mBank S.A.

IFRS Condensed Financial Statements for the first half of 2015

Contents

1. Selected financial data

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

SELECTED FINANCIAL DATA FOR THE BANK		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	**1 607 039**	**1 770 385**	**388 728**	**423 699**
II.	Fee and commission income	**531 879**	**606 458**	**128 657**	**145 141**
III.	Net trading income	**139 203**	**190 670**	**33 672**	**45 632**
IV.	Operating profit	**839 827**	**742 869**	**203 146**	**177 788**
V.	Profit before income tax	**839 827**	**742 869**	**203 146**	**177 788**
VI.	Net profit	**689 118**	**589 232**	**166 691**	**141 019**
VII.	Net cash flows from operating activities	**1 166 405**	**2 854 786**	**282 142**	**683 225**
VIII.	Net cash flows from investing activities	**208 603**	**(42 863)**	**50 459**	**(10 258)**
IX.	Net cash flows from financing activities	**(164 274)**	**(785 135)**	**(39 736)**	**(187 903)**
X.	Net increase / decrease in cash and cash equivalents	**1 210 734**	**2 026 788**	**292 865**	**485 063**
XI.	Basic earnings per share (in PLN/EUR)	**16.33**	**13.97**	**3.95**	**3.34**
XII.	Diluted earnings per share (in PLN/EUR)	**16.31**	**13.95**	**3.94**	**3.34**
XIII.	Declared or paid dividend per share (in PLN/EUR)	**-**	**17.00**	**-**	**4.07**

SELECTED FINANCIAL DATA FOR THE BANK		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	**115 985 181**	**113 603 463**	**107 886 562**	**27 652 389**	**26 653 089**	**25 928 660**
II.	Amounts due to the Central Bank	**2**	**-**	**-**	**0**	**-**	**-**
III.	Amounts due to other banks	**15 701 259**	**13 384 224**	**22 098 282**	**3 743 386**	**3 140 141**	**5 310 938**
IV.	Amounts due to customers	**80 194 819**	**79 312 266**	**67 887 087**	**19 119 497**	**18 607 856**	**16 315 482**
V.	Own equity	**10 764 079**	**10 269 586**	**9 557 877**	**2 566 298**	**2 409 400**	**2 297 070**
VI.	Share capital	**168 841**	**168 840**	**168 702**	**40 254**	**39 612**	**40 545**
VII.	Number of shares	**42 210 157**	**42 210 057**	**42 175 558**	**42 210 157**	**42 210 057**	**42 175 558**
VIII.	Book value per share (in PLN/EUR)	**255.01**	**243.30**	**226.62**	**60.80**	**57.08**	**54.46**
IX.	Total capital ratio/capital adequacy ratio	**18.88**	**16.95**	**17.76**	**18.88**	**16.95**	**17.76**

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

2. Condensed financial data

Condensed income statement

	Note	Period from 01.01.2015 to 30.06.2015	Period from 01.01.2014 to 30.06.2014
Interest income		1 607 039	1 770 385
Interest expense		(546 628)	(675 974)
Net interest income		**1 060 411**	**1 094 411**
Fee and commission income		531 879	606 458
Fee and commission expense		(221 049)	(207 099)
Net fee and commission income		**310 830**	**399 359**
Dividend income		120 960	27 540
Net trading income, including:		139 203	190 670
Foreign exchange result		*142 890*	*131 977*
Other net trading income and result on hedge accounting		(3 687)	*58 693*
Gains less losses from investment securities, investments in subsidiaries and associates, including:		165 083	(9 545)
Gains less losses from investment securities		*6 174*	*13 886*
Gains less losses from investments in subsidiaries and associates		*158 909*	*(23 431)*
Other operating income		25 089	44 456
Net impairment losses on loans and advances	5.14	(174 500)	(214 884)
Overhead costs		(700 359)	(654 410)
Amortisation		(82 528)	(80 863)
Other operating expenses		(24 362)	(53 865)
Operating profit		**839 827**	**742 869**
Profit before income tax		**839 827**	**742 869**
Income tax expense		(150 709)	(153 637)
Net profit		**689 118**	**589 232**

Net profit		**689 118**	**589 232**
Weighted average number of ordinary shares	5.25	**42 210 143**	**42 175 481**
Earnings per share (in PLN)	5.25	**16.33**	**13.97**
Weighted average number of ordinary shares for diluted earnings	5.25	**42 257 173**	**42 237 339**
Diluted earnings per share (in PLN)	5.25	**16.31**	**13.95**

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

Condensed statement of comprehensive income

	Period from 01.01.2015 to 30.06.2015	Period from 01.01.2014 to 30.06.2014
Net profit	**689 118**	**589 232**
Other comprehensive income net of tax, including:	**(201 679)**	**105 413**
Items that may be reclassified subsequently to the income statement		
Exchange differences on translation of foreign operations (net)	65	69
Change in valuation of available for sale financial assets (net)	(193 747)	105 344
Cash flow 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 of tax, total	**487 439**	**694 645**

Notes presented on pages 10 – 41 constitute an integral part of these Condensed Financial Statements.

