 201**
Profit before income tax	**881 501**	**783 201**
Income tax expense	**(176 707)**	**(161 341)**
Net profit	**704 794**	**621 860**
Net profit attributable to:		
- Owners of mBank S.A.	704 794	621 860
- Non-controlling interests	-	-

IFRS Condensed Consolidated Financial Statements for the first half of 2015 PLN (000's)

Consolidated prudentially statement of financial position

ASSETS	30.06.2015	31.12.2014	30.06.2014
Cash and balances with the Central Bank	3 187 461	3 054 548	1 418 014
Loans and advances to banks	2 049 224	3 727 309	4 917 216
Trading securities	2 597 284	1 156 450	2 683 816
Derivative financial instruments	3 345 943	4 865 517	3 017 875
Loans and advances to customers	77 274 194	74 697 423	70 237 435
Hedge accounting adjustments related to fair value of hedged items	256	461	778
Investment securities	29 687 808	27 906 260	27 354 541
Non-current assets held for sale	-	291 829	-
Intangible assets, including:	466 180	456 522	449 475
- goodwill	-	-	*1 196*
Tangible assets	687 113	708 103	701 250
Current income tax assets	121	61 336	63 525
Deferred income tax assets	352 351	238 980	236 493
Other assets	838 184	509 114	666 086
Total assets	**120 486 119**	**117 673 852**	**111 746 504**
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the Central Bank	2	-	-
Amounts due to other banks	15 675 917	13 383 829	22 297 031
Derivative financial instruments	3 302 248	4 719 056	2 915 003
Amounts due to customers	73 104 614	72 615 316	63 504 019
Debt securities in issue	11 013 855	10 341 742	7 696 154
Hedge accounting adjustments related to fair value of hedged items	58 929	103 382	47 620
Liabilities held for sale	-	91 793	-
Other liabilities	1 788 249	1 301 051	1 764 709
Current income tax liabilities	32 581	1 441	1 115
Provisions for deferred income tax	1 085	1 980	2 176
Provisions	168 401	176 881	160 827
Subordinated liabilities	3 896 612	4 127 724	3 278 869
Total liabilities	**109 042 493**	**106 864 195**	**101 667 523**
Equity			
Equity attributable to Owners of mBank S.A.	**11 443 624**	**10 809 655**	**10 078 979**
Share capital:	**3 523 935**	**3 523 903**	**3 512 798**
- Registered share capital	168 841	168 840	168 702
- Share premium	3 355 094	3 355 063	3 344 096
Retained earnings:	**7 576 719**	**6 736 229**	**6 140 198**
- Profit from the previous years	6 871 925	5 512 997	5 518 338
- Profit for the current year	704 794	1 223 232	621 860
Other components of equity	**342 970**	**549 523**	**425 983**
Non-controlling interests	**2**	**2**	**2**
Total equity	**11 443 626**	**10 809 657**	**10 078 981**
Total liabilities and equity	**120 486 119**	**117 673 852**	**111 746 504**

Selected explanatory information

1. Compliance with international financial reporting standards

The presented condensed consolidated report for the first half of 2015 fulfils the requirements of the International Accounting Standard (IAS) 34 "*Interim Financial Reporting*" relating to interim financial reports.

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

In accordance with the KNF recommendation received by the Bank on 30 April 2015, which was described under the item 30 of Selected explanatory information, the Group has applied *IFRIC 21, Levies, Interpretation* in reference to fees payable to the BFG and income related to these costs in such way that these costs and income will be recognised over time throughout the year 2015, the same way as in 2014.

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

A detailed description of the accounting policy principles of the Group is presented under Note 2 and 3 of the notes to the condensed consolidated financial statements for the first half of 2015. The accounting policies were applied consistently over all periods presented in these condensed consolidated financial statements.

3. Seasonal or cyclical nature of the business

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

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

- The sale of the company BRE Ubezpieczenia TUiR S.A.

The sale transaction of the company BRE Ubezpieczenia TUiR S.A. had a significant impact on both the results of the group in the first half of 2015, as well as cash flows. Details of this transaction have been described in item 9 and in Note 25.

- repayment of a subordinated loans

On 24 June 2015, the Bank repaid early the subordinated loan in the amount of CHF 90 000 thousand (PLN 359 019 thousand at the average exchange rate of the National Bank of Poland as at 24 June 2015). Moreover, on 18 June 2015, the Bank made an early repayment of the remaining amount of the subordinated loan of CHF 70 000 thousand (PLN 278 719 thousand at the average exchange rate of the National Bank of Poland as at 18 June 2015) borrowed on 18 December 2007 in the amount of CHF 120 000 thousand.

