mBank S.A. Group

IFRS Condensed Consolidated Financial Statements
for the fourth quarter of 2014

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Selected financial data

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

SELECTED FINANCIAL DATA FOR THE GROUP		in PLN'000		in EUR'000	
		4 Quarters period from 01.01.2014 to 31.12.2014	4 Quarters period from 01.01.2013 to 31.12.2013	4 Quarters period from 01.01.2014 to 31.12.2014	4 Quarters period from 01.01.2013 to 31.12.2013
I.	Interest income	3 956 254	3 949 971	944 371	938 013
II.	Fee and commission income	1 399 601	1 303 834	334 089	309 626
III.	Net trading income	369 156	342 978	88 119	81 448
IV.	Operating profit	1 652 700	1 517 703	394 505	360 414
V.	Profit before income tax	1 652 700	1 517 703	394 505	360 414
VI.	Net profit attributable to Owners of mBank S.A.	1 286 668	1 206 375	307 132	286 482
VII.	Net profit attributable to non-controlling interests	2 642	2 603	631	618
VIII.	Net cash flows from operating activities	(26 185)	(871 524)	(6 250)	(206 964)
IX.	Net cash flows from investing activities	(196 312)	(146 971)	(46 860)	(34 902)
X.	Net cash flows from financing activities	1 229 274	(2 846 202)	293 432	(675 897)
XI.	Net increase / decrease in cash and cash equivalents	1 006 777	(3 864 697)	240 321	(917 762)
XII.	Basic earnings per share (in PLN/EUR)	30.50	28.62	7.28	6.80
XIII.	Diluted earnings per share (in PLN/EUR)	30.47	28.61	7.27	6.79
XIV.	Declared or paid dividend per share (in PLN/EUR)	17.00	10.00	4.06	2.37

SELECTED FINANCIAL DATA FOR THE GROUP		in PLN'000			in EUR'000		
		As at			As at		
		31.12.2014	30.09.2014	31.12.2013	31.12.2014	30.09.2014	31.12.2013
I.	Total assets	117 985 822	117 327 295	104 282 761	27 681 257	28 098 981	25 145 342
II.	Amounts due to the Central Bank	-	1	-	-	-	-
III.	Amounts due to other banks	13 383 829	19 777 663	19 224 182	3 140 049	4 736 598	4 635 461
IV.	Amounts due to customers	72 422 479	69 563 534	61 673 527	16 991 408	16 659 929	14 871 124
V.	Equity attributable to Owners of mBank S.A.	11 043 242	10 750 063	10 229 342	2 590 911	2 574 557	2 466 566
VI.	Non-controlling interests	29 738	29 853	27 096	6 977	7 150	6 534
VII.	Share capital	168 840	168 830	168 696	39 612	40 433	40 677
VIII.	Number of shares	42 210 057	42 207 402	42 174 013	42 210 057	42 207 402	42 174 013
IX.	Book value per share (in PLN/EUR)	261.63	254.70	242.55	61.38	61.00	58.49
X.	Total capital ratio/capital adequacy ratio	14.69	15.57	19.38	14.69	15.57	19.38

SELECTED FINANCIAL DATA FOR THE BANK		in PLN'000		in EUR'000	
		4 Quarters period from 01.01.2014 to 31.12.2014	4 Quarters period from 01.01.2013 to 31.12.2013	4 Quarters period from 01.01.2014 to 31.12.2014	4 Quarters period from 01.01.2013 to 31.12.2013
I.	Interest income	3 634 827	3 631 968	867 645	862 495
II.	Fee and commission income	1 176 602	1 084 180	280 859	257 464
III.	Net trading income	354 751	326 358	84 680	77 501
IV.	Operating profit	1 478 569	1 340 645	352 939	318 367
V.	Profit before income tax	1 478 569	1 340 645	352 939	318 367
VI.	Net profit	1 174 096	1 070 306	280 261	254 169
VII.	Net cash flows from operating activities	21 332	(1 899 191)	5 092	(451 007)
VIII.	Net cash flows from investing activities	(93 504)	126 161	(22 320)	29 960
IX.	Net cash flows from financing activities	1 000 190	(2 379 208)	238 749	(564 998)
X.	Net increase / decrease in cash and cash equivalents	928 018	(4 152 238)	221 521	(986 046)
XI.	Basic earnings per share (in PLN/EUR)	27.83	25.39	6.64	6.03
XII.	Diluted earnings per share (in PLN/EUR)	27.81	25.38	6.64	6.03
XIII.	Declared or paid dividend per share (in PLN/EUR)	17.00	10.00	4.06	2.37

SELECTED FINANCIAL DATA FOR THE BANK		in PLN'000			in EUR'000		
		As at			As at		
		31.12.2014	30.09.2014	31.12.2013	31.12.2014	30.09.2014	31.12.2013
I.	Total assets	113 603 463	113 128 491	100 232 132	26 653 089	27 093 400	24 168 628
II.	Amounts due to the Central Bank	-	1	-	-	-	-
III.	Amounts due to other banks	13 384 224	19 609 706	18 863 854	3 140 141	4 696 373	4 548 576
IV.	Amounts due to customers	79 312 266	74 281 418	64 008 374	18 607 856	17 789 826	15 434 118
V.	Own equity	10 269 586	10 006 406	9 573 220	2 409 400	2 396 457	2 308 357
VI.	Share capital	168 840	168 830	168 696	39 612	40 433	40 677
VII.	Number of shares	42 210 057	42 207 402	42 174 013	42 210 057	42 207 402	42 174 013
VIII.	Book value per share (in PLN/EUR)	243.30	237.08	226.99	57.08	56.78	54.73
IX.	Total capital ratio/capital adequacy ratio	16.99	17.66	20.59	16.99	17.66	20.59

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

- for items of the statement of financial position – exchange rate announced by the National Bank of Poland as at 31 December 2014: EUR 1 = PLN 4.2623, as at 30 September 2014: EUR 1 = PLN 4.1755, 31 December 2013: EUR 1 = PLN 4.1472.
- 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 four quarters of 2014 and 2013: EUR 1 = PLN 4.1893 and EUR 1 = PLN 4.2110 respectively.

Introduction

Q4 2014 proved to be a challenging quarter for mBank Group. The results were negatively influenced by a number of factors, including lower interest rates and, similarly to the previous quarter, lower interchange fees. While the level of total income decreased, net profit was only slightly lower compared to the previous quarter thanks to declining net impairment losses on loans and advances and stable costs.

In Q4 2014 mBank Group reported a sound loan and deposit growth among business segment. In particular, retail lending growth exceeded growth rates registered by the market contributing to mBank's Group market share gains.

Total income of the Group declined in Q4 2014, mainly due to lower core income: net interest income and net fee and commissions income. At the same time, despite the ongoing marketing campaigns and implementation of strategic projects, the Group's total cost base maintained stable compared to the previous quarter.

On October 2, 2014 a joint venture between mBank and Orange – Orange Finance was launched. This modern tailor-made product offer for the clients of mBank and Orange resulted in over 41 thousand current accounts opened by the end of 2014 in Orange Finance.

The reorganization of mBank's branch network continued in Q4 2014 – first "light" branches in Łódź and Szczecin opened in 2014 and the next one opened in Gdynia in January 2015. Light branches offer a fast and efficient basic service for mBank clients in attractive and convenient locations.

In Q4 2014, mBank Group generated a profit before tax of PLN 383.8 million, representing a decrease of PLN 36.0 million or 8.6% compared to Q3 2014. Net profit attributable to shareholders of mBank was at PLN 6.9 million or (2.2% QoQ) lower and amounted to PLN 308.6 million.

The main factors determining changes in the results were as follows:

- **Lower revenues** of PLN 939.9 million (-7.8% QoQ). Net interest income decreased by PLN 17.4 million or 2.7% and net fee and commission income was lower by PLN 15.8 million or 7.3%. Net trading income decreased by PLN 25.8 million or 26.8%. In Q4 2014, the Group realized gains on the sale of government bonds, which improved its result on investment securities. In Q4 2014, the Group recorded a decrease in net other operating income and costs (of PLN 35.7 million or 97.3%). Additionally, the Group reported a dividend income of PLN 1.0 million compared to PLN 16.2 million a quarter earlier (Q3 2014 results were supported by a dividend received from PZU).

- **Stable operating expenses** (including amortization and depreciation) compared to the previous quarter, amounting to PLN 443.5 million. Due to lower revenues and stable level of operating expenses, the effectiveness of mBank Group measured by the cost/income ratio deteriorated compared to the previous quarter. The cost/income ratio was 47.2% in Q4 2014 compared to 43.3% in Q3 2014.

- **Lower level of risk costs** which amounted to 61 bps in Q4 2014. **Net impairment losses on loans and advances** decreased to PLN 112.6 million as overall asset quality remained stable.

- **Lower effective tax rate** of 19.6% compared to 24.8% registered in Q3 2014, when the Bank booked a provision on income tax related to concluded transaction of sale of its insurance unit.

- **Continued organic growth and business expansion**, as demonstrated by:

    - **Growth of the retail customer base** to 4,689 thousand (+124 thousand customers compared to Q3 2014);

    - **Increase in the number of corporate customers** to 17,787 customers (+397 customers compared to Q3 2014).

As at the end of Q4 2014, net loans and advances stood at PLN 74,582.4 million and were PLN 2,624.0 million or 3.6% higher compared to the end of September 2014. The change was driven by an increase in the volume of both corporate and retail loans. The volumes of gross loans and advances to corporate customers and to retail customers amounted to PLN 32,841.0 million and PLN 41,560.5 million respectively.

Customer deposits increased by PLN 2,859.0 million or 4.1% QoQ and reached PLN 72,422.5 million. Retail customer deposits increased by 7.2% and stood at PLN 39,284.8 million and corporate deposits increased by 2.1% to PLN 32,237.1 million.

As a result of the developments discussed above, the loan to deposit ratio of mBank Group improved further and amounted to 103.0%.

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

- Gross ROE amounted to 15.5% (compared to 17.1% in Q3 2014);
- Net ROE amounted to 12.4% (compared to 12.8% in Q3 2014).

The Capital Ratios of mBank Group remained at safe levels. As at the end of December 2014, the total capital ratio amounted to 14.7% and the Common Equity Tier 1 ratio stood at 12.3%. During December 2014 mBank raised additional PLN 750 million Subordinated Debt, of which the impact on mBank's capital ratios has not yet been reflected in the aforementioned capital ratios. The Polish FSA confirmed the compliance of the Subordinated Debt issue with the requirements of the CRR in January 2015.

Changes to the mBank branch network

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

The first "light" branches opened at the Manufaktura shopping mall in Łódź and the Kaskada shopping mall in Szczecin in Q4 2014 and at a shopping mall in Gdynia in January 2015.

According to the sales network reorganisation plan, 44 "light" branches will open in Poland. They will offer fast and efficient core customer services including cash transactions, opening accounts, applying for a payment card, taking a cash loan, etc.

Mobile banking offer extension

mBank's new mobile application was launched on February 19, 2014. Similar to the electronic platform, the application has been developed from scratch and is available for the leading operating systems (Android, iOS, Windows Phone and Windows 8.1) with a graphic interface emulating the online banking platform interface.

In mid-December 2014 mBank launched the new mobile application for clients of its foreign branches in the Czech Republic and Slovakia.

mBank's mobile banking had 892 thousand users at the end of Q4 2014 (the number includes users of light websites as well as mobile applications on all platforms: Android, iOS and WP), which was the highest number among all Polish banks.

EMTN Programme

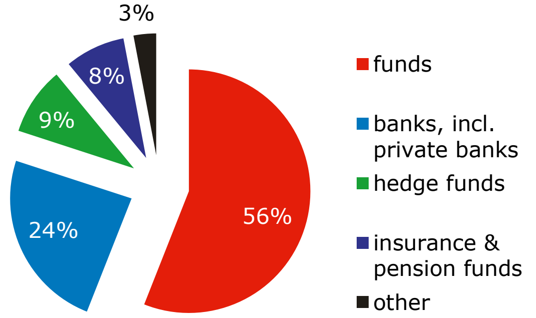
In 2012, BRE Finance France (now mFinance France) as issuer and the Bank as underwriter signed a EUR 2 billion EMTN (Euro Medium Term Notes) Programme agreement. In March 2014, the EMTN Programme Prospectus was updated and the Programme amount was raised to EUR 3 billion. The purpose of the Programme is to enable the Bank to issue debt securities in multiple tranches and currencies with diverse interest structure.

The EMTN Programme was rated "A" by Fitch Ratings and "BBB+" by Standard and Poor's Rating Services.

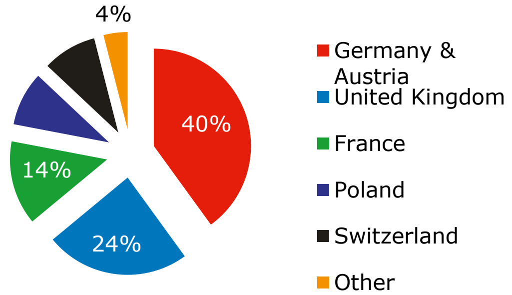
On November 21, 2014, mFinance France issued another EUR 500 million tranche of notes maturing in 2021. The interest rate of the euro notes is 2.0% p.a. On November 25, 2014, the issued tranche of euro notes was rated by Fitch Ratings and by Standard & Poor's Ratings Services at the same level as the EMTN Programme rating and mBank's long-term rating.

The figures below present the geographic allocation and investor groups of the euro notes issued in Q4 2014.

Distribution by investor type



Distribution by investor location



Co-operation with AXA Group

On September 11, 2014, mBank's subsidiary Aspiro, the shareholder of BRE Ubezpieczenia Towarzystwo Ubezpieczeń i Reasekuracji (BRE Ubezpieczenia TUiR), signed an agreement with the AXA Group to sell 100% of BRE Ubezpieczenia TUiR.

According to the sale agreement, the sale of 100% of BRE Ubezpieczenia TUiR is subject to a number of conditions precedent including:

- approval of the Office of Competition and Consumer Protection (UOKiK), and
- no objection of the Polish Financial Supervision Authority (KNF).

One of the conditions precedent was met on November 13, 2014. The President of the Office of Competition and Consumer Protection issued his approval for the acquisition of BRE Ubezpieczenia TUiR by Avanssur.

After all the required permissions have been obtained, agreements will be signed as part of the transaction to govern the long-term co-operation between the Bank and the AXA Group companies concerning distribution of life and non-life insurance products. The term of the distribution agreements will be no less than 10 years.

Awards and distinctions

For the Bank and mBank Group, Q4 2014 was yet another quarter when the implementation of the "One Bank" Strategy introduced in 2012 was recognised and appreciated by both market participants and domestic and foreign experts.

The New mBank platform that was made available in June 2013, allowing clients to use totally redefined Internet and mobile banking, with state-of-the-art technologies, comprehensive solutions and very efficient sales methods, was appreciated in Q4 2014, as in previous quarters, and received a number of awards and distinctions.

At the AppAwards gala, mBank's mobile application received 4 statuettes. By the votes of clients the application was named the best financial tool for three major mobile platforms: iOS, Android and Windows Phone – in this category the Bank also received a jury prize.

Apart from awards granted by users, mBank was once again recognised by an international society of experts in the BAI-Finacle Global Banking Innovation Award competition. The jury of that global competition that was organised for the fourth time, awards innovations implemented worldwide in the retail banking sector. On November 12, 2014, during an official gala in Chicago, mBank received the main award in the Channel Innovation category for its modern e-banking.

Moreover, during the Global Architecture Award of Excellence 2014 ceremony which took place in India, the Customer Analytics initiative was awarded a statuette in the Business Intelligence and Analysis category *(Customer Analytics System allows to collect, process and report data on behaviour of both existing and potential clients of retail banking on the Internet in real time)*.

Apart from awards for the mBank platform, mBank Group received other awards as well.

Once again, the mBank team of analysts was appreciated by the market. In the 13th edition of the Parkiet ranking, investment fund managers decided that Dom Maklerski mBanku (mBank Brokerage House) has the best analytical team and one of the analysts was among the winners of the ranking (the best specialist in the chemical sector and fuel companies). Dom Maklerski mBanku scored most points in the *Corporate Access* category.