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

Condensed statement of financial position

ASSETS	30.06.2015	31.12.2014	30.06.2014
Cash and balances with the Central Bank	3 180 527	3 046 817	1 412 610
Loans and advances to banks	4 392 187	5 648 047	5 723 463
Trading securities	2 693 856	1 251 064	2 812 476
Derivative financial instruments	3 367 922	4 874 882	3 017 861
Loans and advances to customers	71 356 094	69 529 868	66 037 410
Hedge accounting adjustments related to fair value of hedged items	256	461	778
Investment securities	28 924 293	27 246 034	26 940 976
Non-current assets held for sale	802 939	806 567	735 775
Investments in subsidiaries	-	31 063	-
Intangible assets	427 600	425 078	415 372
Tangible assets	442 627	468 822	443 592
Current income tax assets	-	60 211	63 405
Deferred income tax assets	55 996	15 144	13 351
Other assets	340 884	199 405	269 493
Total assets	**115 985 181**	**113 603 463**	**107 886 562**

LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the Central Bank	2	-	-
Amounts due to other banks	15 701 259	13 384 224	22 098 282
Derivative financial instruments	3 326 380	4 755 856	2 933 654
Amounts due to customers	80 194 819	79 312 266	67 887 087
Hedge accounting adjustments related to fair value of hedged items	46 041	77 619	42 157
Debt securities in issue	386 264	386 423	386 744
Other liabilities	1 471 618	1 112 805	1 539 547
Current income tax liabilities	29 692	-	-
Provisions for deferred income tax	81	82	1 519
Provisions	168 334	176 878	160 826
Subordinated liabilities	3 896 612	4 127 724	3 278 869
Total liabilities	**105 221 102**	**103 333 877**	**98 328 685**
Equity			
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:	**6 893 123**	**6 196 983**	**5 617 460**
- Profit for the previous year	6 204 005	5 022 887	5 028 228
- Net profit for the current year	689 118	1 174 096	589 232
Other components of equity	**347 021**	**548 700**	**427 619**
Total equity	**10 764 079**	**10 269 586**	**9 557 877**
Total liabilities and equity	**115 985 181**	**113 603 463**	**107 886 562**
Total capital ratio	**18.88**	**16.95**	**17.76**
Common Equity Tier 1 capital ratio	**15.37**	**14.06**	**14.90**
Book value	**10 764 079**	**10 269 586**	**9 557 877**
Number of shares	**42 210 157**	**42 210 057**	**42 175 558**
Book value per share (in PLN)	**255.01**	**243.30**	**226.62**

Notes presented on pages 10 – 41 constitute an integral part of these Condensed Financial Statements.

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

Condensed statement of changes in equity

Changes from 1 January to 30 June 2015

	Share capital		Retained earnings					Other components of equity				Total equity
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	Exchange differences on translation of foreign operations	Valuation of available for sale financial assets	Actuarial gains and losses relating to post-employment benefits	Actuarial gains (losses) on defined benefit pension plans	
Equity as at 1 January 2015	**168 840**	**3 355 063**	**3 977 488**	**30 256**	**1 015 143**	**1 174 096**	**-**	**(6 974)**	**553 950**	**4 056**	**(2 332)**	**10 269 586**
Total comprehensive income							**689 118**	**65**	**(193 747)**	**(7 997)**	**-**	**487 439**
Transfer to general banking risk reserve	-	-	-	-	50 000	(50 000)	-	-	-	-	-	-
Transfer to supplementary capital	-	-	406 523	-	-	(406 523)	-	-	-	-	-	-
Issue of shares	1	-	-	-	-	-	-	-	-	-	-	1
Stock option program for employees	-	31	-	7 022	-	-	-	-	-	-	-	7 053
- value of services provided by the employees	-	-	-	7 053	-	-	-	-	-	-	-	7 053
- settlement of exercised options	-	31	-	(31)	-	-	-	-	-	-	-	-
Equity as at 30 June 2015	**168 841**	**3 355 094**	**4 384 011**	**37 278**	**1 065 143**	**717 573**	**689 118**	**(6 909)**	**360 203**	**(3 941)**	**(2 332)**	**10 764 079**

Changes from 1 January to 31 December 2014

	Share capital		Retained earnings					Other components of equity				Total equity
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	Exchange differences on translation of foreign operations	Valuation of available for sale financial assets	Actuarial gains and losses relating to post-employment benefits	Actuarial gains (losses) on defined benefit pension plans	
Equity as at 1 January 2014	**168 696**	**3 343 642**	**3 765 454**	**29 061**	**965 143**	**979 018**	**-**	**(6 512)**	**329 237**	**-**	**(519)**	**9 573 220**
Total comprehensive income							**1 174 096**	**(462)**	**224 713**	**4 056**	**(1 813)**	**1 400 590**
Dividends paid	-	-	-	-	-	(716 984)	-	-	-	-	-	(716 984)
Transfer to general banking risk reserve	-	-	-	-	50 000	(50 000)	-	-	-	-	-	-
Transfer to supplementary capital	-	-	212 034	-	-	(212 034)	-	-	-	-	-	-
Issue of shares	144	-	-	-	-	-	-	-	-	-	-	144
Stock option program for employees	-	11 421	-	1 195	-	-	-	-	-	-	-	12 616
- value of services provided by the employees	-	-	-	12 616	-	-	-	-	-	-	-	12 616
- settlement of exercised options	-	11 421	-	(11 421)	-	-	-	-	-	-	-	-
Equity as at 31 December 2014	**168 840**	**3 355 063**	**3 977 488**	**30 256**	**1 015 143**	**-**	**1 174 096**	**(6 974)**	**553 950**	**4 056**	**(2 332)**	**10 269 586**

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

Notes presented on pages 10 – 41 constitute an integral part of these Condensed Financial Statements.