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

In the first half of 2015, events as indicated above did not occur in the Group.

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

In the first half of 2015, mBank Hipoteczny S.A. (mBH S.A.) issued mortgage bonds in the amount of EUR 81 000 thousand and PLN 450 000 thousand. In the same time, mBH S.A. redeemed bonds in the amount of PLN 150 000 thousand.

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

On 30 March 2015, the 28th Ordinary General Meeting of mBank S.A., adopted resolutions approving the mBank S.A. financial statements for the year 2014 and the consolidated financial statements of mBank S.A. Group for the year 2014, while the resolution regarding the distribution of profit of mBank for the year 2014 was taken on the session of the 28th Ordinary General Meeting of mBank S.A., resumed on 29 April 2015. The resolution regarding the distribution of profit assumes no dividend payout for the year 2014.

8. Significant events after the end of the first half of 2015, which are not reflected in the financial statements

Events as indicated above did not occur in the Group.

9. Effect of changes in the structure of the entity in the first half of 2015, including business combinations, acquisitions or disposal of subsidiaries, long-term investments, restructuring, and discontinuation of business activities

- The sale of the company BRE Ubezpieczenia TUiR S.A.

On 27 March 2015, after meeting specific conditions precedent, in particular: (i) obtaining the consent of the Office of Competition and Consumer Protection and (ii) no objections being raised by the Polish Financial Supervision Authority, the company Aspiro S.A. ("Aspiro") sold of 100% shares of BRE TUiR to the company Avanssur S.A., belonging to AXA Group.

Moreover, on 27 March and on 30 March 2015, mBank Group signed with AXA Group agreements related to the sale of shares of BRE TUiR and a distribution agreements, which regulate long-term cooperation between the mBank Group and AXA Group in relation to distribution of insurance products.

mBank Group's total remuneration for the sale of BRE TUiR shares and agreements concluded with AXA Group entities amounted to PLN 579 479 thousand. The one-off impact of the transaction on the consolidated gross profit of mBank Group amounted to PLN 194 348 thousand and was fully recognised in the first quarter of 2015. As a result of concluding the above mentioned agreements the Group recognised a liability related to contingent consideration which was valued on the basis of the best estimate of the Management Board of the Bank. Additionally, as a result of concluding the above mentioned distribution agreements, over the next 10 years the Group will recognise income in the total amount of PLN 180 000 thousand, which will be reflected in the profit and loss account on a straight line basis.

- Other changes in the structure of the company Aspiro

On 2 March 2015, the merger by acquisition of companies BRE Ubezpieczenia Sp. z o.o. and BRE Agent Ubezpieczeniowy Sp. z o.o occurred in the company Aspiro S.A. The activities of both insurance companies were taken over and will be continued in the same extent by Aspiro. The acquired companies were resolved on 2 March 2015, the day of their deletion from the register which was also the date of registered of the merger. The merger of the companies had no impact on the stand-alone profit of mBank and the consolidated profit of mBank Group.

- The sale of the company Transfinance a.s.

On 8 December 2014, an agreement for the sale of 100% shares of Transfinance a.s. between mBank S.A. and UniCredit Bank Czech Republic and Slovakia a.s. (UniCredit) was concluded. The transaction was finalized on 20 January 2015, after materialisation of all contractual suspending conditions. The sale of Transfinance is the result of implementing the One Bank Strategy for 2012-2016 and is the last stage of restructuring of foreign factoring activities of the Group i.e. after the sale of Magyar Factor zRt and Intermarket Bank AG in 2011.

- Interest in joint ventures

In 2015, a company under the name of Apartamenty Molo Rybackie Sp. z o.o. was registered, in which 50% of shares were acquired by mLocum S.A., a subsidiary of mBank. This is a result of the joint venture agreement entered by mLocum and Dalmor S.A., enitity of Polski Holding Nieruchomości S.A. group, related to the development of the first stage of Fishing Pier in Gdynia. The joint investment includes a construction of six five-storey apartment buildings located on the waterfront of the harbor dock, in which a development of new yacht marina is planned. Start of the construction is planned in 2016. The investment will be valued using the equity method. As at 30 June 2015, the exposure of mLocum S.A. in the joint venture amounted to PLN 1 000 thousand and stands for the initial share capital of the mBank Group in the SPV.