Forrester: mBank's banking in the top international league

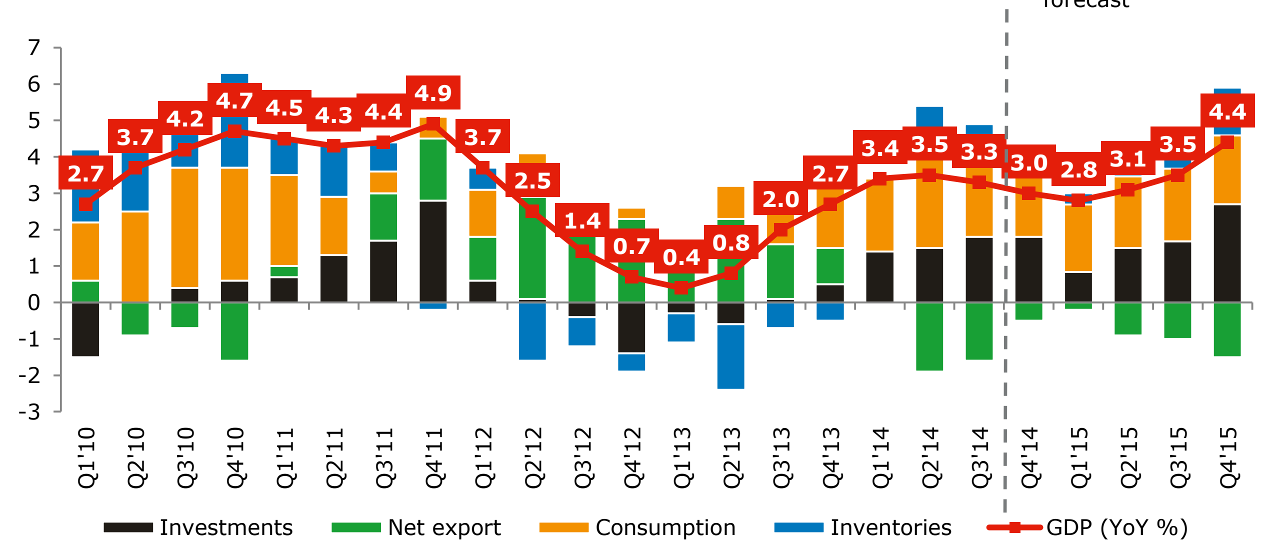
Forrester Research, a global research and advisory company, has analysed services offered by banks in order to find the most innovative solutions. mBank has proven to be beyond competition, taking the first place in the category of online banking in Europe and coming at the forefront among the best mobile banking solutions in the world.

In the case of online banking, the Forrester analysts scrutinised banking services of ten big retail banks and compared them in terms of nine categories: account management, cash flows, money management, security and access, cross-selling, self-service features, assistance services, alerts and eDelivery. On the grounds of these findings **online banking of mBank was recognised as the best in Europe**, winning in five out of all categories mentioned above.

Macroeconomic environment in Q4 2014

In Q4 2014, activity in the Polish economy stabilised below the H1 2014 level. The growth rate of the industrial and construction output remained close to nil while retail sales continued to decline since May 2014. The Bank's projections based on monthly statistics suggest that the Polish economy slowed down from a GDP growth of 3.3% in Q3 2014 to ca. 3.0% in Q4 2014. While the mid-term outlook of Poland remains positive, the balance of risks (especially external risks) calls for caution in growth projections at the turn of 2014 to 2015. As the Polish economy lacks clear momentum, it seems that the local GDP growth will bottom at this time.

Contribution to GDP growth



In 2014, the Polish economy was hit by a number of negative macroeconomic shocks, including mainly a sharp decline of demand for Polish products among Poland's eastern trade partners, as well as an economic slow-down in the eurozone. In Q4 2014, the former factor only augmented, largely due to the dynamic depreciation of the Russian rouble, the measures taken by the Bank of Russia to defend the currency (further interest rate hike), as well as similar developments in other ex-USSR countries (Belarus, Ukraine, Kazakhstan, Moldova). As a result, the volume of exports to those markets is likely to fall even further. At the same time, demand on the part of Western trade partners has stabilised and is growing at a moderate rate.

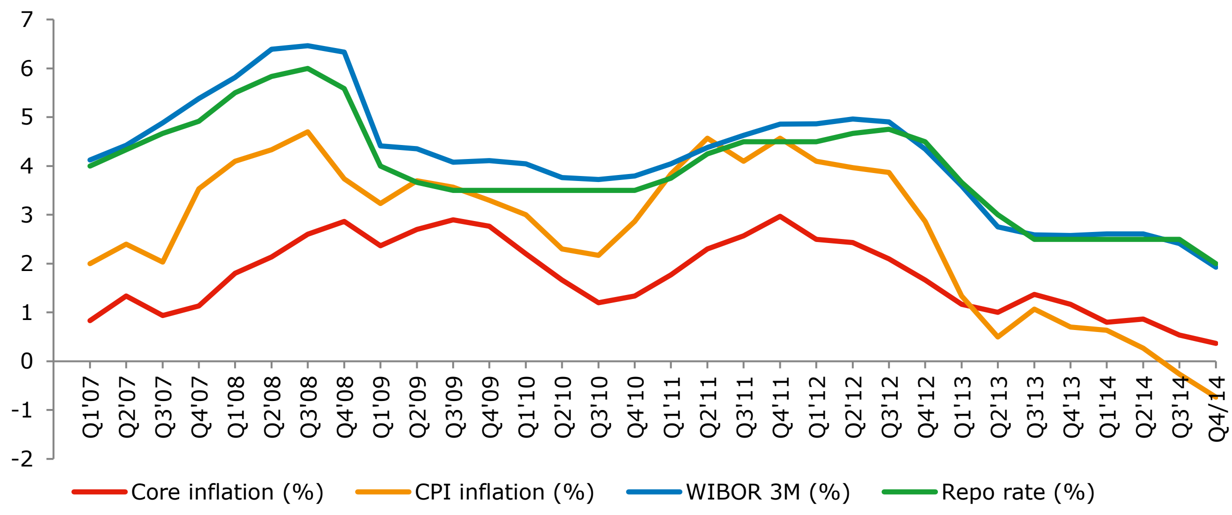
In view of the prevailing weak foreign demand, domestic demand will remain the main driver of economic growth. While in the opinion of the Bank the growth rate of consumption and investments most likely decreased moderately in Q4 2014, it did remain high. What was key for consumption in 2014 was the improved sentiment, combined with the unlocked potential of real consumer income owing to low inflation generated by the external factors. As retail sales growth was close to nil, it would follow that consumption growth in 2014 was mainly driven by services. The growth of investments, in turn, most likely continued to be driven by private corporate investments in plant, machinery and equipment. The local government elections in November could open some space for growth of public investments; however, the construction statistics for the period do not corroborate such developments.

According to the Bank, the odds are against boosting consumption and investments in the upcoming months. Although low fuel prices clearly support consumption (also through second order effects related to consumption), the abrupt depreciation of the Polish zloty at the turn of 2014 and 2015 (against euro and especially the Swiss franc - as the Swiss central bank abandoned the euro cap) will negatively affect consumption by deteriorating sentiment and increasing costs of servicing foreign currency loans. With regard to the latter, it is worth noting that weakening of the Polish zloty against the Swiss franc to a large extent compensates for the decreased Libor rates (for 3M up to approx. -1%). Taking all factors into account, the Bank estimates that the impact of the Swiss National Bank's (SNB) decision on the Polish economy will be small and will not exceed 0.2% of GDP. Investments may soon go through a transitional period, in which undertakings that have been initiated last year will come to an end and no other public investments financed by the EU will replace them (increased activity is expected here in the middle of 2015).

Inflation, interest rates and FX rates

In Q4 2014, the previously observed deflation trends (record-low food prices, weak demand leading to very low core inflation) overlapped with the oil shock. Oil prices fell by half within months; as a result, retail prices at petrol stations fell by ca. 10.2% at the year's end; the early weeks of 2015 brought further falls. In result, inflation fell to -1.0% in December (-0.3% at the end of Q3). Average annual effective inflation was 0.0% in 2014. In the opinion of the Bank, the lowest inflation readings are still ahead; the consumer price index may reach -1.5% in February and March when the low oil prices are fully reflected in retail prices at petrol stations. After hitting the cyclical minimum, inflation will grow steadily in 2015, although average annual inflation is rather unlikely to cross the zero mark by much. The factors driving inflation include mainly the strong base effect resulting from last year's events (the food embargo imposed by Russia), as well as no more importing of deflation which prevailed for most of 2013 and 2014. The impact of the weaker zloty will gradually emerge in inflation readings in H2 2015 as importers of consumer goods adjust prices, although the overall impact will be moderate (due to the low weight of durable goods in the basket).

CPI inflation and NBP reference rate



Continued fall in inflation and rising uncertainty about the outlook of the Polish market prompted the Monetary Policy Council (RPP) to relax the monetary policy in Q4 2014: the main interest rate was cut by 50 basis points in October and the Council decided to cut the Lombard rate by 100 basis points in order to narrow down the corridor symmetrically. November and December brought conflicting signals in the monetary policy as inflation was low but growth remained solid. While the door remained open to further rate cuts, yet the interest rates of the National Bank of Poland (NBP) remained unchanged in November and December. In the opinion of the Bank, the observation and waiting period will end in Q1 2015 as the Monetary Policy Council decides to further relax the monetary policy in response to the declining outlook of inflation which departs from the target. The combined rate cuts in Q1 and Q2 2015 may exceed 50 basis points.

Market interest rates continued to fall in Q4 2014. As a result of the NBP rate cuts in October and in anticipation of another cut in November, the rates on the interbank market temporarily fell below 2%. The yields of Treasury bonds continued to fall in Q4 2014, driven both by local factors (inflation and rate cuts) and global developments (expectation of a more relaxed monetary policy of the European Central Bank, falling commodity prices, a new wave of deflation on the core markets). As a result, the yields of 10Y Treasury bonds fell from 3.0% at the end of September to ca. 2.3% at the end of 2014. The yields of 5Y Treasuries fell from 2.38% to 1.91% over that period. In view of the uncertainty about the monetary policy, the yields of 2Y bonds fell from 1.96% to 1.66%. Consequently, the yield curve gradually levelled out in line with the global trends.

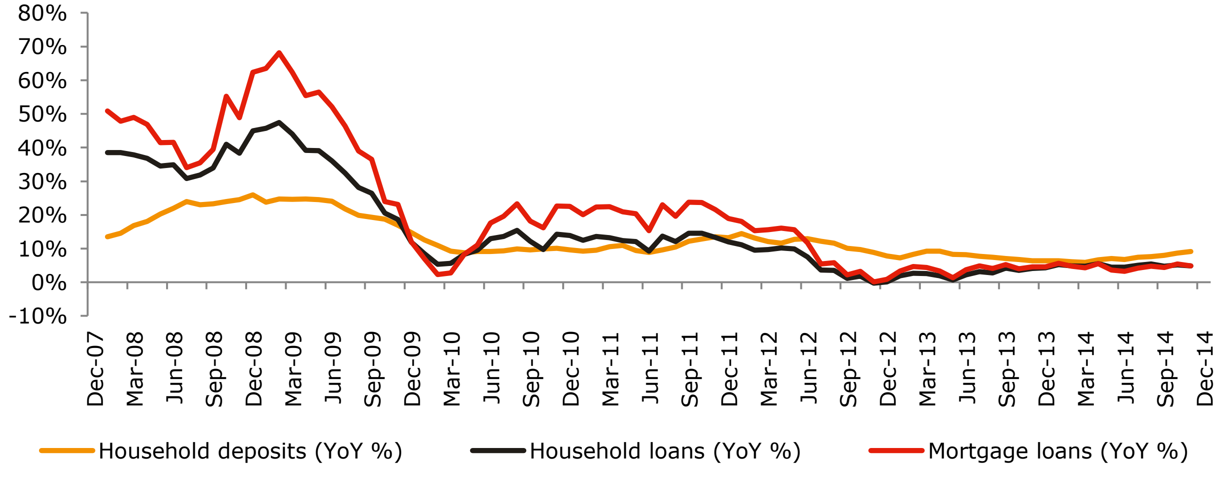
The Polish FX market was highly volatile in Q4 2014. The strength of the local currency in the period was driven by the outlook of the national monetary policy (PLN against EUR) and the uptrend of the US dollar (PLN against USD). The volatility against the euro (rates ranging from 4.15 to 4.25) in October and November was initially boosted by expectations of a more relaxed monetary policy, followed by a strong correction after the November session of the Monetary Policy Council and the publication of strong figures from the real economy in mid-November. After hitting a rate of ca. 4.15 to the euro in early December, the zloty fell sharply later that month in reaction to the collapse of the Russian rouble combined with the specificity of the illiquid market at Christmas time. On Boxing Day, the zloty hit a local maximum at 4.40 to the euro. At the same time, the prevalent appreciation of the US dollar in that period triggered a strong fall of the zloty against the dollar. The zloty stood at ca. 3.30 to the dollar early in the quarter but fell to more than 3.60 by the year's end.

Money supply and the banking sector

The conditions on the financial and banking sector changed moderately in Q4 2014, mainly due to the more relaxed monetary policy. However, the biggest impact will follow the decision of the Swiss central bank to drop the cap on the FX rate of the franc to the euro (January 15, 2015). Nonetheless, most of the trends observed early in the year continued into Q4 2014. Those can be summarised as follows:

- First, despite a further decrease of the interest rates on deposits, the growth rate of household deposits in Q4 was the highest in more than a year, reaching 9.0% in December. At the same time, the share of term deposits which offer nominal interest above zero increased modestly in the period under review. In the opinion of the Bank, banks were not losing household deposits largely due to the fact that alternative savings became less attractive and no longer offered high returns at the year's end. In particular, the aggregate return on assets of investment funds was negative in the last three months, mainly due to the weak Polish stock market.

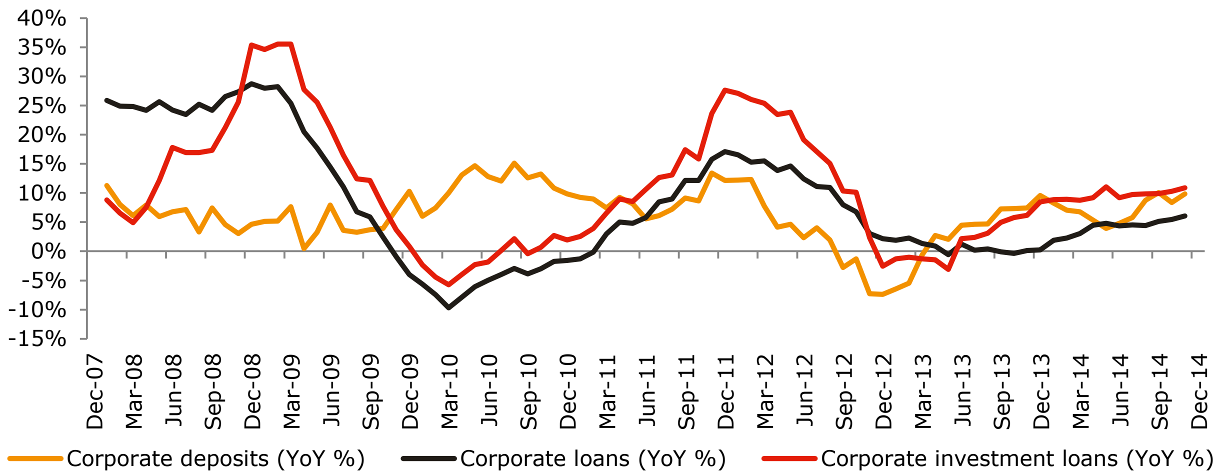
Household loans and deposits



- Second, corporate deposits grew fast in the last three months of the year. Looking at the financial results of companies and their key operating costs (labour, raw materials) in Q4 2014, it would seem that the high growth rate of corporate deposits was maintained owing to stable profitability of companies. Despite the sluggish core income of companies, their profitability benefits from continued cost discipline. However, companies are not overly keen to cut expenditures (e.g., capex).