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

Condensed 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	**1 166 405**	**2 854 786**
Profit before income tax	**839 827**	**742 869**
Adjustments:	***326 578***	***2 111 917***
Income taxes paid	(9 484)	(142 086)
Amortisation	82 528	80 863
Foreign exchange (gains) losses related to financing activities	1 922 398	233 755
(Gains) losses on investing activities	(170 584)	134
Impairment of investments in subsidiaries	5 455	23 431
Dividends received	(120 960)	(27 539)
Interest income (income statement)	(1 607 039)	(1 770 385)
Interest expense (income statement)	546 628	675 974
Interest received	1 454 648	1 818 789
Interest paid	(535 843)	(708 980)
Changes in loans and advances to banks	812 145	(763 788)
Changes in trading securities	55 302	(104 402)
Changes in assets and liabilities on derivative financial instruments	102 638	(189 395)
Changes in loans and advances to customers	(1 758 914)	(2 304 621)
Changes in investment securities	(1 835 100)	(1 803 913)
Changes in other assets	(136 953)	(9 762)
Changes in amounts due to other banks	503 893	5 108 314
Changes in amounts due to customers	593 184	1 391 576
Changes in debt securities in issue	6 814	519
Changes in provisions	(8 544)	19 766
Changes in other liabilities	424 366	583 667
Net cash generated from/(used in) operating activities	**1 166 405**	**2 854 786**
B.Cash flows from investing activities	**208 603**	**(42 863)**
Investing activity inflows	**331 467**	**27 639**
Disposal of shares in subsidiaries, net of cash disposed	27 929	-
Disposal of intangible assets and tangible fixed assets	78	100
Dividends received	120 960	27 539
Other investing inflows	182 500	-
Investing activity outflows	**122 864**	**70 502**
Purchase of intangible assets and tangible fixed assets	113 503	70 502
Other investing outflows	9 361	-
Net cash generated from/(used in) investing activities	**208 603**	**(42 863)**
C. Cash flows from financing activities	**(164 274)**	**(785 135)**
Financing activity inflows	**595 896**	**2 719 251**
Proceeds from loans and advances from other banks	180 475	-
Proceeds from other loans and advances	415 420	630 095
Issue of ordinary shares	1	6
Security deposit due to issue of Eurobonds	-	2 089 150
Financing activity outflows	**760 170**	**3 504 386**
Repayments of loans and advances from other banks	-	2 088 243
Repayments of other loans and advances	6 523	5 032
Redemption of debt securities	-	66 462
Acquisition of shares in subsidiaries - increase of involvement	-	2 000
Decrease of subordinated liabilities	637 738	480 122
Payments of financial lease liabilities	4 542	2 811
Dividends and other payments to shareholders	-	716 984
Interest paid from loans and advances received from other banks, subordinated liabilities and long term issue	111 367	142 732
Net cash generated from/(used in) financing activities	**(164 274)**	**(785 135)**
Net increase / decrease in cash and cash equivalents (A+B+C)	**1 210 734**	**2 026 788**
Effects of exchange rate changes on cash and cash equivalents	6 723	17 721
Cash and cash equivalents at the beginning of the reporting period	4 762 605	3 807 891
Cash and cash equivalents at the end of the reporting period	**5 980 062**	**5 852 400**

Notes presented on pages 10 – 41 constitute an integral part of these Condensed Financial Statements.

3. Description of the relevant accounting policies

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

3.1. Accounting basis

The condensed financial statements of mBank S.A. ("Bank") have been prepared for the 6-month period ended 30 June 2015.

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

The presented condensed financial statements for the first half of 2015 should be read in conjunction with the mBank S.A. 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 3.26.

The data presented in the mBank S.A. condensed 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 4.

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

3.2. Interest income and expenses

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

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

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

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

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

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

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

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

3.3. Fee and commission income

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

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

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

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

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

The Bank treats 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 Bank the insurance product which is identical in a legal form, content and economic conditions without purchasing the loan.

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

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

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

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

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

3.5. Financial assets

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

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

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

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

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

This category comprises two subcategories: financial assets held for trading and financial assets designated at fair value through the income statement upon initial recognition. A financial asset is classified in this category if it was acquired principally for the purpose of short-term resale or if it was classified in this category by the Bank. 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 Bank classifies financial assets/financial liabilities as measured at fair value through the income statement if they meet either of the following conditions:

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

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

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

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

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

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

<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 Bank supplies monetary assets, goods or services directly to the debtor without any intention of trading the receivable.

Investments held to maturity

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

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

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

Financial assets available for sale

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

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

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

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

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

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

3.6. Offsetting financial instruments

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

3.7. Impairment of financial assets

Assets carried at amortised cost

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

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

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

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

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

If in a subsequent period, 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.