10. Changes in contingent liabilities and commitments

In the first half of 2015, there were no changes in contingent liabilities and commitments of credit nature, i.e., guarantees, letters of credit or unutilised loan amounts, other than resulting from current operating activities of the Group. There was no single case of granting of guarantees or any other contingent liability of any material value for the Group.

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

In the first half of 2015, events as indicated above did not occur in the Group.

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

In the first half of 2015, events as indicated above did not occur in the Group.

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

Data regarding write-offs on account of impairment of financial assets are presented under Note 9 and Note 11 of these condensed consolidated financial statements.

14. Reversals of provisions against restructuring costs

In the first half of 2015, events as indicated above did not occur in the Group.

15. Acquisitions and disposals of tangible fixed asset items

In the first half of 2015, there were no material transactions of acquisition or disposal of any tangible fixed assets, with the exception of typical lease and property development operations that are performed by the companies of the Group.

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

In the first half of 2015, events as indicated above did not occur in the Group.

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

In the first half of 2015, events as indicated above did not occur in the Group.

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

In the first half of 2015, events as indicated above did not occur in the Group.

19. Corrections of errors from previous reporting periods

In the first half of 2015, there were no corrections of errors from previous reporting periods.

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

In the first half of 2015, events as indicated above did not occur in the Group.

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

mBank S.A. did not publish a performance forecast for the year 2015.

22. Registered share capital

The total number of ordinary shares as at 30 June 2015 was 42 210 157 shares (30 June 2014: 42 175 558) at PLN 4 nominal value each (30 June 2014: PLN 4). All issued shares were fully paid up.

IFRS Condensed Consolidated Financial Statements for the first half of 2015 PLN (000's)

REGISTERED SHARE CAPITAL (THE STRUCTURE) AS AT 30 JUNE 2015						
Share type	**Type of privilege**	**Type of limitation**	**Number of shares**	**Series / face value of issue in PLN**	**Paid up**	**Registered on**
ordinary bearer*	-	-	9 982 500	39 930 000	fully paid in cash	1986
ordinary registered*	-	-	17 500	70 000	fully paid in cash	1986
ordinary bearer	-	-	2 500 000	10 000 000	fully paid in cash	1994
ordinary bearer	-	-	2 000 000	8 000 000	fully paid in cash	1995
ordinary bearer	-	-	4 500 000	18 000 000	fully paid in cash	1997
ordinary bearer	-	-	3 800 000	15 200 000	fully paid in cash	1998
ordinary bearer	-	-	170 500	682 000	fully paid in cash	2000
ordinary bearer	-	-	5 742 625	22 970 500	fully paid in cash	2004
ordinary bearer	-	-	270 847	1 083 388	fully paid in cash	2005
ordinary bearer	-	-	532 063	2 128 252	fully paid in cash	2006
ordinary bearer	-	-	144 633	578 532	fully paid in cash	2007
ordinary bearer	-	-	30 214	120 856	fully paid in cash	2008
ordinary bearer	-	-	12 395 792	49 583 168	fully paid in cash	2010
ordinary bearer	-	-	16 072	64 288	fully paid in cash	2011
ordinary bearer	-	-	36 230	144 920	fully paid in cash	2012
ordinary bearer	-	-	35 037	140 148	fully paid in cash	2013
ordinary bearer	-	-	36 044	144 176	fully paid in cash	2014
ordinary bearer	-	-	100	400	fully paid in cash	2015
Total number of shares			**42 210 157**			
Total registered share capital				**168 840 628**		
Nominal value per share (PLN)		**4**				

* As at the end of the reporting period

In the first half of 2015, the National Depository of Securities (KDPW) has registered 100 shares of mBank S.A., which were issued as part of the conditional increase in the share capital of the Bank by issuance of shares with no subscription rights for the existing shareholders in order to enable beneficiaries of the incentive programmes to take up shares in mBank S.A. As a result of the above registration, in the first half of 2015 the Bank's share capital increased by PLN 400.

Moreover, in connection with the registration of 18 812 shares of mBank S.A. by KDPW, on 16 July 2015, the Bank's share capital increased by the amount of PLN 75 248. The shares were issued as part of the conditional increase in the share capital of the Bank by issuance of shares with no subscription rights for the existing shareholders with the aim of granting those shares to beneficiaries of the incentive programmes. As at the publication date of these condensed consolidated financial statements, the share capital of mBank S.A. amounted to PLN 168 915 876 and was divided into 42 228 969 shares.