- Third, sales of new household loans were slow in Q4 2014 due to the combined effect of stable growth in mortgage loans (at ca. 4.5% for several months now, net of the FX effect) and a very moderate increase of the sales of new consumer loans. In the opinion of the Bank, the growth rate of household lending is unlikely to change substantially in the coming months. Mortgage loans are affected by a more restrictive policy of the Polish Financial Supervision Authority (PFSA) which has tightened the requirements for down payments (in yet another move imposing tougher rules as of the beginning of 2015), as well as the repayments and write-offs on the very high volume of existing loans. Naturally, the FX effect will inflate loan volumes in 2015, but new lending will be growing steadily.

Corporate loans and deposits



- Last but not least, corporate lending continued to enjoy positive growth in Q4 2014: loans granted to enterprises by monetary financial institutions at the end of December increased by 8.8% year on year (a growth rate close to the 8.9% at the end of Q3 2014). The growth in the segment is driven not only by relatively strong corporate investments but also by the improved perception of economic risk on the part of borrowers as well as lenders (banks' margins on corporate loans decreased as the quality of loan portfolios improved). In the opinion of the Bank, the current temporary slow-down combined with the massive inertia typical of corporate loans should help to sustain a high growth rate of volumes in the segment (by 8-10%) in the coming months.

Impact of the appreciation of the Swiss franc on the position of borrowers, the banking sector, and mBank

On January 15, 2015, the Swiss National Bank (SNB) after nearly three years of keeping a capped exchange rate of the Swiss franc to the euro decided to drop the cap. As a result, the Swiss franc appreciated strongly against the euro and the zloty. At the same time, the SNB cut the interest rate to -0.75%, resulting in a decrease of LIBOR CHF. The sharp appreciation of the Swiss franc affects the households budgets of some 550 thousand families which hold housing loans denominated in the Swiss franc, and impacts the financial position of banks.

The Polish Financial Stability Committee (KSF) at its meeting on January 20, 2015, with the participation of representatives of some commercial banks holding significant portfolios of FX mortgage loans confirmed that the banking sector is stable and resilient to external shocks, including major volatility of the FX rate, despite the relatively high share of the CHF housing loan portfolio. The value of the Swiss franc loan portfolio has been decreasing steadily due to repayments. The impact of the appreciation of the Swiss franc on principal and interest payments should be seen in the context of the decrease of LIBOR since the original loan disbursement as well as growing average household incomes.

The following decisions were made:

- Banks should include the negative LIBOR in interest rates on loans;
- Banks should not require additional collateral for loans where the borrower's debt increases due to an increase of the FX rate of the Swiss franc against the zloty. The Polish Financial Supervision Authority announced that it will not require banks to impose additional collateral;
- Banks should reduce their FX spreads.

The Financial Stability Committee recommended that banks apply restructuring solutions which meet the individual needs and capacity of each client and match them to the prevailing market conditions.

The position of the Polish Bank Association (ZBP) is consistent with the recommendations of the Financial Stability Committee. The Polish Bank Association has proposed that banks should include the negative LIBOR CHF in calculating interest rates on loans; reduce the FX spread for a period of six months; and extend the timeline or temporarily suspend the payment of Swiss franc loans at the request of clients.

The Ministry of the Economy published its position on January 28. The proposed solutions include recommendations for banks, as well as recommended legal and regulatory amendments. The recommendations for banks are as follows:

- Interested borrowers should have the option of converting the currency of the loan from CHF to PLN with no extra fee at a rate equal to the mid-rate published by the NBP on the conversion date;
- Credit holidays for a period up to three years should be introduced into active credit agreements (also for PLN loans) and instalments should be capped at the 2014 YE level;
- No additional collateral should be required for loans due to the FX rate volatility.

The recommended legal and regulatory amendments include:

- The FX risk of borrowers should be capped;
- Additional collateral required within the term of an agreement in the event of FX rate volatility should be subject to restrictions;
- Cancellation of a loan in part should not be considered the borrower's taxable income;
- Credit cancellation costs should be considered eligible tax-deductible expenses of banks;
- Claims under mortgage loans (granted for up to 100% of property value) should be capped at property value for new credit agreements;
- Solutions which support flexible reaction to credit repayment problems should be introduced and promoted (for PLN and foreign currency loans);
- Solutions applicable where the borrower's personal situation is extremely difficult should be introduced (for PLN and foreign currency loans).

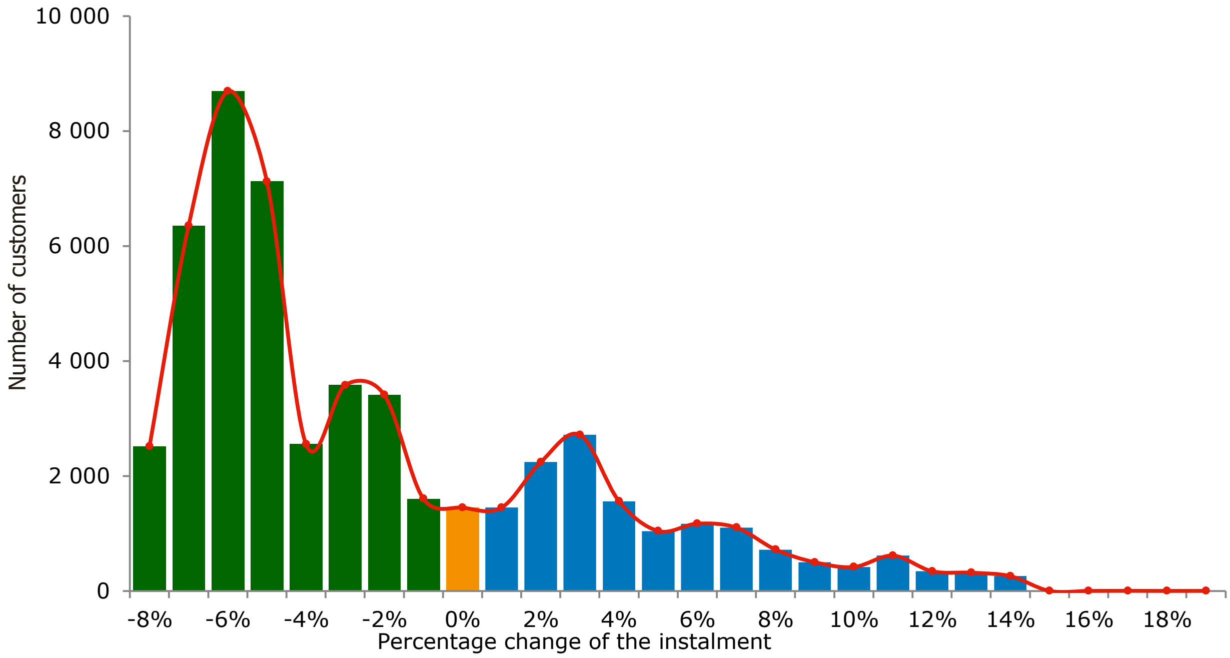
In recognition of the provisions of existing Swiss franc mortgage loan agreements where the interest rate is based on a margin and LIBOR, mBank follows the rule whereby the negative LIBOR CHF reduces the credit margin. In addition, the Bank reduced the FX spread and provide clients in a difficult position with a package of solutions including among others extension of the term of the loan in order to keep the amount of instalments close to that paid prior the decision of the Swiss National Bank. The new solutions include also the option of transferring CHF mortgage to a new property.

The elevated exchange rate of CHF v. PLN, if persists, will have a moderate adverse impact on the financial performance of mBank in 2015. In particular, applying an exchange rate of 4.20 to calculate mBank Group's capital ratios as of December 31, 2014, would reduce the reported Common Equity Tier 1 Ratio and Total Capital Ratio by roughly 40 basis points.

While a large majority of mBank's CHF mortgage borrowers should see their monthly instalment reduce compared to December 2014, benefiting from negative Libor rate, certain increase in loan loss provisions, reflecting higher loan values relative to underlying collaterals may be registered. Finally, reduced FX spreads for mBank customers, a slightly delayed adjustment of the bank's funding cost to the negative

LIBOR regime compared to the adjustment speed for customer loans and potentially increased competition for domestic deposits (as some Polish banks other than mBank might seek additional liquidity to fund their CHF loan exposures through SWAP instruments) will have a moderately negative impact on mBank's revenues in the medium term horizon.

The chart below presents the distribution of mBank's CHF borrowers by percentage change of their instalment compared to December 2014 – as of January 29, 2015.



Financial position of mBank Group in Q4 2014

Financial result of mBank Group

The profit before tax generated by mBank Group in Q4 2014 was PLN 383.8 million, which represents a decrease of 8.6% QoQ. The net profit attributable to the shareholders of mBank decreased by 2.2% QoQ and stood at PLN 308.6 million.

PLN M	Q4 2013	Q3 2014	Q4 2014	QoQ	YoY
Interest income	945.3	1 035.1	992.7	-4.1%	5.0%
Interest expense	-357.2	-385.2	-360.2	-6.5%	0.8%
Net interest income	**588.1**	**649.9**	**632.5**	**-2.7%**	**7.5%**
Fee and commission income	344.8	339.3	337.4	-0.6%	-2.1%
Fee and commission expense	-115.9	-123.0	-137.0	11.4%	18.2%
Net fee and commission income	**228.9**	**216.2**	**200.4**	**-7.3%**	**-12.5%**
Dividend income	9.8	16.2	1.0	-93.8%	-89.8%
Net trading income	78.4	96.3	70.5	-26.8%	-10.1%
Gains less losses from investment securities. investments in subsidiaries and associates	25.3	3.5	34.5	885.7%	36.4%
Other operating income	104.5	80.0	67.8	-15.3%	-35.1%
Other operating expenses	-70.7	-43.3	-66.8	54.3%	-5.5%

IFRS Condensed Consolidated Financial Statements for the fourth quarter of 2014 PLN (000's)

Total income	**964.2**	**1 018.9**	**939.9**	**-7.8%**	**-2.5%**
Net impairment losses on loans and advances	-117.1	-157.9	-112.6	-28.7%	-3.8%
Overhead costs and amortization & depreciation	-441.6	-441.2	-443.5	0.5%	0.4%
Profit before income tax	**405.5**	**419.8**	**383.8**	**-8.6%**	**-5.4%**
Income tax expense	-90.7	-104.0	-75.3	-27.6%	-17.0%
Net profit attributable to:	**314.8**	**315.8**	**308.5**	**-2.3%**	**-2.0%**
- Owners of mBank S.A.	**314.2**	**315.5**	**308.6**	**-2.2%**	**-1.8%**
- Non-controlling interests	0.6	0.3	-0.1	-133.3%	-116.7%
ROA net	1.2%	1.1%	1.0%		
ROE gross	17.7%	17.1%	15.5%		
ROE net	13.7%	12.8%	12.4%		
Cost / Income ratio	45.8%	43.3%	47.2%		
Net interest margin	2.3%	2.3%	2.3%		
Common Equity Tier 1 ratio	14.2%	13.1%	12.3%		
Total capital ratio	19.4%	15.6%	14.7%		

**Since the end of march 2014 capital ratios are calculated according to the rules based on the Basel III.*

Income of mBank Group

In Q4 2014, total income generated by mBank Group amounted to PLN 939.9 million, which was less than in Q3 2014 (-7.8%). mBank Group reported lower net interest income and net fee and commission income in Q4 2014.

Net interest income remained mBank Group's largest revenue source and stood at PLN 632.5 million, which represents a decrease of PLN 17.4 million or 2.7% compared to Q3 2014.

Interest income in Q4 2014 decreased by PLN 42.4 million, i.e., 4.1% QoQ and stood at PLN 992.7 million. Loans and advances remained the main source of interest income with a share of 71.1%. This income category decreased by PLN 29.5 million, i.e., 4.0% QoQ and stood at PLN 706.0 million. The main reason for the change was the decision of the Monetary Policy Council to cut the reference rate by 50bps and the Lombard rate by 100 bps. In the period under review, interest income on investment securities decreased by PLN 9.2 million, i.e., 4.2%, resulting from a lower volume and a different structure of the investment securities portfolio. At the same time, interest income on derivatives in the banking book decreased by PLN 4.6 million, i.e., 10.8%.

Interest expenses decreased by PLN 25.0 million, i.e., 6.5% QoQ and stood at PLN 360.2 million. In Q4 2014, interest expenses paid to clients decreased by PLN 8.7 million, i.e., 3.7%. Interest expenses paid to other banks remained the second largest category of interest expenses; they increased by PLN 1.0 million, i.e., 2.2% QoQ. Interest expenses on issued debt securities increased by PLN 3.9 million, i.e., 6.4%. The Group issued EUR 500 million 7-year bonds on the European market in Q4 2014.

mBank Group's **net interest margin** remained stable quarter on quarter at 2.3%.

Net fee and commission income in Q4 2014 decreased by PLN 15.8 million, i.e., 7.3% quarter on quarter and stood at PLN 200.4 million.

Fee and commission income decreased by PLN 1.9 million, i.e., 0.6% QoQ and stood at PLN 337.4 million in Q4 2014. Commissions for payment card services decreased by PLN 9.3 million, i.e., 9.6% mainly due to the lower number of cash transactions and payment card transactions conducted abroad. Fees and commissions on the insurance business decreased by PLN 8.2 million, i.e., 25.3%. Commissions for maintenance of accounts, fees and commissions on lending, and commissions on money transfers did not change quarter on quarter.

Fee and commission expenses in Q4 2014 increased quarter on quarter to PLN 137.0 million compared to PLN 123.0 million in Q3 2014. Expenses paid to third parties for sale of mBank products increased by PLN 10.0 million, i.e., 68.0% in the period under review. Other fees increased by PLN 5.0 million, i.e., 10.2%.

Dividend income of mBank Group amounted to PLN 1.0 million in Q4 2014, compared to PLN 16.2 million in Q3 2014 when the Group received its regular dividend from PZU.

Net trading income amounted to PLN 70.5 million in the period under review, representing a decrease of PLN 25.8 million, i.e., 26.8% quarter on quarter. The FX result of mBank Group decreased by PLN 8.9 million, i.e., 16.6%. Other trading income decreased by PLN 16.9 million, i.e., 39.5%. The decrease was driven by a lower income on interest rate derivatives and a valuation impact on the bank's cross currency swap portfolio caused by further tightening of CHF basis swap levels.

Gains less losses on investment securities and investments in subsidiaries and associates stood at PLN 34.5 million, compared to PLN 3.5 million in Q3 2014. mBank Group reported gains on sales of government bonds in Q4 2014.

Net other operating income (other operating income net of other operating costs) amounted to PLN 1.0 million, compared to PLN 36.7 million in Q3 2014. Provisions were set up in Q4 2014 against operational and legal risks and additionally some properties owned by the Group were written down.

Costs of mBank Group

In Q4 2014, the Group continued to pursue efficiency measures and at the same time invested in future growth by implementing marketing campaigns and developing strategic initiatives. Total overhead costs of mBank Group (including depreciation and amortisation) stood at PLN 443.5 million in Q4 2014 and were stable quarter on quarter. As income decreased while the cost base remained stable, the Group's cost/income ratio declined to 47.2% in Q4 2014.

PLN M	Q4 2013	Q3 2014	Q4 2014	QoQ change	YoY change
Staff-related expenses	211.0	215.8	214.0	-0.8%	1.4%
Material costs	153.4	152.6	157.3	3.1%	2.5%
Amortization & depreciaiton	52.0	47.7	47.9	0.4%	-7.9%
Other	25.2	25.1	24.3	-3.2%	-3.6%
Total overhead costs and amortization & depreciation	**441.6**	**441.2**	**443.5**	**0.5%**	**0.4%**
Cost / Income ratio	45.8%	43.3%	47.2%	-	-
Employment (FTE)	6,073	6,227	6,318	1.5%	4.0%

Personnel costs were stable quarter on quarter in Q4 2014. The number of FTEs in mBank Group increased by 91 in the period under review.

Material costs increased by PLN 4.7 million, i.e., 3.1% quarter on quarter in Q4 2014. Marketing expenses increased in the period under review.