<u>Assets measured at fair value available for sale</u>

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

Renegotiated agreements

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

3.8. Financial guarantee contracts

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

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

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

3.9. Cash and cash equivalents

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

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

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

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

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

Securities borrowed by the Bank are not recognised in the financial statements, unless they are sold to third parties. In such case the purchase 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 Bank, financial assets are transferred in such way that they do not qualify for derecognition. Thus, the Bank retains substantially all risks and rewards of ownership of the financial assets.

3.11. Derivative financial instruments and hedge accounting

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

The best fair value indicator for a derivative instrument at the time of its initial recognition is the price of the transaction (i.e., the fair value of the paid or received consideration). If the fair value of the particular instrument may be determined by comparison with other current market transactions concerning the same instrument (not modified) or relying on valuation techniques based exclusively on market data that are available for observation, then the Bank recognises the respective gains or losses from the first day in accordance with the principles described under Note 3.12.

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

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

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

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

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

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

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

<u>Fair value hedges</u>

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

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

Cash flow hedges

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

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

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

Derivative instruments not fulfilling the criteria of hedge accounting

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

The Bank holds the following derivative instruments in its portfolio:

Market risk instruments:

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

Interest rate risk instruments:

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

Foreign exchange risk instruments:

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

3.12. Gains and losses on initial recognition

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

The transaction for which the fair value determined using a valuation model (where inputs are both observable and non-observable data) and the transaction price differ, the initial recognition is at the transaction price. The Bank assumes that the transaction price is the best indicator of fair value, although the value obtained from the valuation model may differ. The difference between the transaction price and the model value, commonly referred to as "day one profit and loss", is amortised over the period of time. The timing of recognition of deferred day one profit and loss is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable date, or realised through settlement. The financial instrument is subsequently measured at fair value, adjusted for the deferred day one profit and loss. Subsequent changes in fair value are recognised immediately in the income statement without reversal of deferred day one profits and losses.

3.13. Borrowings and deposits taken

Borrowings (including deposits) are initially recognised at fair value reduced by the incurred transaction costs. After the initial recognition, borrowings are recorded at adjusted cost of acquisition (amortised cost 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.

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3.14. Intangible assets

The Bank 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.

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

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

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

Development costs

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

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

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

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

3.15. Tangible fixed assets

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

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

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

Bank 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 Bank 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 Bank shall determine the recoverable amount of the cash-generating unit to which the asset belongs (cash-generating unit of the asset).

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

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 the derecognition of tangible fixed assets are included in profit or loss when the item is derecognised. Gains are not classified as revenue.

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

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

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

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

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

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

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

3.17. Deferred income tax

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

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

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

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

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

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

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

3.18. Assets repossessed for debt

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

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

3.19. Prepayments, accruals and deferred income

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

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

3.20. Leasing

mBank S.A. as a Lessee

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

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 Bank 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.

3.21. Provisions

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

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

3.22. Post-employment employee benefits and other employee benefits

Post-employment employee benefits

The Bank forms provisions against future liabilities on account of post-employment benefits determined on the basis of an estimation of liabilities of that type, using an actuarial model. The Bank uses a principle of recognition of actuarial gains or losses from the measurement of post-employment benefits related to changes in actuarial assumptions in other comprehensive income that will not be reclassified to the income statement. The Bank 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 Bank runs programmes of remuneration based on and settled in own shares as well as based on shares of the ultimate parent of the Bank and settled in cash. 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.

3.23. Equity

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

Registered share capital

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

- Own shares

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

Share premium

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

- Share issue costs

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

Retained earnings

Retained earnings include:

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

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

Moreover, other reserve capital comprises valuation of employee options.

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

Other components of equity

Other components of equity result from:

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

3.24. Valuation of items denominated in foreign currencies

Functional currency and presentation currency

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

Transactions and balances

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

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

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.

3.25. Trust and fiduciary activities

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

3.26. New standards, interpretations and amendments to published standards

These condensed 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 Bank 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 Bank 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 costs recognised in each quarter of the financial year.

  In accordance with the recommendation received from the Polish Financial Supervision Authority (KNF) described under the item 5.32 of Selected explanatory information, the Bank has applied IFRIC 21 in a 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 mBank 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 Bank's net profit for the first half of 2015 and equity as at 30 June 2015 presented in these financial statements would have been lower by PLN 39 777 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 Bank is of the opinion that the application of the amended standards will have no significant impact on the financial statements in the period of their initial application.

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

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

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 Bank continues to apply IAS 39 accounting for macro hedges. The new standard is effective for annual periods beginning on or after 1 January 2018.

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

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

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

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

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

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

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

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

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

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

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

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

3.27. Comparative data

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.

3.28. Business segments

Data concerning business segments was presented in the condensed consolidated financial statements of mBank S.A. Group for the first half of 2015.

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

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

<u>Impairment of loans and advances</u>

The Bank 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 Bank 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.

<u>Fair value of derivatives and other financial instruments</u>

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.

<u>Impairment of available for sale financial assets</u>

The Bank 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 Bank also records impairment charges on available for sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is "significant" or "prolonged" requires judgment. In making this judgment, the Bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

<u>Deferred tax assets</u>

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.