23. Material share packages

Commerzbank AG is a shareholder holding over 5% of the share capital and votes at the General Meeting and as at 30 June 2015 it held 69.54% of the share capital and votes at the General Meeting of mBank S.A.

In the first half of 2015, there were changes in the holding of material share packages of the Bank.

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

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

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

	Number of rights to shares held as at the date of publishing the report for Q1 2015	Number of rights to shares acquired from the date of publishing the report for Q1 2015 to the date of publishing the report for H1 2015	Number of rights to shares realised from the date of publishing the report for Q1 2015 to the date of publishing the report for H1 2015	Number of rights to shares held as at the date of publishing the report for H1 2015
Management Board				
1. Cezary Stypułkowski	-	3 274	3 274	-
2. Lidia Jabłonowska-Luba	-	498	498	-
3. Przemysław Gdański	-	2 871	2 871	-
4. Joerg Hessenmueller	-	1 591	1 591	-
5. Hans-Dieter Kemler	-	2 512	2 512	-
6. Cezary Kocik	-	1 745	1 745	-
7. Jarosław Mastalerz	-	3 094	3 094	-

	Number of shares held as at the date of publishing the report for Q1 2015	Number of shares acquired from the date of publishing the report for Q1 2015 to the date of publishing the report for H1 2015	Number of shares sold from the date of publishing the report for Q1 2015 to the date of publishing the report for H1 2015	Number of shares held as at the date of publishing the report for H1 2015
Management Board				
1. Cezary Stypułkowski	2 034	3 274	-	5 308
2. Lidia Jabłonowska-Luba	-	498	-	498
3. Przemysław Gdański	2 000	2 871	1 000	3 871
4. Joerg Hessenmueller	-	1 591	-	1 591
5. Hans-Dieter Kemler	1 000	2 512	1 000	2 512
6. Cezary Kocik	-	1 745	-	1 745
7. Jarosław Mastalerz	-	3 094	-	3 094

As at the date of publishing the report for the first quarter of 2015 and as at the date of publishing the report for the first half of 2015, the Members of the Management Board had no and they have no rights to Bank's shares.

As at the date of the publishing the report for the first quarter of 2015 and as at the date of the publishing the report for the first half of 2015, Mr. Wiesław Thor had 3 000 shares of mBank.

As at the date of publishing the report for the first quarter of 2015 and as at the date of publishing the report for the first half of 2015, the other Members of the Supervisory Board of mBank S.A. had neither Bank shares nor rights to Bank shares.

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

As at 30 June 2015, the Bank was not involved in any proceedings before a court, arbitration body, or public administration authority concerning liabilities of the Bank or its subsidiaries, which represent at least 10% of the Bank's equity. Moreover, the total value of claims concerning liabilities of the Bank or its subsidiary in all proceedings before a court, an arbitration body or a public administration authority as at 30 June 2015 was also not higher than 10% of the Bank's equity.

The Bank monitors the status of all legal proceedings brought against the Bank and the level of required provisions.

Report on major proceedings brought against the Bank

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

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

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

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

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

3. Claims of clients of Interbrok

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

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

4. Class action against mBank S.A.

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

Bank rejects the above reasoning. On 18 February 2011, the Bank submitted a formal answer to the court, in which it applied for a dismissal of the claim as a whole.