Depreciation and amortisation charges remained stable quarter on quarter.

Net impairment of loans and advances

Net impairment losses on loans and advances in mBank Group amounted to PLN 112.6 million in Q4 2014. The net impairment losses decreased by PLN 45.3 million, i.e., 28.7% quarter on quarter.

PLN M	Q4 2013	Q3 2014	Q4 2014	QoQ change	YoY change
Retail Banking	69.6	90.2	100.2	11.1%	44.0%
Corporates and Financial Markets	47.5	67.7	12.4	-81.7%	-73.9%
Total net impairment losses on loans and advances	**117.1**	**157.9**	**112.6**	**-28.7%**	**-3.8%**

Net impairment losses on loans and advances in Retail Banking stood at PLN 100.2 million in Q4 2014, compared to PLN 90.2 million in Q3 2014. The change was driven by higher provisions in view of proactively increasing the NPL coverage for Retail Banking amid stable asset quality.

Net impairment losses on loans and advances in Corporates and Financial Markets stood at PLN 12.4 million, representing a decrease of PLN 55.3 million quarter on quarter. Provisions against selected receivables were released as the financial standing of borrowers improved. At the same time, provisions directly related to companies exposed to the geopolitical risks in Eastern Europe remained practically unchanged in Q4 2014.

Consolidated statement of financial position

The balance sheet total of mBank Group stood at PLN 117,985.8 million at the end of Q4 2014 and was stable compared to the end of September 2014.

Assets of the mBank Group

PLN M	Q4 2013	Q3 2014	Q4 2014	QoQ change	YoY change
Cash and balances with Central Bank	1,650.5	4,177.0	3,054.5	-26.9%	85.1%
Loans and advances to banks	3,471.2	3,721.0	3,751.4	0.8%	8.1%
Trading securities	763.1	2,637.6	1,163.9	-55.9%	52.5%
Derivative financial instruments	2,349.6	4,073.0	4,865.5	19.5%	107.1%
Net loans and advances to customers	68,210.4	71,958.4	74,582.4	3.6%	9.3%
Investment securities	25,341.8	28,154.4	27,678.6	-1.7%	9.2%
Intangible assets	455.3	448.2	465.6	3.9%	2.3%
Tangible fixed assets	709.6	700.9	717.4	2.4%	1.1%
Other assets	1,331.3	1,456.8	1,706.5	17.1%	28.2%
Total assets	**104,282.8**	**117,327.3**	**117,985.8**	**0.6%**	**13.1%**

Loans and advances to customers retained the largest share in the balance sheet of the mBank Group at the end of Q4 2014. Their share in total assets increased moderately to 63.2%, compared to 61.3% at the end of Q3 2014. The net volume of loans and advances to customers stood at PLN 74,582.4 million at the end of Q4 2014, representing an increase of PLN 2,624.0 million, i.e., 3.6% quarter on quarter (net of reverse repo / buy-sell-back transactions and net of the FX effect, the net volume of loans and advances increased by 1.4%).

Gross loans and advances to corporate customers increased to PLN 32,841.0 million, i.e., by PLN 1,306.2 million or 4.1% (net of reverse repo/buy-sell-back transactions and net of the FX effect, loans and advances to corporate customers remained unchanged). Loans and advances to retail customers increased by PLN 1,005.5 million, i.e., 2.5% quarter on quarter and stood at PLN 41,560.5 million. Net of the FX effect, loans and advances to retail customers increased by ca. 1.0%. Gross loans and advances to the public sector remained stable at PLN 1,924.4 million in Q4 2014.

Investment securities constituted the second largest asset category at PLN 27,678.6 million, i.e., 23.5% of total assets at the end of Q4 2014. The value of investment securities decreased by PLN 475.8 million, i.e. 1.7% quarter on quarter. The government bond portfolio decreased while the portfolio of securities issued by the central bank increased in the period under review.

Equity and liabilities of mBank Group

PLN M	Q4 2013	Q3 2014	Q4 2014	QoQ change	YoY change
Amounts due to other banks	19,224.2	19,777.7	13,383.8	-32.3%	-30.4%
Derivative financial instruments and other trading liabilities	2,459.7	3,970.0	4,719.1	18.9%	91.9%
Amounts due to customers	61,673.5	69,563.5	72,422.5	4.1%	17.4%
Debt securities in issue	5,402.1	8,009.7	10,341.7	29.1%	91.4%
Subordinated liabilities	3,762.8	3,312.9	4,127.7	24.6%	9.7%
Other liabilities	1,504.1	1,913.6	1,918.0	0.2%	27.5%
Total Liabilities	**94,026.4**	**106,547.4**	**106,912.8**	**0.3%**	**13.7%**
Total Equity	**10,256.4**	**10,779.9**	**11,073.0**	**2.7%**	**8.0%**
Total Liabilities and Equity	**104,282.8**	**117,327.3**	**117,985.8**	**0.6%**	**13.1%**

Amounts due to customers, which are the dominant funding source of mBank Group, increased by PLN 2,859.0 million, i.e., 4.1% in Q4 2014 (net of repo transactions, amounts due to customers increased by 5.3%). Their share in equity and liabilities was 61.4%, compared to 59.3% at the end of September 2014.

Amounts due to corporate clients increased by PLN 660.8 million, i.e., 2.1% and stood at PLN 32,237.1 million at the end of Q4 2014. Net of repo transactions, amounts due to corporate clients increased by 4.7%. Amounts due to retail customers increased by PLN 2,643.0 million, i.e., 7.2% to PLN 39,284.8 million in the period under review. The change was mainly driven both by increasing balances of current accounts as well as term deposits. Amounts due to the public sector stood at PLN 900.6 million, representing a decrease of PLN 444.8 million, i.e., 33.1%.

Amounts due to other banks stood at PLN 13,838.8 million at the end of Q4 2014, accounting for 11.3% of equity and liabilities of the mBank Group. Amounts due to other banks decreased by PLN 6,393.9 million, i.e., 32.3% quarter on quarter due to the decreasing volume of repo transactions.

The share of equity in equity and liabilities of mBank Group was 9.4% at the end of Q4 2014, which was stable quarter on quarter.

Quality of the loan portfolio of mBank Group

PLN M	Q4 2013	Q3 2014	Q4 2014	QoQ change	YoY change
Provisions for receivables with impairment	2,114.9	2,439.5	2,548.4	4.5%	20.5%
Impairment provisions for exposures analysed according to portfolio approach (IBNI)	256.5	299.9	242.4	-19.2%	-5.5%
Provisions for receivables	**2,371.4**	**2,739.4**	**2,790.8**	**1.9%**	**17.7%**
Receivables with impairment	**4,423.7**	**4,716.7**	**4,876.0**	**3.4%**	**10.2%**
NPL ratio*	6.3%	6.3%	6.3%		
Coverage ratio*	53.6%	58.1%	57.2%		

** Since Q4/13 a modified methodology of NPL recognition in retail area has been applied (the NPL ratio is calculated in accordance to a more strict client perspective methodology).*

Non-performing loans (NPL) increased by 3.4% quarter on quarter at 31 December 2014 while total loans increased by 3.6%. As a result, the NPL ratio remained stable at 6.3%.

Provisions for loans and advances increased by PLN 51.4 million quarter on quarter and stood at PLN 2,790.8 million, including PLN 2,548.4 million of NPL provisions. The IBNI (Incurred But Not Identified) loss provision decreased to PLN 242.4 million, compared to PLN 299.9 million at the end of Q3 2014.

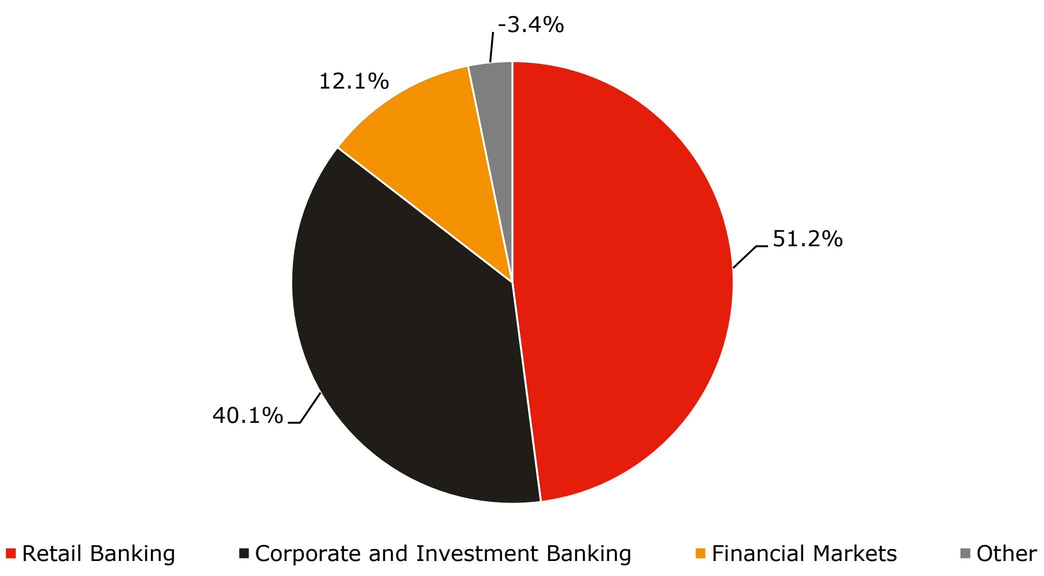
The ratio of provisions (including IBNI provisions) to NPL decreased from 58.1% to 57.2% quarter on quarter.

Segments and Business Lines

The Corporates and Financial Markets segment made the biggest contribution to the profit before tax of mBank Group at 52.2% in Q4 2014, including Corporate and Investment Banking (40.1%) and Financial Markets (12.1%), compared to 51.2% for the Retail Banking segment.

PLN M	Q4 2013	Q3 2014	Q4 2014	QoQ change	YoY change
Retail Banking	268.9	268.3	196.6	-26.7%	-26.9%
Corporate and Investment Banking	129.8	119.0	153.9	29.3%	18.6%
Financial Markets	2.3	38.8	46.4	19.6%	1917.4%
Other	4.5	-6.3	-13.1	107.9%	-391.1%
Profit before tax of mBank Group	**405.5**	**419.8**	**383.8**	**-8.6%**	**-5.4%**

Gross profit contribution by business segments in Q4 2014



Retail Banking

Summary of segment results

The segment of Retail Banking generated a profit before tax of PLN 196.6 million in Q4 2014, which represents a decrease of PLN 71.7 million, i.e., 26.7% QoQ.

PLN M	Q4 2013	Q3 2014	Q4 2014	QoQ change	YoY change
Net interest income	408.0	435.8	411.6	-5.6%	0.9%
Net fee and commission income	146.5	115.3	103.4	-10.3%	-29.4%
Dividend income	0.0	0.0	0.0	-	-
Net trading income	28.5	33.4	29.3	-12.3%	2.8%
Gains less losses from investment securities, investments in subsidiaries and associates	0.1	0.0	-0.7	-	-
Net other operating income	4.8	22.3	-4.5	-120.2%	-193.8%
Total income	587.9	606.8	539.1	-11.2%	-8.3%
Net impairment losses on loans and advances	-69.6	-90.2	-100.2	11.1%	44.0%
Overhead costs and amortization & depreciation	-249.4	-248.4	-242.3	-2.5%	-2.8%
Profit before tax of Corporate and Investment Banking	**268.9**	**268.3**	**196.6**	**-26.7%**	**-26.9%**

The profit before tax of the segment of Retail Banking in Q4 2014 was driven by the following factors:

- **Decrease of total income** by PLN 67.7 million, i.e., 11.2% quarter on quarter to PLN 539.1 million. Net interest income decreased by PLN 24.2 million, i.e., 5.6% and net fee and commission income decreased by PLN 11.9 million, i.e., 10.3%. Provisions were set up in Q4 2014 against operational risk and legal risk.

- **Decrease of operating expenses (including depreciation and amortisation)** by PLN 6.1 million, i.e., 2.5% quarter on quarter to PLN 242.3 million, mainly owing to lower material and personnel costs.

- **Increase of net impairment losses on loans and advances** by PLN 10.0 million quarter on quarter due higher provisions in view of proactively increasing the NPL coverage for Retail Banking amid stable asset quality.

Activity in the Retail Banking area (Bank)

thou.	31.12.2013	30.09.2014	31.12.2014	QoQ change	YoY change
Number of retail clients, including:	**4,368.4**	**4,564.7**	**4,688.6**	**2.7%**	**7.3%**
Poland	3,695.3	3,839.2	3,926.5	**2.3%**	**6.3%**
Foreign branches	673.1	725.5	762.1	**5.0%**	**13.2%**
The Czech Republic	486.4	516.0	534.2	**3.5%**	**9.8%**
Slovakia	186.7	209.5	227.9	**8.8%**	**22.1%**

PLN M					
Loans to retail clients, including:	**38,124.2**	**40,126.8**	**40,615.0**	**1.2%**	**6.5%**
Poland	**36,008.9**	**37,476.6**	**37,666.1**	**0.5%**	**4.6%**
mortgage loans	29,248.2	29,620.0	29,680.2	**0.2%**	**1.5%**
non-mortgage loans	6,760.7	7,856.6	7,985.9	**1.6%**	**18.1%**
Foreign branches	**2,115.3**	**2,650.3**	**2,948.9**	**11.3%**	**39.4%**
The Czech Republic	1,699.9	2,058.6	2,281.4	**10.8%**	**34.2%**
Slovakia	415.4	591.6	667.5	**12.8%**	**60.7%**
Deposits of retail clients, including:	**33,897.9**	**36,225.2**	**38,999.4**	**7.7%**	**15.0%**
Poland	29,047.7	30,889.6	33,381.0	**8.1%**	**14.9%**
Foreign branches	4,850.2	5,335.6	5,618.5	**5.3%**	**15.8%**
The Czech Republic	3,076.8	3,524.8	3,788.6	**7.5%**	**23.1%**
Slovakia	1,773.4	1,810.8	1,829.8	**1.1%**	**3.2%**
Investment funds (Poland)	**4,489.3**	**5,052.9**	**5,252.1**	**3.9%**	**17.0%**
thou.					
Credit cards, including	**795.2**	**843.1**	**864.4**	**2.5%**	**8.7%**
Poland	757.7	798.7	817.4	**2.3%**	**7.9%**
Foreign branches	37.5	44.4	47.0	**5.9%**	**25.3%**
Debit cards, including:	**6,710.3**	**7,298.0**	**7,556.2**	**3.5%**	**12.6%**
Poland	5,683.6	6,149.2	6,351.3	**3.3%**	**11.7%**
Foreign branches	1,026.7	1,148.8	1,204.9	**4.9%**	**17.4%**

	31.12.2013	30.09.2014	31.12.2014
Distribution network			
Light branches	-	-	2
mBank (former Multibank)	133	131	129
mKiosks (incl. Partner Kiosks)	68	67	67
Aspiro Financial Centres	24	23	23
Czech Republic & Slovakia	35	35	35

Retail Banking (including Private Banking) in Poland

In Q4 2014 the number of mBank's retail banking clients in Poland increased by 87.3 thousand, mainly thanks to the intensification of marketing activities. Sales of loans remained stable, and growth in the deposit base was also observed.

In the area of mBank's Retail Banking, Q4 2014 was a period of continued activities related to the cooperation with Orange, one of the largest telecom operators in Poland and to creating a product offer within the Orange Finance project (launched on October 2, 2014). Modern products tailored to the needs of both Bank's client and Orange Polska subscribers resulted in the opening of over 41 thousand individual accounts in Orange Finance by the end of 2014. Month after month, the number of opened accounts is growing and the soon planned development of the offer will distinguish it even more on the market enabling the acquisition of an attractive group of clients who use innovative Internet and mobile solutions.