<u>Revenue and expenses from sale of insurance products bundled with loans</u>

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

Liabilities due to post-employment employee benefits

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

5. Selected explanatory information

5.1. Compliance with international financial reporting standards

The presented condensed financial statements for the first half of 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 5.32 of Selected explanatory information, the Bank 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.

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

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

5.3. Seasonal or cyclical nature of the business

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

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

- 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"), subsidiary of mBank S.A., 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 stand-alone gross profit of mBank amounted to PLN 168 265 thousand and was also recognized in the first quarter of 2015. Additionally, as a result of concluding the above mentioned distribution agreements, over the next 10 years the Bank will recognize income in the total amount of PLN 60 000 thousand, which will be reflected in the profit and loss account on a straight line basis.

- 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.

- Dividend income

  In the first half of 2015, the Bank received dividends amounting to PLN 120 960 thousand. This amount mainly includes dividends paid by subsidiaries Aspiro S.A. and mWealth Management S.A. in the amount of respectively PLN 102 874 thousand and PLN 14 911 thousand.

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

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

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

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

5.7. 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.

5.8. Income and profit by business segment

Income and profit by business segment within the Bank are presented on the consolidated level under Note 4 of the condensed consolidated financial statements for the first half of 2015.

5.9. 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 Bank.

5.10. 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 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 i.e. after the sale of Magyar Factor zRt and Intermarket Bank AG in 2011.

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

  On 27 March 2015, there was a sale of the company BRE TUiR S.A., indirect subsidiary of the Bank by the company Aspiro S.A. The sale transaction has been described under item 5.4. of Selected explanatory information.

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

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

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

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

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

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

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

	Period from 01.01.2015 to 30.06.2015	Period from 01.01.2014 to 31.12.2014	Period from 01.01.2014 to 30.06.2014
Provisions for losses on investments in subsidiaries	**(5 454)**	**(38 843)**	**(23 431)**
Net impairment losses on loans and advances, including:	**(174 500)**	**(442 514)**	**(214 884)**
Net impairment losses on amounts due from other banks	(19)	(1 114)	(3 970)
Net impairment losses on loans and advances to customers	(178 080)	(448 058)	(219 768)
Net impairment losses on off-balance sheet contingent liabilities due to customers	3 599	6 658	8 854
Total impairment of financial assets	**(179 954)**	**(481 357)**	**(238 315)**

In the first half of 2015 year, the Bank created an impairment provision for loss on shares in BDH Development Sp. z o.o. in amount PLN 5 454 thousand. In 2014, impairment of investments in subsidiaries relates to the write-off of the carrying value of Transfinance a.s. assets to the fair value less costs to sale due to classification the subsidiary as non-current assets (disposal group) held for sale and the write-off of the Bank's involvement in the company Garbary Sp. z o.o.

5.15. Reversals of provisions against restructuring costs

Events as indicated above did not occur in the Bank.

5.16. Acquisitions and disposals of tangible fixed asset items

In the first half of 2015, there were no material transactions of acquisition or disposal of any tangible fixed assets.

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

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

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

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

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

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

5.20. Corrections of errors from previous reporting periods

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

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

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

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

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

5.23. 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 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 preference**	**Type of restrictions**	**Number of shares**	**Series / issue value**	**Paid up**	**Year of registration**
ordinary bearer*	-	-	9 982 500	39 930 000	fully paid in cash	1986
ordinary registered*	-	-	17 500	70 000	fully paid in cash	1986
ordinary bearer	-	-	2 500 000	10 000 000	fully paid in cash	1994
ordinary bearer	-	-	2 000 000	8 000 000	fully paid in cash	1995
ordinary bearer	-	-	4 500 000	18 000 000	fully paid in cash	1997
ordinary bearer	-	-	3 800 000	15 200 000	fully paid in cash	1998
ordinary bearer	-	-	170 500	682 000	fully paid in cash	2000
ordinary bearer	-	-	5 742 625	22 970 500	fully paid in cash	2004
ordinary bearer	-	-	270 847	1 083 388	fully paid in cash	2005
ordinary bearer	-	-	532 063	2 128 252	fully paid in cash	2006
ordinary bearer	-	-	144 633	578 532	fully paid in cash	2007
ordinary bearer	-	-	30 214	120 856	fully paid in cash	2008
ordinary bearer	-	-	12 395 792	49 583 168	fully paid in cash	2010
ordinary bearer	-	-	16 072	64 288	fully paid in cash	2011
ordinary bearer	-	-	36 230	144 920	fully paid in cash	2012
ordinary bearer	-	-	35 037	140 148	fully paid in cash	2013
ordinary bearer	-	-	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		**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 financial statements, the share capital of mBank S.A. amounted to PLN 168 915 876 and was divided into 42 228 969 shares.

5.24. 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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5.25. Earnings per share

Earnings per share for 6 months

	Period from 01.01.2015 to 30.06.2015	Period from 01.01.2014 to 30.06.2014
Basic:		
Net profit	689 118	589 232
Weighted average number of ordinary shares	42 210 143	42 175 481
Net basic profit per share (in PLN per share)	**16.33**	**13.97**
Diluted:		
Net profit applied for calculation of diluted earnings per share	689 118	589 232
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)	**16.31**	**13.95**

5.26. 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. Upon receiving a justification of the ruling the Bank will make a decision on filing an appeal against the sentence to the Supreme Court.