On 6 May 2011, the District Court in Łódź decided to reject the application of mBank S.A. for dismissing the claim and decided that the case will proceed as a class action. On 13 June 2011, mBank S.A. lodged a complaint against this decision with the Court of Appeal in Łódź. On 28 September 2011, the Court of Appeal dismissed the complaint of mBank S.A. Currently, the case proceeds as a class action. The time for joining the class ended in March 2012. As at 17 October 2012, the approved class consisted of 1 247 members. Moreover, the District Court in Łódź ruled against setting up a cash deposit for mBank S.A. requested by the Bank. The Bank lodged a complaint against this ruling. On 29 November 2012, the Court of Appeal in Łódź dismissed the Bank's complaint about setting up the cash deposit. The ruling is valid and the Plaintiff is not obliged to pay the cash deposit. The final response to the petition was sent in January 2013, while the Plaintiff replied to it in a pleading filed on 15 February 2013. By a decision dated 18 February 2013, the District Court in Łódź decided to refer the case to mediation. In a letter dated 26 February 2013, the Municipal Consumer Ombudsman raised an objection to the mediation. On 22 June 2013, a trial was conducted, and on 3 July 2013, the Court announced its judgment in which it took into account the action in its entirety acknowledging that the Bank improperly performed the agreement whereby the consumers sustained a loss. On 9 September 2013, the Bank filed an appeal against the aforementioned verdict. Under the sentence of 30 April 2014, the Court of Appeal in Łódź dismissed the appeal of mBank, upholding the decision of the District Court expressed in the appealed verdict. The aforementioned verdict is legally valid, however, after having received its written justification, mBank lodged an annulment appeal to the Supreme Court. The annulment appeal was brought by mBank on 3 October 2014. On 7 October 2014 the Court of Appeal in Łódź ceased the enforceability of the judgement of District Court in Łódź until consideration of Bank's annulment appeal. On 18 February 2015, the Supreme Court received the annulment appeal filed by mBank. On 14 May 2015, the Supreme Court revoked the judgments of the Court of Appeal in Łódź and remanded the case to the Court of Appeal in Łódź for re-examination.

As at 30 June 2015, the Bank was not involved in any proceedings before a court, arbitration body, or public administration authority concerning receivables of the Bank or its subsidiaries, which represent at least 10% of the Bank's equity. The total value of claims concerning receivables of the Bank or its subsidiaries in all proceedings before a court, an arbitration body or a public administration authority underway at 30 June 2015 was also not higher than 10% of the Bank's equity.

Information regarding tax audits

Since 9 June 2015 a tax audit has been conducted in mLeasing sp. z o.o. by the President of the capital city of Warsaw concerning real property tax in the scope of determining ownership, assets and the basis for collecting taxes on land, buildings and building structures located in the capital city of Warsaw. The tax audit covers the period from 1 January 2010 to 30 April 2015.

Within the period from 9 December 2014 to 2 April 2015, Director of the Treasury Control Office in Łódź (Urząd Kontroli Skarbowej w Łodzi) carried out audit proceedings in Aspiro S.A. concerning correctness of the settlement of value added tax for the year 2012. The audit did not identify any relevant irregularities.

Within the period from 18 November 2014 to 28 November 2014, Director of the of the Łódź Treasury Office (Łódzki Urząd Skarbowy w Łodzi) carried out audit proceedings and tax audit in Aspiro S.A. concerning corectness of value added tax return for period from 1 July 2014 to 31 August 2014. The audit did not identify any relevant irregularities.

Within the period from 16 October 2014 to 4 November 2014, Director of the Treasury Control Office in Łódź (Urząd Kontroli Skarbowej w Łodzi) carried out audit proceedings and tax audit in mLocum S.A. concerning correctness of the settlement of the value added tax and corporate income tax for the year 2012. The audit did not identify any irregularities.

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

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

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

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

The tax authorities, may inspect at any time the books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Management Board is not aware of any circumstances, which may give rise to a potential tax liability in this respect.

26. Off-balance sheet liabilities

Off-balance sheet liabilities as at 30 June 2015, 31 December 2014, and 30 June 2014, were as follows:

	30.06.2015	31.12.2014	30.06.2014
1. Contingent liabilities granted and received	**26 732 643**	**25 257 970**	**22 765 468**
Commitments granted	**24 999 624**	**23 599 073**	**21 243 787**
- financing	20 448 304	19 973 966	17 678 010
- guarantees and other financial facilities	4 550 990	3 610 377	3 560 049
- other commitments	330	14 730	5 728
Commitments received	**1 733 019**	**1 658 897**	**1 521 681**
- financial commitments	72 000	31 841	-
- guarantees	1 661 019	1 627 056	1 521 681
2. Derivative financial instruments (nominal value of contracts)	**639 716 020**	**754 177 045**	**685 487 837**
Interest rate derivatives	540 145 504	677 374 381	627 592 983
Currency derivatives	98 043 405	75 432 762	56 410 802
Market risk derivatives	1 527 111	1 369 902	1 484 052
Total off-balance sheet items	**666 448 663**	**779 435 015**	**708 253 305**

27. Transactions with related entities

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

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

The amounts of transactions with related entities, i.e., balances of receivables and liabilities and related costs and income as at 30 June 2015, 31 December 2014, and 30 June 2014 were as follows.