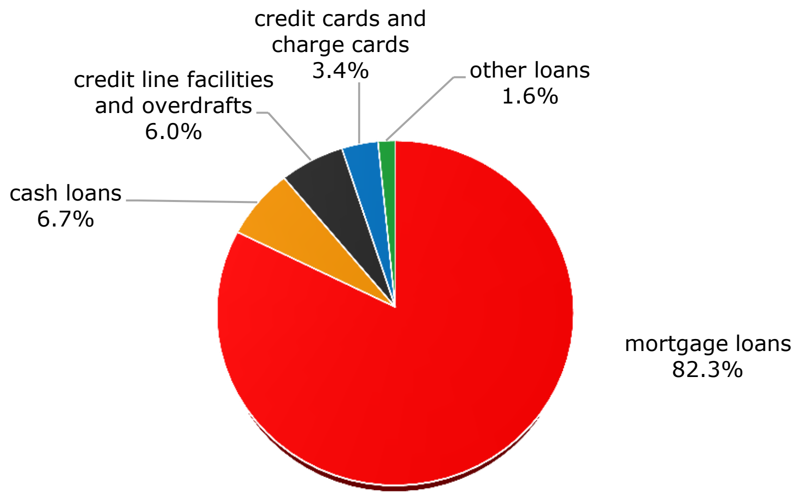
Building on its leadership in transactional banking, mBank plans to implement in upcoming months an offer for corporate clients and innovative NFC payments solutions. As one of the pioneers on the market, the Bank will introduce the BLIK service enabling fast payments and ATM withdrawals with the use of a mobile phone.

Development of the retail banking offer in Poland

Loans

The graph below presents the structure of the retail banking loan portfolio in Poland (for households) at the end of 2014:

Retail loan portfolio in Poland (Household loans, in Poland only)



Q4 2014 was yet another quarter of growth in the area of cash and instalment loans. The non-mortgage loan portfolio increased by PLN 129.3 million in Q4 2014, i.e. 1.6% compared to Q3 2014. The sales of non-mortgage loans increased by 10.2% QoQ and amounted to PLN 1,061.4 million in Q4 2014.

In Q4 2014, in cooperation with mBank Hipoteczny, mBank continued its long-term project aiming at issuance of covered bonds backed by mortgage loan receivables. Within this project, mBank Hipoteczny grants loans to individuals through mBank. The second element of the project which was completed in Q4 2014, involved the transferring of the loan portfolio in the amount of PLN 300 million from mBank to mBank Hipoteczny. The change of the mortgagee will allow for issuing covered bonds backed by the transferred mortgage loans.

The sales value of mortgage loans in Q4 2014 reached PLN 581.2 million, translating into a QoQ decrease of 15.0% and a YoY increase of 20.2%.

The main parameters of the retail mortgage loan portfolio (excluding Private Banking) were as follows:

	30.09.2014	31.12.2014
Balance sheet value (PLN billion)	**27.0**	**27.6**
Average maturity (years)	**20.4**	**20.3**
Average value (PLN thousand)	**272.0**	**275.4**
Average LTV (%)	**80.0%**	**80.7%**
NPL (%)*	**4.7%**	**4.9%**

** NPL ratio calculated under the more conservative "cross-default" methodology.*

Deposits and investment funds

In Q4 2014, the persistent slowdown on the Polish capital market resulted in a less favorable environment for investment products. Therefore, the activities of the Bank and the competitors were focused on cooperation with clients in the area of deposit and savings products. The balances of deposit and investment products at the Bank increased QoQ by 8.1% and 2.9% respectively.

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

- implementing the "Sweet interest" (Słodki Procent) term deposit aiming at acquiring new funds;
- conducting subscriptions of the structured deposit "Top Twenty II" (Gorąca dwudziestka II)
- implementing term deposits "Deposit on 3.0%" (Lokata na 3,0%) and "Christmas deposit on 3.33%" (Lokata świąteczna na 3,33%) aiming at acquiring new funds.

Cards

Following the entry into force on July 1, 2014, of an amendment of the Act on Payment Services and a reduction of the interchange fee, the Bank's activity in the development of payment cards focused on increasing the number of mBank payment card transactions as a share of all transactions in the market.

In Q4 2014 mBank retail banking clients made card payments worth PLN 4.9 billion, which constitutes a historical record and a YoY increase by 19%. The average amount of card transactions at mBank is also systematically falling because clients use the cards more and more often also for small payments. As a result, mBank's share on the cashless payment market increased to 12.4%.

mBank's activity in the Czech Republic (CZ) and Slovakia (SK)

In the past twelve months the number of clients of mBank's foreign branches grew by 89.0 thousand, whereas in Q4 2014 by 36.6 thousand.

Loans and deposits

In Q4 2014, the loan portfolio of mBank clients in the Czech Republic and Slovakia grew by PLN 298.6 million, i.e. 11.3% QoQ. The sales of non-mortgage loans increased YoY by 23.1% and amounted to PLN 81.4 million in Q4 2014.

The Bank also intensified its efforts aimed at increasing the sales of mortgage loans. The sales value of mortgage loans in Q4 2014 amounted to PLN 272.3 million, which means a QoQ and YoY growth by 10.3% and 65.7%, respectively.

The deposit base rose QoQ and YoY by PLN 2,774.3 million and PLN 5,101.5 million, respectively.

Corporates and Financial Markets

Corporate and Investment Banking

Summary of segment results

The Corporate and Investment Banking segment generated a profit before tax of PLN 153.9 million in Q4 2014, which represents an increase of PLN 34.9 million, i.e., 29.3% quarter on quarter.

PLN M	Q4 2013	Q3 2014	Q4 2014	QoQ change	YoY change
Net interest income	179.4	170.9	181.4	6.1%	1.1%
Net fee and commission income	79.2	99.5	96.1	-3.4%	21.3%
Dividend income	9.8	16.1	1.0	-93.8%	-89.8%
Net trading income	47.5	45.3	48.1	6.2%	1.3%
Gains less losses from investment securities, investments in subsidiaries and associates	6.3	2.2	-0,2	-109,1%	-103.2%
Net other operating income	21.0	13.2	3.1	-76.5%	-85.2%
Total income	343.2	347.2	326.8	-5.9%	-4.8%
Net impairment losses on loans and advances	-47.2	-67.3	-11.9	-82.3%	-74.8%
Overhead costs and amortization & depreciation	-166.1	-160.9	-163.7	1.7%	-1.4%
Profit before tax of Corporate and Investment Banking	**129.8**	**119.0**	**153.9**	**29.3%**	**18.6%**

The profit before tax of the Corporate and Investment Banking segment in Q4 2014 was driven by the following factors:

- **Decrease of income** which stood at PLN 329.5 million, compared to PLN 347.2 million in Q3 2014. Net interest income increased by PLN 10.5 million, i.e., 6.1% while net fee and commission income decreased by PLN 3.4 million, i.e., 3.4%. Other operating income net of other operating costs decreased in Q4 2014 as operational risk provisions were set up.

- **Increase of operating costs (including depreciation and amortisation)** by PLN 2.8 million, i.e. 1.7% QoQ to PLN 163.7 million. The change was mainly driven by higher material costs.

- **Decrease of net impairment losses on loans and advances** by PLN 55.4 million, i.e., 82.3% to PLN 11.9 million. Provisions against selected receivables were released as the financial standing of borrowers improved. At the same time, provisions directly related to companies exposed to the geopolitical risks in Eastern Europe remained practically unchanged in Q4 2014.

Activity of the Corporate and Investment Banking segment

	31.12.2013	30.09.2014	31.12.2014	QoQ change	YoY change
Number of corporate clients	**16,333**	**17,390**	**17,787**	**2.3%**	**8.9%**
K1	1,255	1,794	1,838	**2.5%**	**46.5%**
K2	5,022	5,026	5,144	**2.3%**	**2.4%**
K3	10,056	10,570	10,805	**2.2%**	**7.4%**
PLN M					
Loans to corporate clients, including	**26,807.5**	**28,896.0**	**30,113.2**	**4.2%**	**12.3%**
K1	11,308.8	12,437.0	12,811.7	**3.0%**	**13.3%**
K2	9,424.6	10,841.0	10,633.3	**-1.9%**	**12.8%**
K3	2,773.1	2,851.0	2,811.0	**-1.4%**	**1.4%**
Reverse repo/buy sell back transactions	3,285.0	2,751.0	3,840.4	**39.6%**	**16.9%**
Other	16.0	16.0	16.9	**5.6%**	**5.6%**

IFRS Condensed Consolidated Financial Statements for the fourth quarter of 2014 PLN (000's)

Deposits of corporate clients, including	**24,555.0**	**28,959.0**	**29,202.6**	**0.8%**	**18.9%**
K1	7,188.7	12,473.1	12,111.3	**-2.9%**	**68.5%**
K2	9,506.5	8,504.8	9,455.2	**11.2%**	**-0.5%**
K3	3,513.6	4,115.0	4,177.4	**1.5%**	**18.9%**
Repo transactions	4,290.1	3,799.4	3,395.3	**-10.6%**	**-20.9%**
Other	56.1	66.7	63.5	**-4.9%**	**13.1%**
Distribution network	**48**	**47**	**47**		
Corporate branches	29	29	29		
Corporate offices	19	18	18		

K1 is the segment of the largest corporations with annual sales over PLN 500 million, the largest public sector entities and non-bank financial institutions (including pension and investment funds and insurance companies); K2 is the segment of corporations with annual sales between PLN 30 and 500 million and medium-sized public sector enterprises; K3 is the segment of SMEs with annual sales of up to PLN 30 million.

Q4 2014 was a time marked by a moderate albeit stable economic recovery translating into growing business activity from the side of large enterprises. On the other hand, banks conduced their activity in an environment of record-low interest rates and lowered interchange fees. Corporate loans market decreased slightly by 0.1% compared to the end of Q3 2014 and increased by 7.4% compared to the end of Q4 2013, while corporate deposits market increased by 8.2% and 9.1% respectively. As of December 31, 2014, mBank held a 6.2% market share in loans and 8.8% market share in deposits.

Elevated volatility in the foreign exchange markets contributed to a significant increase in foreign exchange result, which grew by 20.9% compared to Q3 2014.

Throughout Q4 2014 the Bank intensified its sales efforts, which resulted in record-high acquisition of corporate clients - the corporate client base increased by 397 companies in comparison to Q3 2014 and reached 17,787 entities.

The acquisition of new clients positively impacted the value of funds deposited in current accounts. At the end of December 2014, the deposited amounts reached PLN 6,709 million, which represents an increase of 7.3% QoQ. A high volume of current deposits underpinned further development of transactional banking, which is of vital importance to the Bank due to its growth potential and closer cooperation with clients.

In Q4 2014 the Bank proceeded with the strategy of increasing share in the sector of small and medium-sized enterprises. The undertaken initiatives aiming at strengthening the Bank's position on the SME market translated into record-high acquisition of clients in this sector. In the reported period, the client base in the K3 segment increased by 235 companies and reached 10,805 entities at the end of December 2014.

The combination of mBank's corporate and investment banking advisory services supported an increase in the Bank's activity on the market for corporate debt securities issue. At the end of November 2014, the Bank held a 13.5% share on the corporate bond market.

Products and services offer

Corporate client loans

The value of loans granted by mBank to corporate clients (excluding repo transactions) amounted to PLN 26,273 million at the end of Q4 2014, which represents an increase by 0,5% compared to the end of September 2014 (PLN 26,145 million) and by 11.7% compared to the end of Q4 2013 (PLN 23,522 million).

The value of loans to enterprises (NBP category, enabling the comparison to banking sector results) at the end of December 2014 amounted to PLN 17,874 million and was by 0.8% lower than at the end of September 2014 (PLN 18,025 million) and by 13.4% lower than in December 2013 (PLN 15,765 million). The market share of mBank's lending to enterprises was at 6.2% at the end of December 2014, compared to 6.3% at the end of September 2014. At the end of Q4 2014, the loan-to-deposit ratio for enterprises in the Bank stood at 86.3% and was significantly lower than the market ratio of 121.5%.

The value of loans granted to local governments at the end of December 2014 amounted to PLN 1,324 million compared to PLN 1,311 million at the end of September 2014 and PLN 1,469 million at the end of December 2013.

Corporate client deposits

The value of deposits gathered at mBank (excluding repo transactions) amounted to PLN 25,807 million at the end of Q4 2014, which represents an increase by 2.6% compared to the end of September 2014 (PLN 25,160 million) and by 27.3% compared to the end of Q4 2013 (PLN 20,265 million).

The value of mBank's current corporate client deposits amounted to PLN 6,709 million at the end of Q4 2014, which represents an increase by 7.3% compared to the end of September 2014 (PLN 6,253 million) and by 13.9% compared to the end of Q4 2013 (PLN 5,890 million).

The value of deposits placed by enterprises (NBP category, enabling the comparison to banking sector results) at the end of December 2014 amounted to PLN 20,709 million and was 10.1% higher than at the end of September 2014 (PLN 18,809 million) and 15.2% higher than at the end of Q4 2013 (PLN 17,972 million). At the same time, the market share of deposits placed by enterprises was up by 8.2% and 9.1% respectively. The share of mBank in deposits placed by enterprises reached 8.8% at the end of December 2014, compared to 8.6% at the end of September 2014 and 8.3% at the end of December 2013.

The value of deposits of local governments as at the end of December 2014 amounted to PLN 212 million compared to PLN 603 million at the end of September 2014 and PLN 179 million at the end of December 2013.

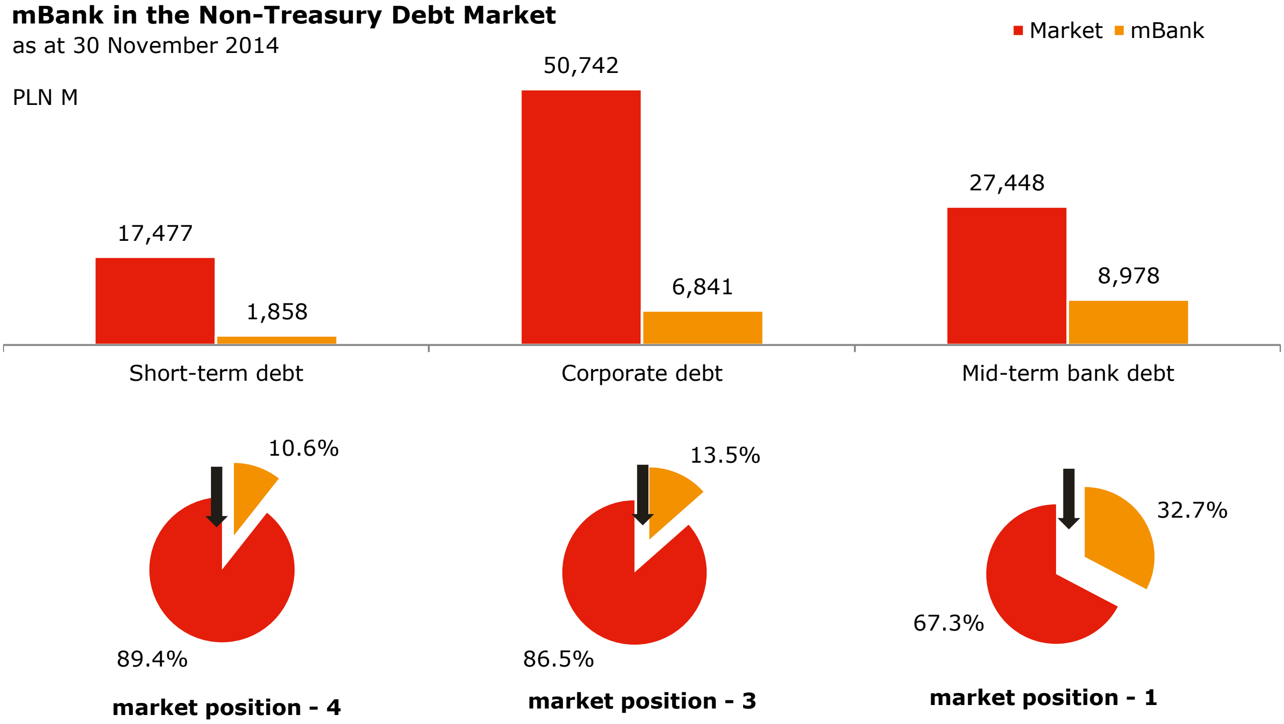
De minimis guarantee

The Bank maintained its commitment to the "Supporting Entrepreneurship through BGK Sureties and Guarantees" program with allocated limit for corporate clients at PLN 900 million, of which 634 million was used as of December 31, 2014, representing an increase of 16% compared to September 2014.