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

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

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

3. Claims of clients of Interbrok

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

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

4. Class action against mBank S.A.

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

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

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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

Within the period from 1 January 2015 to 30 June 2015 there were no tax audit conducted in mBank.

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

5.27. Off-balance sheet liabilities

Off-balance sheet liabilities as at 30 June 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	**32 129 337**	**30 946 119**	**25 910 905**
Commitments granted	**30 499 050**	**29 372 865**	**24 391 600**
- financing	18 774 051	18 569 299	15 920 432
- guarantees and other financial facilities	11 724 999	10 789 166	8 465 714
- other commitments	-	14 400	5 454
Commitments received	**1 630 287**	**1 573 254**	**1 519 305**
- financial commitments received	72 000	31 841	-
- guarantees received	1 558 287	1 541 413	1 519 305
2. Derivative financial instruments (nominal value of contracts)	**643 194 936**	**757 955 294**	**688 405 355**
Interest rate derivatives	542 217 677	679 867 169	629 225 305
Currency derivatives	99 450 687	76 718 706	57 696 236
Market risk derivatives	1 526 572	1 369 419	1 483 814
Total off-balance sheet items	**675 324 273**	**788 901 413**	**714 316 260**

5.28. Transactions with related entities

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

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

Key transactions concluded with related companies in 2015

- From 11 September 2014 to 30 March 2015, the Bank concluded several agreements with its subsidiary entity mBank Hipoteczny S.A. totalling PLN 1 683 561 thousand. The agreement of the largest value was bilateral loan agreement concluded on 30 March 2015 in the amount of PLN 1 068 000.
- From 13 June 2014 to 29 January 2015, the Bank has concluded several agreements with the company mLeasing Sp. z oo, totalling PLN 2 161 532 thousand. Of the aforesaid agreements, a loan agreement of 28 January 2015 worth EUR 115 000 thousand (PLN 487 002 thousand according to the NBP average exchange rate as at 28 January 2015) had the highest value.
- From 30 January 2015, the Bank has concluded further agreements with the company mLeasing Sp. z o.o. totalling PLN 1 130 950 thousand. The largest of the aforementioned agreements was the annex of 26 May 2015 to the agreement concluded on 29 January 2015, which increased loan value from PLN 200 000 thousand to PLN 630 000 thousand with repayment date falling on 26 May 2017.

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	10 352 261	9 096 125	7 653 267	426 945	891 901	754 093
Liabilities	8 360 334	8 087 970	5 814 787	16 077 882	14 647 070	15 868 777
Income Statement						
Interest income	84 423	180 332	86 956	90 797	162 714	69 441
Interest expense	(92 496)	(138 813)	(58 978)	(125 301)	(322 541)	(161 897)
Fee and commission income	25 877	83 172	38 907	-	-	-
Fee and commission expense	(59 517)	(127 199)	(63 936)	-	-	-
Other operating income	6 587	42 038	4 781	7	378	217
Overhead costs, amortisation and other operating expenses	(3 236)	(10 407)	(2 734)	(4 866)	(9 532)	(4 577)
Contingent liabilities granted and received						
Contingent liabilities granted	7 660 453	7 906 967	5 378 468	1 270 234	1 309 589	1 049 234
Contingent liabilities received	-	-	-	773 238	836 870	901 298

5.29. 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 equity 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.

5.30. Fair value of financial assets and liabilities

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

Following market practices the Bank values open positions in financial instruments using either the mark-to-market approach or is applying pricing models well established in market practice (mark-to-model method) which use as inputs market prices or market parameters, and in few cases parameters estimated internally by the Bank. All significant open positions in derivatives (currency or interest rates) are valued by 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 Bank estimated that the fair value of short-term financial liabilities (less than 1 year) is equal to the balance sheet values of such items.

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

The following table presents a summary of balance sheet values and fair values for each group of financial assets and liabilities not recognised in the statement of financial position 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	**4 392 187**	**4 403 209**	**5 648 047**	**5 645 303**	**5 723 463**	**5 722 098**
Loans and advances to customers	**71 356 094**	**71 838 026**	**69 529 868**	**70 241 523**	**66 037 410**	**66 938 161**
Loans and advances to individuals	**42 153 673**	**42 785 039**	**39 330 643**	**40 116 754**	**38 284 518**	**39 196 689**
current accounts	5 121 211	5 133 293	4 848 799	4 927 627	4 859 503	4 961 300
term loans including:	37 032 462	37 651 746	34 481 844	35 189 127	33 425 015	34 235 389
- housing and mortgage loans	31 263 368	31 780 738	29 111 601	29 687 041	28 464 974	29 134 253
Loans and advances to corporate entities	**26 657 615**	**26 522 670**	**27 405 734**	**27 344 157**	**25 440 669**	**25 439 730**
current accounts	3 993 605	3 968 759	3 403 415	3 389 500	4 055 824	4 038 204
term loans	21 801 120	21 691 021	20 145 535	20 097 873	18 730 632	18 747 313
- corporate & institutional enterprises	12 132 599	12 101 691	11 336 596	11 325 467	10 401 053	10 418 181
- medium & small enterprises	9 668 521	9 589 330	8 808 939	8 772 406	8 329 579	8 329 132
reverse repo / buy sell back transactions	842 093	842 093	3 838 553	3 838 553	2 652 320	2 652 320
other	20 797	20 797	18 231	18 231	1 893	1 893
Loans and advances to public sector	**1 500 926**	**1 486 437**	**1 748 153**	**1 735 274**	**1 690 899**	**1 680 418**
Other receivables	**1 043 880**	**1 043 880**	**1 045 338**	**1 045 338**	**621 324**	**621 324**
Financial liabilities						
Amounts due to other banks	**15 701 259**	**15 503 419**	**13 384 224**	**13 508 718**	**22 098 282**	**22 455 150**
Amounts due to customers	**80 194 819**	**80 316 927**	**79 312 266**	**79 528 752**	**67 887 087**	**68 059 342**
Debt securities in issue	**386 264**	**387 787**	**386 423**	**389 051**	**386 744**	**390 833**
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 Bank for estimation of the fair values of financial instruments:

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

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

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

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

The following tables presents the hierarchy of fair values of financial assets and liabilities recognised in the condensed statement of financial position of the Bank 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	**2 693 856**	**2 122 855**	**-**	**571 001**
Debt securities	**2 687 978**	**2 116 994**	**-**	**570 984**
- government bonds	2 116 000	2 116 000	-	-
- deposit certificates	15 102	-	-	15 102
- mortgage bonds	88 880	-	-	88 880
- banks bonds	357 367	994	-	356 373
- corporate bonds	110 629	-	-	110 629
Equity securities	**5 878**	**5 861**	**-**	**17**
- listed	5 861	5 861	-	-
- unlisted	17	-	-	17
DERIVATIVE FINANCIAL INSTRUMENTS	**3 367 922**	**-**	**3 367 266**	**656**
Derivative financial instruments held for trading	**3 205 483**	**-**	**3 204 827**	**656**
- interest rate derivatives	2 805 721	-	2 805 721	-
- foreign exchange derivatives	389 754	-	389 754	-
- market risks derivatives	10 008	-	9 352	656
Derivative financial instruments held for hedging	**162 439**	**-**	**162 439**	**-**
- derivatives designated as fair value hedges	121 725	-	121 725	-
- derivatives designated as cash flow hedges	40 714	-	40 714	-
INVESTMENT SECURITIES	**28 924 293**	**24 469 564**	**3 664 453**	**790 276**
Debt securities	**28 705 091**	**24 263 853**	**3 664 453**	**776 785**
- government bonds	24 222 213	24 222 213	-	-
- money bills	3 664 453	-	3 664 453	-
- mortgage bonds	302 044	-	-	302 044
- banks bonds	68 602	-	-	68 602
- corporate bonds	406 139	-	-	406 139
- communal bonds	41 640	41 640	-	-
Equity securities	**219 202**	**205 711**	**-**	**13 491**
- listed	204 717	204 717	-	-
- unlisted	14 485	994	-	13 491
TOTAL FINANCIAL ASSETS	**34 986 071**	**26 592 419**	**7 031 719**	**1 361 933**

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	**3 326 380**	**-**	**3 326 380**	**-**
Derivative financial instruments held for trading	**3 310 400**	**-**	**3 310 400**	**-**
- interest rate derivatives	2 887 369	-	2 887 369	-
- foreign exchange derivatives	413 008	-	413 008	-
- market risks derivatives	10 023	-	10 023	-
Derivative financial instruments held for hedging	**15 980**	**-**	**15 980**	**-**
- derivatives designated as fair value hedges	13 231	-	13 231	-
- derivatives designated as cash flow hedges	2 749	-	2 749	-
Total financial liabilities	**3 326 380**	**-**	**3 326 380**	**-**
TOTAL RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS	**34 986 071**	**26 592 419**	**7 031 719**	**1 361 933**
FINANCIAL LIABILITIES	**3 326 380**	**-**	**3 326 380**	**-**

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	**626 687**	**22**	**469**	**635 432**	**7 665**
Gains and losses for the period:	1 349	(5)	187	1 623	2 423
Recognised in profit or loss:	1 349	(5)	187	1 531	2 339
Net trading income	*1 349*	*(5)*	*187*	-	-
Gains less losses from investment securities, investments in subsidiaries and associates	-	-	-	*1 531*	*2 339*
Recognised in other comprehensive income:	-	-	-	*92*	*84*
Available for sale financial assets	-	-	-	*92*	*84*
Purchases	1 030 893	-	-	374 153	6 140
Redemptions	(103 316)	-	-	(71 369)	-
Sales	(5 861 459)	-	-	(466 750)	(2 737)
Issues	4 876 830	-	-	303 696	-
As at the end of the period	**570 984**	**17**	**656**	**776 785**	**13 491**