PLN (000's)	mBank S.A. subsidiaries not consolidated by the acquisition method			Commerzbank AG Group		
As at the end of the period	**30.06.2015**	**31.12.2014**	**30.06.2014**	**30.06.2015**	**31.12.2014**	**30.06.2014**
Statement of Financial Position						
Assets	113 048	110 055	90 313	453 624	907 869	785 818
Liabilities	1 133	509	1 672	17 446 938	15 852 630	16 475 464
Income Statement						
Interest income	4 364	8 467	4 064	90 797	162 714	69 441
Interest expense	(2)	(25)	(16)	(136 506)	(332 127)	(164 721)
Fee and commission income	30	42	14	-	-	-
Other operating income	34	26 776	-	7	378	217
Overhead costs, amortisation and other operating expenses	(1)	(58)	-	(4 866)	(9 532)	(4 577)
Contingent liabilities granted and received						
Contingent liabilities granted	1 520	2 617	360	1 270 234	1 309 589	1 049 234
Contingent liabilities received	-	-	-	773 238	836 870	901 298

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

As at 30 June 2015, the Bank's exposure under guarantees granted in excess of 10% of own funds related to the guarantee payment of all amounts to be paid in respect of debt securities issued by mFinance France S.A. (mFF), a subsidiary of the mBank S.A.

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

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

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

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

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

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

On 8 July 2015, a parliamentary draft of "The Act on special rules regarding the restructuring of foreign currency mortgage loans due to changes in foreign exchange rates in relation to Polish currency and on amending certain other acts" has been submitted in the Polish Parliament. The draft introduces the possibility of conversion of foreign currencies mortgage loans into PLN loans on non-market conditions for selected groups of borrowers meeting certain criteria mentioned in the act. Potential entry into force of the above act in its current form will have a significant negative impact on the net profit and equity of the Bank and the Group at the moment of its entry into force.

30. Other information

- Resumption of session of the 28th Ordinary General Meeting of mBank S.A.

On 29 April 2015, deliberations of the 28th Ordinary General Meeting of mBank S.A. were resumed after the break. Deliberations adopted the resolution regarding distribution of profit of mBank S.A. for the year 2014. The resolution assumes no dividend pay-out for the year 2014. The net profit generated by mBank S.A. in 2014 in the amount of PLN 1 174 096 thousand was distributed as follows:

- PLN 50 000 thousand – to the general risk fund of mBank S.A.
- PLN 406 523 thousand – to the supplementary capital of mBank S.A.
- The remaining part of the profit, amounting to PLN 717 573 thousand remains undistributed.

- KNF Recommendation regarding adjustments of mBank and mBank Group financial statements for the first quarter of 2015 and its impact on these financial statements

On 29 April 2015, the Bank published the mBank S.A. Group Condensed Consolidated Financial Statements for the first quarter of 2015 where, in accordance with *Interpretation 21, Levies*, published by the International Accounting Standards Board and approved by European Union ("IFRIC 21"), all fees payable to BFG, as well as income related to these fees were included in full in the first quarter profit and loss account.

In the letter dated 30 April 2015, KNF addressed a recommendation to the Bank to adjust mBank and mBank Group financial statements for the first quarter of 2015 ("KNF Recommendation") published on 29 April 2015. KNF indicated Art. 138, paragraph 1, point 6 of the Banking Act (Dz. U. 2015, No. 128 - codification) as a basis for issuing above mentioned recommendation.

In accordance with KNF Recommendation and further KNF explanations included in a letter dated 16 June 2015, the aim of KNF Recommendation was to assure compliance of mBank and mBank Group reporting with the position of the Ministry of Finance, expressed in a letter dated 11 February 2015 (published on the KNF Office website on 12 February 2015) and to ensure its comparability with the Polish banking sector in relation to recognition of fees payable to BFG.

While implementing KNF Recommendation, on 22 June 2015 the Bank published the mBank S.A. Group Adjusted Condensed Consolidated Financial Statements for the first quarter 2015, in which the approach towards recognition of fees payable to BFG as well as towards income related to these fees over time throughout the year 2015 had been applied, the same way as in 2014. Consequently the same approach has been applied in these mBank S.A. Group Condensed Consolidated Financial Statements for the first half of 2015.

Had the Group applied IFRIC 21 in a way that the costs of fees payable to BFG and income related to these costs were included in full in the costs and income of the first quarter of 2015, the Group's consolidated net profit for the first half of 2015 and consolidated equity as at 30 June 2015 presented in these consolidated financial statements would have been lower by PLN 38 305 thousand.