Issuing debt securities for corporate clients

In Q4 2014, mBank organised or co-organised many bond issue programs on the domestic market, both for corporate issuers and banks.

Bank's share in the non-treasury debt market at the end of November 2014 is presented in the chart below.



Value of debt securities issued by banks but not kept on primary books (excluding „road" bonds issued by the Bank Gospodarstwa Krajowego) whose issue was arranged by mBank amounted to circa PLN 10 billion compared to PLN 9 billion at the end of Q3 2014. The largest issues arranged by mBank in Q4 2014 included: the issue of mortgage bonds totalling EUR 70 million for mBank Hipoteczny and the issue of bonds of PLN 170 million for Bank Pocztowy. Other large transactions in which the Bank participated included the issue of bonds for Getin Noble Bank of PLN 100 million and for Meritum Bank of PLN 80 million.

The Bank was ranked third on the growing market of corporate bonds, with a market share of 13.5%. A number of new major issues were executed, i.e. for Tauron SA (PLN 583.3 million), WB Electronics (PLN 74 million), EMPIK MEDIA & FASHION (PLN 64.4 million), Magellan SA (PLN 60 million), Robyg SA (PLN 60 million) and Elemental Holding SA (PLN 50 million). The value of corporate bonds issued and unredeemed amounted to circa PLN 6.8 billion compared to PLN 5.9 billion at the end of September 2014.

Development of transactional banking

Cash management is an area of Corporate Banking which offers modern solutions facilitating planning, monitoring and managing funds of the highest liquidity, processing cash and electronic banking. These solutions facilitate performing everyday financial operations, increase the effectiveness of cash flow management and help to optimise costs and interest income.

mBank's comprehensive cash management offer, supporting the long-term relationships with clients, is reflected in the following data:

- the number of domestic transfers made by corporate clients in Q4 2014 increased by 9.5% YoY;
- the number of foreign transfers increased by 16.6% in Q4 2014 compared to Q4 2013 with the highest growth observed in SEPA transfers (Single Euro Payments Area) which went up by 25.5% in the discussed period;
- the total number of corporate cards issued amounted to 1,155.1 thousand at the end of Q4 2014, constituting an increase by 21.5% YoY; a growth by 21.6% was observed in prepaid cards;
- as at the end of December 2014, over 997.3 thousand cards were issued as Electronic Money Instrument;
- The number of mBank CompanyNet system users rose by 10.1% (compared to Q4 2013). Currently, there are 78,164 active authorisations allowing the entitled employees of clients to cooperate with mBank.

Financial Markets

Summary of segment results

The Financial Markets segment generated a profit before tax of PLN 46.4 million in Q4 2014, compared to PLN 38.8 million in Q3 2014.

PLN M	Q4 2013	Q3 2014	Q4 2014	QoQ change	YoY change
Net interest income	2.9	43.4	42.5	-2.1%	1,365.5%
Net fee and commission income	0.2	-1.3	-2.1	61.5%	-1,150.0%
Dividend income	0.0	0.0	0.0	-	-
Net trading income	3.1	19.2	-8.8	-145.8%	-383.9%
Gains less losses from investment securities, investments in subsidiaries and associates	18.9	1.3	38.1	2,830.8%	101.6%
Net other operating income	0.2	0.2	0.6	200.0%	200.0%
Total income	25.3	62.8	70.3	11.9%	177.9%
Net impairment losses on loans and advances	-0.2	-0.5	-0.6	20.0%	200.0%
Overhead costs and amortization & depreciation	-22.8	-23.5	-23.3	-0.9%	2.2%
Profit before tax of Financial Markets	**2.3**	**38.8**	**46.4**	**19.6%**	**1,917%**

The profit before tax of the Financial Markets segment in Q4 2014 was driven by the following factors:

- **Increase of income** by PLN 7.5 million, i.e., 11.9% quarter on quarter to PLN 70.3 million. Net interest income decreased by PLN 0.9 million, i.e., 2.1% and stood at PLN 42.5 million. Gains less losses on investment securities stood at PLN 38.1 million as gains were realised on sales of government bonds.

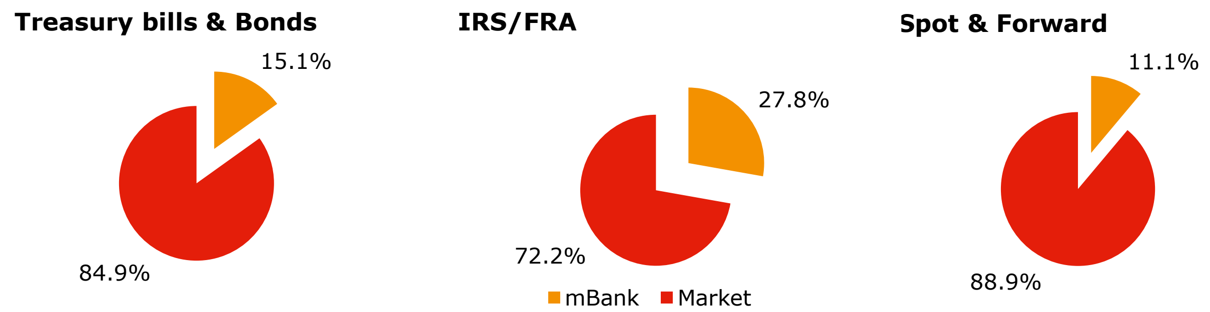
- **Stable operating costs (including depreciation and amortisation)** at PLN 23.3 million. Personnel costs decreased while material costs increased in the period under review.

Activity of Financial Markets segment

In Q4 2014 the Financial Markets area continued activities focused on increasing the volume of currency transactions made by clients. Compared to Q3 2014, sales of products conducted through the FX platform grew by nearly 30% as clients increasingly rely on convenient transactional services offered by the Bank.

A possibility of locking CO_2 prices was introduced to the mBank offer. As a result, several transactions were conducted with clients from the K1 segment. In addition, in December 2014, sales activity addressed to a set group of small enterprises that have CO_2 emitting installations was initiated. The offer includes a set limit on derivative transactions, which conditions concluding these transactions and allows to reach over 100 specified enterprises.

Market shares of mBank in specific financial instrument markets as of November 30, 2014 are presented below.



Subsidiaries of mBank Group

Summary of results of mBank Group's subsidiaries

In Q4 2014, the consolidated profits before tax generated by mBank Group subsidiaries based on a comparable number of subsidiaries amounted to PLN 18.5 million compared to PLN 47.7 million a quarter earlier (Q3 2014 results after adjustments of results of BRE Ubezpieczenia TUiR and Aspiro, resulting from the transfer of shares of BRE Ubezpieczenia sp. z o.o. and BRE Agent Ubezpieczeniowy sp. z o.o. from BRE Ubezpieczenia TUiR to Aspiro).

In particular, the following subsidiaries improved their results in comparison to Q3 2014: mLeasing, Aspiro, mFaktoring and Dom Maklerski mBanku.

The table below presents the profit before tax of the subsidiaries in Q4 2014 compared to Q3 2014.

PLN M	Q3 2014	Q4 2014	QoQ change
mLeasing	13.9	9.0	-35.1%
BRE Ubezpieczenia[1]	13.5	9.1	-32.6%
Aspiro[2]	6.0	6.9	14.5%
mFaktoring	5.4	5.9	10.0%
mWealth Management	4.8	4.7	-2.0%
Dom Maklerski mBanku	4.5	5.5	22.4%
mBank Hipoteczny	2.3	5.1	125.2%
mLocum	2.0	-0.4	-122.6%
Other[3]	-4.6	-27.2	491.8%
Total	**47.7**	**18.5**	**-61.2%**

[1] *Excluding gains on the intra-group disposal of BRE Ubezpieczenia Sp.z o.o. and BRE Agent Ubezpieczeniowy Sp. z o.o. in July 2014.*

[2] *Excluding intragroup dividend, including the results of BRE Ubezpieczenia Sp. z .o.o and BRE Agent Ubezpieczeniowy Sp. z o.o. starting from August 2014.*

[3] *Including result of Transfinance, mCentrum Operacji, mFinance France, MLV 45, BDH Development and Garbary.*

Business activities of selected subsidiaries

mBank Hipoteczny

At the end of Q4 2014 mBank Hipoteczny's (mBH) gross loan portfolio totalled PLN 5.4 billion versus PLN 4.1 billion at the end of 2013, up 31.3% YoY. This growth resulted from, among others, increase of mBH's share in the sales of new mortgage loans for retail clients of mBank Group. Additionaly, in October 2014, as part of mBank Group Strategy, mBH acquired loans amounting to PLN 300 million (pooled retail loans) from mBank to support future issues of covered bonds backed by mortgage receivables.

Taking advantage of the positive attitude of foreign investors, mBH issued covered bonds in the amount of EUR 70 million by conducting two transactions in Q4 2014. It is important to stress the significant decrease of the cost of financing with covered bonds throughout the past year, especially in the context of the recent issue. Compared to the HPE3 issue on November 3, 2013, the credit margin for 5-year covered bonds denominated in euro decreased from 113 bps to 87 bps above EURIBOR 3M.

The issuing activity of mBH in Q4 2014 is presented in the table below.

Series	Date of issue	Date of redemption	Currency	Value of issue (million)	Interest rate	Fitch rating
HPE8	October 22, 2014	October 22, 2018	EUR	20	Stable (1.115%)	A
HPE9	November 28, 2014	October 15, 2019	EUR	50	EURIBOR 3M + 0.87%	A

Owing to the issues carried out in Q4 2014, the Bank reached the goal of covered bond issues at the level of PLN 1 billion. That is an unquestionable success of mBank Hipoteczny. The success is even greater taking into account that throughout the history of mortgage banking in Poland, none of the issuers have ever issued covered bonds for over PLN 1 billion within one year.

mDom Maklerski

The market share of Dom Maklerski mBanku (mDM) in equities trading stood at 4.6%, equivalent to the position of the eighth biggest market participant. mDM maintained the second position in derivatives trading with a market share of 16.7%. The company's market share in options trading stood at 17.8% equivalent to the position of the fourth market participant.

The number of clients of mDM stood at 294.2 thousand at the end of Q4 2014 and increased by 0.9 thousand QoQ. In Q4 2014, mDM managed IPO of Work Service (PLN 82.5 million), IPO of Skarbiec Holding S.A. (PLN 44.3 million), arranged a bond issue of Best S.A. (PLN 50 million) and public issue of investment certificates issued by KBC TFI (PLN 25 million).

Aspiro

In Q4 2014, Aspiro offered products of 27 different financial companies, including mBank products. The offer covered in total 53 products, including mortgage loans, cash loans, insurance products, investment products, leasing and factoring.

Q4 2014 was a period when the company noted a decrease of sales volume of mortgage loans (-13.74% QoQ). At the same time, a slight decrease of cash loans sale was observed. It amounted to -0.79%. Sale of car loans in car salesrooms in Q4 2014 remained similar to the level noted in Q3 2014 (-5.51% QoQ, but comparing to Q4 2013 the sale increased by 19.5%). In Q4 2014 Aspiro introduced the offer of mLeasing to the car salesrooms.

Good sales results in Q4 2014 were a driver of a better financial performance of the company. At the end of Q4 2014, the company's profit before tax amounted to PLN 9.35 million compared to 4.02 million in

Q3. The positive results in Q4 2014 reflected the execution of strategic goals and continuing high growth of high-margin sales.

mFaktoring

In Q4 2014 the turnover of mFaktoring stood at 2.8 billion compared to 2.3 billion in Q3 2014, with an increase of 22.1% QoQ. The company maintained seventh position among factoring entities registered in the Polish Factoring Associations with a market share of 7.9%.

Despite the reduction in interest rates level, profit before tax of the company increased by 10.0% QoQ. This change was mainly driven by greater customer acquisition and more than 13% YoY increase in turnover.

IFRS Condensed Consolidated Financial Statements for the fourth quarter of 2014 PLN (000's)

Condensed consolidated income statement

	Note	4th Quarter (current year) period from 01.10.2014 to 31.12.2014	4 Quarters (current year) period from 01.01.2014 to 31.12.2014	4th Quarter (previous year) period from 01.10.2013 to 31.12.2013	4 Quarters (previous year) period from 01.01.2013 to 31.12.2013
Interest income	5	992 730	3 956 254	945 265	3 949 971
Interest expense	5	(360 198)	(1 465 596)	(357 169)	(1 724 160)
Net interest income		**632 532**	**2 490 658**	**588 096**	**2 225 811**
Fee and commission income	6	337 382	1 399 601	344 760	1 303 834
Fee and commission expense	6	(137 017)	(497 911)	(115 856)	(469 096)
Net fee and commission income		**200 365**	**901 690**	**228 904**	**834 738**
Dividend income	7	986	19 992	9 779	26 856
Net trading income, including:	8	70 512	369 156	78 438	342 978
Foreign exchange result		44 616	*233 048*	*67 387*	*282 545*
Other net trading income and result on hedge accounting		25 896	*136 108*	*11 051*	*60 433*
Gains less losses from investment securities, investments in subsidiaries and associates	9	34 495	51 926	25 276	78 578
Other operating income	10	67 842	346 922	104 483	374 821
Net impairment losses on loans and advances	11	(112 639)	(515 903)	(117 080)	(477 778)
Overhead costs	12	(395 570)	(1 580 543)	(389 605)	(1 490 153)
Amortisation		(47 898)	(190 022)	(52 031)	(187 890)
Other operating expenses	13	(66 825)	(241 176)	(70 738)	(210 258)
Operating profit		**383 800**	**1 652 700**	**405 522**	**1 517 703**
Profit before income tax		**383 800**	**1 652 700**	**405 522**	**1 517 703**
Income tax expense	24	(75 298)	(363 390)	(90 744)	(308 725)
Net profit		**308 502**	**1 289 310**	**314 778**	**1 208 978**
Net profit attributable to:					
- Owners of mBank S.A.		308 617	1 286 668	314 200	1 206 375
- Non-controlling interests		(115)	2 642	578	2 603

	Note				
Net profit attributable to Owners of mBank S.A.			**1 286 668**		**1 206 375**
Weighted average number of ordinary shares	14		**42 189 705**		**42 155 456**
Basic earnings per share (in PLN)	14		**30.50**		**28.62**
Weighted average number of ordinary shares for diluted earnings	14		**42 221 295**		**42 167 491**
Diluted earnings per share (in PLN)	14		**30.47**		**28.61**

IFRS Condensed Consolidated Financial Statements for the fourth quarter of 2014 PLN (000's)

Condensed consolidated statement of comprehensive income

	4th Quarter (current year) period from 01.10.2014 to 31.12.2014	4 Quarters (current year) period from 01.01.2014 to 31.12.2014	4th Quarter (previous year) period from 01.10.2013 to 31.12.2013	4 Quarters (previous year) period from 01.01.2013 to 31.12.2013
Net profit	**308 502**	**1 289 310**	**314 778**	**1 208 978**
Other comprehensive income net of tax, including:	**(17 900)**	**231 456**	**46 243**	**(165 942)**
Items that may be reclassified subsequently to the income statement				
Exchange differences on translation of foreign operations (net)	75	245	(2 486)	(2 116)
Change in valuation of available for sale financial assets (net)	(20 215)	229 060	49 438	(163 117)
Cash flows hedges (net)	4 145	4 056	-	-
Items that will not be reclassified to the income statement				
Actuarial gains and losses relating to post-employment benefits (net)	(1 905)	(1 905)	(709)	(709)
Total comprehensive income (net)	**290 602**	**1 520 766**	**361 021**	**1 043 036**
Total comprehensive income (net), attributable to:				
- Owners of mBank S.A.	290 717	1 518 124	360 443	1 040 433
- Non-controlling interests	(115)	2 642	578	2 603

IFRS Condensed Consolidated Financial Statements for the fourth quarter of 2014 PLN (000's)