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

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 s 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	**1 251 064**	**624 355**	**-**	**626 709**
Debt securities	**1 245 617**	**618 930**	**-**	**626 687**
- government bonds	617 906	617 906	-	-
- mortgage bonds	80 399	-	-	80 399
- banks bonds	492 318	1 024	-	491 294
- corporate bonds	54 994	-	-	54 994
Equity securities	**5 447**	**5 425**	**-**	**22**
- listed	5 425	5 425	-	-
- unlisted	22	-	-	22
DERIVATIVE FINANCIAL INSTRUMENTS	**4 874 882**	**-**	**4 874 413**	**469**
Derivative financial instruments held for trading	**4 720 489**	**-**	**4 720 020**	**469**
- interest rate derivatives	4 415 877	-	4 415 877	-
- 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	**27 246 034**	**22 603 370**	**3 999 567**	**643 097**
Debt securities	**27 007 449**	**22 372 450**	**3 999 567**	**635 432**
- government bonds	22 330 875	22 330 875	-	-
- money bills	3 999 567	-	3 999 567	-
- mortgage bonds	325 671	-	-	325 671
- banks bonds	24 907	-	-	24 907
- corporate bonds	284 854	-	-	284 854
- communal bonds	41 575	41 575	-	-
Equity securities	**238 585**	**230 920**	**-**	**7 665**
- listed	229 961	229 961	-	-
- unlisted	8 624	959	-	7 665
TOTAL FINANCIAL ASSETS	**33 371 980**	**23 227 725**	**8 873 980**	**1 270 275**

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

31.12.2014	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	**4 755 856**	**-**	**4 755 400**	**456**
Derivative financial instruments held for trading	**4 751 619**	**-**	**4 751 163**	**456**
- interest rate derivatives	4 424 514	-	4 424 514	-
- foreign exchange derivatives	306 290	-	306 290	-
- market risks derivatives	20 815	-	20 359	456
Derivative financial instruments held for hedging	**4 237**	**-**	**4 237**	**-**
- derivatives designated as fair value hedges	3 547	-	3 547	-
- derivatives designated as cash flow hedges	690	-	690	-
Total financial liabilities	**4 755 856**	**-**	**4 755 400**	**456**
TOTAL RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS	**33 371 980**	**23 227 725**	**8 873 980**	**1 270 275**
FINANCIAL LIABILITIES	**4 755 856**	**-**	**4 755 400**	**456**

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	**615 439**	**6**	**407**	**502 204**	**16 395**
Gains and losses for the period:	10 953	16	62	1 717	14
Recognised in profit or loss:	10 953	16	62	-	-
Net trading income	*10 953*	*16*	*62*	-	-
Recognised in other comprehensive income:	-	-	-	*1 717*	*14*
Available for sale financial assets	-	-	-	*1 717*	*14*
Purchases	3 563 567	-	-	932 040	6 160
Redemptions	(403 363)	-	-	(31 800)	-
Sales	(13 860 675)	-	-	(1 075 049)	(15 887)
Issues	10 700 766	-	-	304 918	-
Settlements	-	-	-	1 402	70
Transfers into Level 3	-	-	-	-	913
As at the end of the period	**626 687**	**22**	**469**	**635 432**	**7 665**

In 2014, 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 had been observed. These transfers resulted from the effect of valuation techniques revision applied to minority stakes of low value held by the Bank.

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)

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

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

TOTAL RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS	**32 771 314**	**24 304 926**	**7 464 521**	**1 001 867**
FINANCIAL LIABILITIES	**2 933 654**	**588**	**2 931 553**	**1 513**

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

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

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

Level 1

As at 30 June 2015, at level 1 of the fair value hierarchy, the Bank has presented the fair value of held for trading government bonds in the amount of PLN 2 116 00 thousand and the fair value of investment government bonds in the amount of PLN 24 222 213 thousand (31 December 2014 and 30 June 2014 respectively: PLN 617 906 thousand and PLN 22 330 875 thousand as well as PLN 2 091 930 thousand and PLN 21 693 534 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), 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: PLN 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 211 572 thousand, including the value of shares in PZU S.A. in the amount of PLN 204 717 thousand (31 December 2014 respectively: PLN 236 345 thousand and PLN 229 961 thousand; 30 June 2014 respectively: PLN 226 101 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 3 664 453 thousand (31 December 2014: PLN 3 999 567 thousand; 30 June 2014: PLN 4 448 784 thousand), whose valuation is based on a NPV model (discounted future cash flows) fed with interest rate curves generated by transformation of quotations taken directly from active and liquid financial markets.

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

As at 30 June 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 due to changes in the valuation of these options from market quotations towards the application of the Bank's own valuation model. Change in valuation was due to the limited liquidity of the market in which these options are listed, hence using the Bank's valuation model provides for a higher quality of fair values compared to the previous approach.

Level 3

Level 3 of the hierarchy presents the fair values of commercial debt securities issued by local banks and companies (bonds, mortgage bonds and deposit certificates) in the amount of PLN 1 347 769 thousand (31 December 2014: PLN 1 262 119 thousand; 30 June 2014: PLN 998 890 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 13 508 thousand (31 December 2014: PLN 7 687 thousand; 30 June 2014: PLN 1 429 thousand) valuated using the market multiples method. The market multiples method, consists of valuating the equity capital of a company by using a relation between the market values of the own equity capital or market values of the total capital invested in comparable companies (goodwill) and selected economic and financial figures.

5.31. 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 at the moment of its entry into force.

5.32. 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. Condensed Financial Statements for the first half of 2015.

Had mBank 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 Bank's net profit for the first half of 2015 and equity as at 30 June 2015 presented in these financial statements would have been lower by PLN 39 777 thousand.