Condensed consolidated statement of financial position

ASSETS	Note	31.12.2014	30.09.2014	31.12.2013
Cash and balances with the Central Bank		3 054 549	4 176 981	1 650 467
Loans and advances to banks		3 751 415	3 721 009	3 471 241
Trading securities	15	1 163 944	2 637 559	763 064
Derivative financial instruments	16	4 865 517	4 073 025	2 349 585
Loans and advances to customers	18	74 582 350	71 958 401	68 210 385
Hedge accounting adjustments related to fair value of hedged items		461	601	970
Investment securities	19	27 678 614	28 154 394	25 341 763
Non-current assets held for sale	25	576 838	182 922	-
Intangible assets	20	465 626	448 246	455 345
Tangible assets	21	717 377	700 870	709 552
Current income tax assets		61 751	38 754	7 332
Deferred income tax assets	24	272 416	259 739	370 821
Other assets		794 964	974 794	952 236
Total assets		**117 985 822**	**117 327 295**	**104 282 761**

LIABILITIES AND EQUITY				
Liabilities				
Amounts due to the Central Bank		-	1	-
Amounts due to other banks		13 383 829	19 777 663	19 224 182
Derivative financial instruments	16	4 719 056	3 969 956	2 459 715
Amounts due to customers	22	72 422 479	69 563 534	61 673 527
Debt securities in issue		10 341 742	8 009 714	5 402 056
Hedge accounting adjustments related to fair value of hedged items		103 382	73 563	(4 349)
Liabilities held for sale	25	276 341	158 190	-
Other liabilities		1 349 654	1 509 193	1 267 672
Current income tax liabilities		1 969	2 645	9 581
Provisions for deferred income tax	24	9 785	17 857	2 954
Provisions	23	176 881	152 128	228 228
Subordinated liabilities		4 127 724	3 312 935	3 762 757
Total liabilities		**106 912 842**	**106 547 379**	**94 026 323**
Equity				
Equity attributable to Owners of mBank S.A.		**11 043 242**	**10 750 063**	**10 229 342**
Share capital:		**3 523 903**	**3 523 072**	**3 512 338**
- Registered share capital		168 840	168 830	168 696
- Share premium		3 355 063	3 354 242	3 343 642
Retained earnings:		**6 969 816**	**6 659 568**	**6 398 937**
- Profit from the previous years		5 683 148	5 681 517	5 192 562
- Profit for the current year		1 286 668	978 051	1 206 375
Other components of equity		**549 523**	**567 423**	**318 067**
Non-controlling interests		**29 738**	**29 853**	**27 096**
Total equity		**11 072 980**	**10 779 916**	**10 256 438**
TOTAL LIBILITIES AND EQUITY		**117 985 822**	**117 327 295**	**104 282 761**

Total capital ratio/capital adequacy ratio *)	27	**14.69**	**15.57**	**19.38**
Common Equity Tier 1 capital ratio/Core Tier 1 ratio *)	27	**12.27**	**13.05**	**14.21**
Book value		**11 043 242**	**10 750 063**	**10 229 342**
Number of shares		**42 210 057**	**42 207 402**	**42 174 013**
Book value per share (in PLN)		**261.63**	**254.70**	**242.55**

*) As at 31 December 2014, total capital ratio and common equity Tier 1 capital ratio are presented, calculated in accordance with the Regulation of the European Parliament and of the Council (EU) No 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (rules based on "Basel III"). As at 31 December 2013 capital adequacy ratio and Core Tier 1 ratio are presented, calculated in accordance with the requirements of Article 128 of the Banking Law of 29 August 1997 as later amended (rules based on "Basel II").

IFRS Condensed Consolidated Financial Statements for the fourth quarter of 2014 PLN (000's)

Condensed consolidated statement of changes in equity

Changes from 1 January to 31 December 2014

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

Changes from 1 January to 30 September 2014

	Share capital		Retained earnings					Other components of equity						
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	Exchange differences on translation of foreign operations	Valuation of available for sale financial assets	Cash flows hedges	Actuarial gains and losses relating to post-employment benefits	Equity attributable to Owners of mBank S.A., total	Non-controlling interests	Total equity
Equity as at 1 January 2014	**168 696**	**3 343 642**	**4 118 312**	**100 057**	**989 953**	**1 190 615**	**-**	**(2 010)**	**320 561**	**-**	**(484)**	**10 229 342**	**27 096**	**10 256 438**
Total comprehensive income							**978 051**	**170**	**249 275**	**(89)**	**-**	**1 227 407**	**2 757**	**1 230 164**
Dividends paid	-	-	-	-	-	(716 984)	-	-	-	-	-	(716 984)	-	(716 984)
Transfer to general banking risk reserve	-	-	-	-	52 000	(52 000)	-	-	-	-	-	-	-	-
Transfer to supplementary capital	-	-	285 109	-	-	(285 109)	-	-	-	-	-	-	-	-
Issue of shares	134	-	-	-	-	-	-	-	-	-	-	134	-	134
Stock option program for employees	-	10 600	-	(436)	-	-	-	-	-	-	-	10 164	-	10 164
- value of services provided by the employees	-	-	-	10 164	-	-	-	-	-	-	-	10 164	-	*10 164*
- settlement of exercised options	-	10 600	-	(10 600)	-	-	-	-	-	-	-	-	-	-
Equity as at 30 September 2014	**168 830**	**3 354 242**	**4 403 421**	**99 621**	**1 041 953**	**136 522**	**978 051**	**(1 840)**	**569 836**	**(89)**	**(484)**	**10 750 063**	**29 853**	**10 779 916**

IFRS Condensed Consolidated Financial Statements for the fourth quarter of 2014 PLN (000's)

Changes from 1 January to 31 December 2013

	Share capital		Retained earnings					Other components of equity					
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	Exchange differences on translation of foreign operations	Valuation of available for sale financial assets	Actuarial gains and losses relating to post-employment benefits	Equity attributable to Owners of mBank S.A., total	Non-controlling interests	Total equity
Equity as at 1 January 2013	**168 556**	**3 333 077**	**3 353 504**	**94 863**	**945 953**	**1 214 468**	**-**	**106**	**483 678**	**225**	**9 594 430**	**24 491**	**9 618 921**
Total comprehensive income							**1 206 375**	**(2 116)**	**(163 117)**	**(709)**	**1 040 433**	**2 603**	**1 043 036**
Dividends paid	-	-	-	-	-	(421 420)	-	-	-	-	(421 420)	-	(421 420)
Transfer to general banking risk reserve	-	-	-	-	44 000	(44 000)	-	-	-	-	-	-	-
Transfer to supplementary capital	-	-	764 808	-	-	(764 808)	-	-	-	-	-	-	-
Issue of shares	140	-	-	-	-	-	-	-	-	-	140	-	140
Other changes	-	-	-	-	-	-	-	-	-	-	-	2	2
Stock option program for employees	-	10 565	-	5 194	-	-	-	-	-	-	15 759	-	15 759
- value of services provided by the employees	-	-	-	15 759	-	-	-	-	-	-	15 759	-	*15 759*
- settlement of exercised options	-	10 565	-	(10 565)	-	-	-	-	-	-	-	-	-
Equity as at 31 December 2013	**168 696**	**3 343 642**	**4 118 312**	**100 057**	**989 953**	**(15 760)**	**1 206 375**	**(2 010)**	**320 561**	**(484)**	**10 229 342**	**27 096**	**10 256 438**

Condensed consolidated statement of cash flows

	The period from 01.01.2014 to 31.12.2014	The period from 01.01.2013 to 31.12.2013
A. Cash flows from operating activities	**(26 185)**	**(871 524)**
Profit before income tax	**1 652 700**	**1 517 703**
Adjustments:	***(1 678 885)***	***(2 389 227)***
Income taxes paid	(398 422)	(462 013)
Amortisation, including amortisation of fixed assets provided under operating lease	240 441	239 684
Foreign exchange (gains) losses related to financing activities	796 603	40 555
(Gains) losses on investing activities	(2 121)	(13 600)
Impairment of investments in subsidiaries	3 447	452
Dividends received	(19 992)	(26 856)
Interest income (income statement)	(3 956 254)	(3 949 971)
Interest expense (income statement)	1 465 596	1 724 160
Interest received	4 226 919	4 270 272
Interest paid	(1 259 024)	(1 699 052)
Changes in loans and advances to banks	(974 560)	167 234
Changes in trading securities	(338 981)	(220 203)
Changes in assets and liabilities on derivative financial instruments	(212 671)	(535 158)
Changes in loans and advances to customers	(6 434 485)	(1 420 900)
Changes in investment securities	(2 014 361)	(5 556 326)
Changes in other assets	(401 695)	(87 423)
Changes in amounts due to other banks	(2 846 865)	1 749 394
Changes in amounts due to customers	9 799 826	3 308 924
Changes in debt securities in issue	326 487	178 988
Changes in provisions	(51 347)	14 901
Changes in other liabilities	372 574	(112 289)
Net cash generated from/(used in) operating activities	**(26 185)**	**(871 524)**
B.Cash flows from investing activities	**(196 312)**	**(146 971)**
Investing activity inflows	**54 988**	**69 536**
Disposal of shares in subsidiaries, net of cash disposed	-	2
Disposal of intangible assets and tangible fixed assets	34 996	29 264
Dividends received	19 992	26 856
Other investing inflows	-	13 414
Investing activity outflows	**251 300**	**216 507**
Acquisition of shares in subsidiaries	-	18
Purchase of intangible assets and tangible fixed assets	251 300	216 488
Other investing outflows	-	1
Net cash generated from/(used in) investing activities	**(196 312)**	**(146 971)**
C. Cash flows from financing activities	**1 229 274**	**(2 846 202)**
Financing activity inflows	**7 153 186**	**2 743 526**
Proceeds from loans and advances from other banks	-	82 356
Proceeds from other loans and advances	1 050 075	636 430
Issue of debt securities	5 352 967	1 524 600
Issue of ordinary shares	144	140
Financing activity outflows	**5 923 912**	**5 589 728**
Repayments of loans and advances from other banks	3 601 459	3 729 163
Repayments of other loans and advances	10 064	239 751
Redemption of debt securities	754 362	1 156 900
Acquisition of shares in subsidiaries - increase of involvement	-	2 000
Decrease of subordinated liabilities	480 122	-
Payments of financial lease liabilities	439	448
Dividends and other payments to shareholders	716 984	421 420
Interest paid from loans and advances received from other banks, subordinated liabilities and long term issue	360 482	40 046
Net cash generated from/(used in) financing activities	**1 229 274**	**(2 846 202)**
Net increase / decrease in cash and cash equivalents (A+B+C)	**1 006 777**	**(3 864 697)**
Effects of exchange rate changes on cash and cash equivalents	19 088	(27 980)
Cash and cash equivalents at the beginning of the reporting period	3 685 640	7 578 317
Cash and cash equivalents at the end of the reporting period	**4 711 505**	**3 685 640**

mBank S.A. stand-alone financial information

Income statement

	Note	4th Quarter (current year) period from 01.10.2014 to 31.12.2014	4 Quarters (current year) period from 01.01.2014 to 31.12.2014	4th Quarter (previous year) period from 01.10.2013 to 31.12.2013	4 Quarters (previous year) period from 01.01.2013 to 31.12.2013
Interest income		907 642	3 634 827	871 432	3 631 968
Interest expense		(340 389)	(1 378 359)	(334 242)	(1 610 638)
Net interest income		**567 253**	**2 256 468**	**537 190**	**2 021 330**
Fee and commission income		282 855	1 176 602	282 703	1 084 180
Fee and commission expense		(116 219)	(431 378)	(103 492)	(418 565)
Net fee and commission income		**166 636**	**745 224**	**179 211**	**665 615**
Dividend income		178	43 872	9 752	61 861
Net trading income, including:		72 489	354 751	77 961	326 358
Foreign exchange result		*42 681*	*226 565*	*66 029*	*274 978*
Other net trading income and result on hedge accounting		*29 808*	*128 186*	*11 932*	*51 380*
Gains less losses from investment securities, investments in subsidiaries and associates		22 522	16 530	25 214	78 754
Other operating income		12 641	73 525	18 067	80 483
Net impairment losses on loans and advances		(97 354)	(442 514)	(97 276)	(414 816)
Overhead costs		(321 308)	(1 303 347)	(321 325)	(1 235 572)
Amortisation		(40 947)	(162 623)	(45 102)	(161 513)
Other operating expenses		(39 128)	(103 317)	(32 108)	(81 855)
Operating profit		**342 982**	**1 478 569**	**351 584**	**1 340 645**
Profit before income tax		**342 982**	**1 478 569**	**351 584**	**1 340 645**
Income tax expense		(63 006)	(304 473)	(80 976)	(270 339)
Net profit		**279 976**	**1 174 096**	**270 608**	**1 070 306**

Net profit			**1 174 096**		**1 070 306**
Weighted average number of ordinary shares	14		**42 189 705**		**42 155 456**
Basic earnings per share (in PLN)	14		**27.83**		**25.39**
Weighted average number of ordinary shares for diluted earnings	14		**42 217 869**		**42 167 491**
Diluted earnings per share (in PLN)	14		**27.81**		**25.38**

mBank S.A. stand-alone financial information

Statement of comprehensive income

	4th Quarter (current year) period from 01.10.2014 to 31.12.2014	4 Quarters (current year) period from 01.01.2014 to 31.12.2014	4th Quarter (previous year) period from 01.10.2013 to 31.12.2013	4 Quarters (previous year) period from 01.01.2013 to 31.12.2013
Net profit	**279 976**	**1 174 096**	**270 608**	**1 070 306**
Other comprehensive income net of tax, including:	**(19 258)**	**226 494**	**49 005**	**(164 359)**
Items that may be reclassified subsequently to the income statement				
Exchange differences on translation of foreign operations (net)	(484)	(462)	1 222	1 266
Change in valuation of available for sale financial assets (net)	(21 106)	224 713	48 527	(164 881)
Cash flow hedges (net)	4 145	4 056	-	-
Items that will not be reclassified to the income statement				
Actuarial gains and losses relating to post-employment benefits (net)	(1 813)	(1 813)	(744)	(744)
Total comprehensive income net of tax, total	**260 718**	**1 400 590**	**319 613**	**905 947**

mBank S.A. stand-alone financial information

Statement of financial position

ASSETS	31.12.2014	30.09.2014	31.12.2013
Cash and balances with the Central Bank	3 046 817	4 173 460	1 643 073
Loans and advances to banks	5 648 047	4 979 872	4 488 865
Trading securities	1 251 064	2 766 559	903 912
Derivative financial instruments	4 874 882	4 075 209	2 349 542
Loans and advances to customers	69 529 868	67 557 194	63 756 680
Hedge accounting adjustments related to fair value of hedged items	461	601	970
Investment securities	27 246 034	27 706 984	25 081 290
Investments in subsidiaries	806 567	735 775	757 259
Non-current assets held for sale	31 063	-	-
Intangible assets	425 078	405 188	408 784
Tangible assets	468 822	436 691	442 726
Current income tax assets	60 211	38 169	6 593
Deferred income tax assets	15 144	5 959	133 258
Other assets	199 405	246 830	259 180
Total assets	**113 603 463**	**113 128 491**	**100 232 132**
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the Central Bank	-	1	-
Amounts due to other banks	13 384 224	19 609 706	18 863 854
Derivative financial instruments	4 755 856	3 994 936	2 472 350
Amounts due to customers	79 312 266	74 281 418	64 008 374
Hedge accounting adjustments related to fair value of hedged items	77 619	59 933	(4 349)
Debt securities in issue	386 423	390 859	451 916
Other liabilities	1 112 805	1 310 058	962 870
Provisions for deferred income tax	82	10 114	80
Provisions	176 878	152 125	141 060
Subordinated liabilities	4 127 724	3 312 935	3 762 757
Total liabilities	**103 333 877**	**103 122 085**	**90 658 912**
Equity			
Share capital:	**3 523 903**	**3 523 072**	**3 512 338**
- Registered share capital	168 840	168 830	168 696
- Share premium	3 355 063	3 354 242	3 343 642
Retained earnings:	**6 196 983**	**5 915 376**	**5 738 676**
- Profit for the previous year	5 022 887	5 021 256	4 668 370
- Net profit for the current year	1 174 096	894 120	1 070 306
Other components of equity	**548 700**	**567 958**	**322 206**
Total equity	**10 269 586**	**10 006 406**	**9 573 220**
TOTAL LIBILITIES AND EQUITY	**113 603 463**	**113 128 491**	**100 232 132**
Total capital ratio/capital adequacy ratio *)	**16.99**	**17.66**	**20.59**
Common Equity Tier 1 capital ratio/Core Tier 1 ratio *)	**14.10**	**14.76**	**14.99**
Book value	**10 269 586**	**10 006 406**	**9 573 220**
Number of shares	**42 210 057**	**42 207 402**	**42 174 013**
Book value per share (in PLN)	**243.30**	**237.08**	**226.99**

*) As at 31 December 2014, total capital ratio and common equity Tier 1 capital ratio are presented, calculated in accordance with the Regulation of the European Parliament and of the Council (EU) No 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (rules based on "Basel III"). As at 31 December 2013 capital adequacy ratio and Core Tier 1 ratio are presented, calculated in accordance with the requirements of Article 128 of the Banking Law of 29 August 1997 as later amended (rules based on "Basel II").

IFRS Condensed Consolidated Financial Statements for the fourth quarter of 2014 PLN (000's)

mBank S.A. stand-alone financial information

Statement of changes in equity

Changes from 1 January to 31 December 2014

	Share capital		Retained earnings					Other components of equity				
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	Exchange differences on translation of foreign operations	Valuation of available for sale financial assets	Cash flows hedges	Actuarial gains and losses relating to post-employment benefits	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	-	-	-	-	-	-	**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**

Changes from 1 January to 30 September 2014

	Share capital		Retained earnings					Other components of equity				
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	Exchange differences on translation of foreign operations	Valuation of available for sale financial assets	Cash flows hedges	Actuarial gains and losses relating to post-employment benefits	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							**894 120**	**22**	**245 819**	**(89)**	**-**	**1 139 872**
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	134	-	-	-	-	-	-	-	-	-	-	134
Stock option program for employees	-	10 600	-	(436)	-	-	-	-	-	-	-	10 164
- value of services provided by the employees	-	-	-	10 164	-	-	-	-	-	-	-	10 164
- settlement of exercised options	-	10 600	-	(10 600)	-	-	-	-	-	-	-	-
Equity as at 30 September 2014	**168 830**	**3 354 242**	**3 977 488**	**28 625**	**1 015 143**	**-**	**894 120**	**(6 490)**	**575 056**	**(89)**	**(519)**	**10 006 406**

IFRS Condensed Consolidated Financial Statements for the fourth quarter of 2014 PLN (000's)

Changes from 1 January to 31 December 2013

	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	Cash flows hedges	Actuarial gains and losses relating to post-employment benefits	
Equity as at 1 January 2013	**168 556**	**3 333 077**	**3 027 390**	**23 867**	**925 143**	**1 108 196**	**-**	**(7 778)**	**494 118**	**-**	**225**	**9 072 794**
Total comprehensive income							**1 070 306**	**1 266**	**(164 881)**	**-**	(744)	**905 947**
Dividends paid	-	-	-	-	-	(421 420)	-	-	-	-	-	(421 420)
Transfer to general banking risk reserve	-	-	-	-	40 000	(40 000)	-	-	-	-	-	-
Transfer to supplementary capital	-	-	738 064	-	-	(738 064)	-	-	-	-	-	-
Issue of shares	140	-	-	-	-	-	-	-	-	-	-	140
Stock option program for employees	-	10 565	-	5 194	-	-	-	-	-	-	-	15 759
- value of services provided by the employees	-	-	-	15 759	-	-	-	-	-	-	-	*15 759*
- settlement of exercised options	-	10 565	-	(10 565)	-	-	-	-	-	-	-	-
Equity as at 31 December 2013	**168 696**	**3 343 642**	**3 765 454**	**29 061**	**965 143**	**(91 288)**	**1 070 306**	**(6 512)**	**329 237**	**-**	**(519)**	**9 573 220**

IFRS Condensed Consolidated Financial Statements for the fourth quarter of 2014 PLN (000's)

mBank S.A. stand-alone financial information

Statement of cash flows

	The period from 01.01.2014 to 31.12.2014	The period from 01.01.2013 to 31.12.2013
A. Cash flows from operating activities	**21 332**	**(1 899 191)**
Profit before income tax	**1 478 569**	**1 340 645**
Adjustments:	***(1 457 237)***	***(3 239 836)***
Income taxes paid	(328 395)	(428 124)
Amortisation	162 623	161 513
Foreign exchange (gains) losses related to financing activities	788 908	47 136
(Gains) losses on investing activities	(10 148)	(13 253)
Impairment of investments in subsidiaries	38 843	452
Dividends received	(43 872)	(61 861)
Interest income (income statement)	(3 634 827)	(3 631 968)
Interest expense (income statement)	1 378 359	1 610 638
Interest received	3 838 385	3 946 174
Interest paid	(1 285 037)	(1 409 216)
Changes in loans and advances to banks	(1 938 350)	(29 765)
Changes in trading securities	(17 014)	204 874
Changes in assets and liabilities on derivative financial instruments	(197 914)	(540 513)
Changes in loans and advances to customers	(5 766 089)	(1 916 359)
Changes in investment securities	(2 088 554)	(5 796 243)
Changes in other assets	52 631	(82 819)
Changes in amounts due to other banks	(2 834 973)	1 948 579
Changes in amounts due to customers	10 211 459	2 908 916
Changes in debt securities in issue	16 724	-
Changes in provisions	35 818	12 245
Changes in other liabilities	164 186	(170 242)
Net cash generated from/(used in) operating activities	**21 332**	**(1 899 191)**
B.Cash flows from investing activities	**(93 504)**	**126 161**
Investing activity inflows	**44 002**	**371 479**
Disposal of shares in subsidiaries, net of cash disposed	-	3
Disposal of intangible assets and tangible fixed assets	130	752
Dividends received	43 872	61 861
Other investing inflows	-	308 863
Investing activity outflows	**137 506**	**245 318**
Acquisition of shares in subsidiaries	-	102 795
Purchase of intangible assets and tangible fixed assets	137 506	142 523
Net cash generated from/(used in) investing activities	**(93 504)**	**126 161**
C. Cash flows from financing activities	**1 000 190**	**(2 379 208)**
Financing activity inflows	**6 096 339**	**1 967 402**
Proceeds from loans and advances from other banks	-	82 356
Proceeds from other loans and advances	1 050 075	636 430
Increase of subordinated liabilities	750 000	500 000
Issue of ordinary shares	144	140
Security deposit due to issue of Eurobonds	4 296 120	748 476
Financing activity outflows	**5 096 149**	**4 346 610**
Repayments of loans and advances from other banks	3 413 766	3 419 251
Repayments of other loans and advances	10 064	239 751
Redemption of debt securities	66 462	206 900
Acquisition of shares in subsidiaries - increase of involvement	118 767	12 000
Decrease of subordinated liabilities	480 122	-
Payments of financial lease liabilities	7 663	8 247
Dividends and other payments to shareholders	716 984	421 420
Interest paid from loans and advances received from other banks, subordinated liabilities and long term issue	282 321	39 041
Net cash generated from/(used in) financing activities	**1 000 190**	**(2 379 208)**
Net increase / decrease in cash and cash equivalents (A+B+C)	**928 018**	**(4 152 238)**
Effects of exchange rate changes on cash and cash equivalents	26 696	(34 521)
Cash and cash equivalents at the beginning of the reporting period	3 807 891	7 994 650
Cash and cash equivalents at the end of the reporting period	**4 762 605**	**3 807 891**

Explanatory notes to the condensed consolidated financial statements

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

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

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

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

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

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

As at 31 December 2014, mBank S.A. Group covered by the condensed consolidated financial statements comprised the following companies:

mBank S.A., the parent entity

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

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

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

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

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

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

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

As at 31 December 2014 the headcount of mBank S.A. amounted to 4 895 FTEs (Full Time Equivalents) and of the Group to 6 318 FTEs (31 December 2013: Bank 4 696 FTEs, Group 6 073 FTEs).

As at 31 December 2014 the employment in mBank S.A. was 6 015 persons and in the Group 8 277 persons (31 December 2013: Bank 5 681 persons, Group 7 826 persons).

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

<u>Corporates and Financial Markets Segment, including:</u>

Corporates and Investment Banking

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

Financial Markets

- mFinance France S.A., subsidiary

<u>Retail Banking Segment (including Private Banking)</u>

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

<u>Other</u>

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

Other information concerning companies of the Group

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 the materialisation of all contractually suspending conditions. The sale of Transfinance is a consequence of impementing the One Bank Strategy for 2012-2016 and is the last stage of restructuring the foreign factoring activities of the Group i.e. after the sale of Magyar Factor zRt and Intermarket Bank AG in 2011.

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

Information of the sale of Transfinance a.s. have been included under Note 25 "Assets and liabilities held for sale".

In addition, as described under Note 25 "Financial assets and liabilities held for sale", starting from the third quarter 2014, the companies BRE TUiR and AWL I Sp. z o.o. were also classified as non-current assets (disposal groups) held for sale.

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

2. Description of the relevant accounting policies

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

2.1. Accounting basis

The condensed consolidated financial statements of mBank S.A. Group have been prepared for the 12-month period ended 31 December 2014.

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

The presented Condensed Consolidated Financial Statements for the fourth quarter of 2014 should be read in conjunction with the Consolidated Financial Statements of mBank S.A. Group for the year ended 31 December 2013, which have been prepared in accordance with IFRSs. The Consolidated Financial Statements of mBank S.A. Group for the year ended 31 December 2014 will be published on 2 March 2015.

The data for the year 2013 presented in mBank S.A. Group condensed consolidated financial statements was audited by the auditor.

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

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

2.2. Consolidation

Subsidiaries

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

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

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

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

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

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

Associates and joint ventures

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

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

Investments in associates and joint ventures are settled using the equity method of accounting and they are initially recognised at cost.

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

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

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

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

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

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

IFRS Condensed Consolidated Financial Statements for the fourth quarter of 2014 PLN (000's)

Company	31.12.2014		30.09.2014		31.12.2013	
	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method
Aspiro S.A.	100%	full	100%	full	100%	full
AWL I Sp. z o.o.	100%	full	100%	full	-	-
BDH Development Sp. z o.o.	100%	full	100%	full	100%	full
BRE Agent Ubezpieczeniowy Sp. z o.o.	100%	full	100%	full	100%	full
BRE Ubezpieczenia Sp. z o.o.	100%	full	100%	full	100%	full
BRE Ubezpieczenia TUiR S.A.	100%	full	100%	full	100%	full
Dom Maklerski mBanku S.A.	100%	full	100%	full	100%	full
Garbary Sp. z o.o.	100%	full	100%	full	100%	full
mBank Hipoteczny S.A.	100%	full	100%	full	100%	full
mCentrum Operacji Sp. z o.o.	100%	full	100%	full	100%	full
mFaktoring S.A.	100%	full	100%	full	100%	full
mLeasing Sp. z o.o.	100%	full	100%	full	100%	full
mWealth Management S.A.	100%	full	100%	full	100%	full
MLV 45 Sp. z o.o. spółka komandytowa	100%	full	100%	full	100%	full
Transfinance a.s.	100%	full	100%	full	100%	full
mFinance France S.A.	99.98%	full	99.98%	full	99.98%	full
mLocum S.A.	79.99%	full	79.99%	full	79.99%	full

2.3. Interest income and expenses

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

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

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

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

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

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

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

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

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

2.4. Fee and commission income

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

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

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

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

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

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

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

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

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

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

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

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

2.6. Insurance premium revenue

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

2.7. Compensations and benefits, net

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

2.8. Segment reporting

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

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

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

2.9. Financial assets

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

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

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

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

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

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

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

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

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

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

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

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

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

Interest income/expense on financial assets/financial liabilities designated at fair value (Note 2.3), except for derivatives the recognition of which is discussed in Note 2.16, is recognised in net interest income. The valuation and result on disposal of financial assets/financial liabilities designated at fair value is recognised in trading income.

<u>Loans and receivables</u>

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

<u>Held to maturity investments</u>

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

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

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

<u>Available for sale investments</u>

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

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

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

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

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

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

2.10. Reinsurance assets

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

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

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

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

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

2.11. Offsetting financial instruments

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

2.12. Impairment of financial assets

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

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

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

1. The number of days from which any exposure being the obligor's credit obligation becomes overdue is above 90 days and the overdue amount exceeds PLN 3,000 for corporate customers and PLN 500 for retail customers.
2. The Bank has sold exposures with a significant economic loss related to the change of the debtor creditworthiness.
3. The Bank performed enforced restructuring of the exposure, which resultes in the change of the loan/transaction service schedule due to the lack of possibility of the obligor to meet his obligations under loan/transaction agreement, as initially stipulated, which resulted in:
   a) reduction of financial obligations by remitting part of these obligations, or
   b) postponing the repayment of the substantial part of the principal, interest or (if it refers to) commission; provided that the lack of approval for restructuring would cause more than 90 calendar days delay in repayment of substantial part of the obligation.
4. Filing by the Bank, the parent or subsidiary entity of the Bank a bankruptcy motion against debtor or filing similar motion in respect of credit obligations of the debtor towards the Bank, the parent or subsidiary entity of the Bank.
5. Bankruptcy of debtor or acquiring by him a similar legal protection resulting in his evasion of or delay in repayment of credit obligations towards the Bank, the parent or subsidiary entity of the Bank.
6. Termination of part or whole credit agreement by the Bank and the beginning of restructuring/collection procedures.
7. Client's fraud.

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

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

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

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

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

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

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

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

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

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

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

Assets measured at fair value

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

Renegotiated agreements

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

2.13. Financial guarantee contracts

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

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

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

2.14. Cash and cash equivalents

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

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

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

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

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

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

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

2.16. Derivative financial instruments and hedge accounting

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

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

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

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

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

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

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

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

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

Fair value hedges

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

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

Cash flow hedges

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

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

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

Derivative instruments not fulfilling the criteria of hedge accounting

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

The Group holds the following derivative instruments in its portfolio:

Market risk instruments:

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

Interest rate risk instruments:

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

Foreign exchange risk instruments:

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

2.17. Gains and losses on initial recognition

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

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

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

2.18. Borrowings and deposits taken

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

2.19. Intangible assets

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

Goodwill

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

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

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

Computer software

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

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

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

Development costs

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

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

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

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

2.20. Tangible fixed assets

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

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

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

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

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

The Group assesses at the end of each reporting period whether there is any indication that tangible asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. The value of a fixed asset carried in the statement of financial position is reduced to the level of its recoverable value if the carrying value in the statement of financial position exceeds the estimated recoverable amount. The recoverable value is the higher of two amounts: the fair value of the fixed asset reduced by its selling costs and the value in use.

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

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

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

2.21. Inventories

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

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

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

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

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

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

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

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

2.23. Deferred income tax

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

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

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

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

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

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

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

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

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

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

2.24. Assets repossessed for debt

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

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

2.25. Prepayments, accruals and deferred income

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

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

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

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

2.26. Leasing

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

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

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

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

Revenue from leasing agreements is recognised as follows:

- Interests on finance lease

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

- Net revenue from operating lease

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

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

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

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

2.27. Provisions

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

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

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

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

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

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

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

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

2.28. Post-employment employee benefits and other employee benefits

Post-employment employee benefits

The Group forms provisions against future liabilities on account of post-employment benefits determined on the basis of an estimation of liabilities of that type, using an actuarial model. The Group uses a principle of recognition of actuarial gains or losses from the measurement of post-employment benefits related to changes in actuarial assumptions in other comprehensive income. The Group recognizes service cost and net interest on the net defined benefit liability in profit or loss, on the positions "Overhead costs" and "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. These benefits are accounted for in compliance with IFRS 2 Share-based Payment. The fair value of the service rendered by employees in return for options and shares granted increases the costs of the respective period, corresponding to own equity in the case of transactions settled in shares. 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. In case of the part of the programme based on cash-settled share-based payments, until the liability related to the cash-settled share-based payments transactions is settled the Bank measures the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognised in profit or loss for the period. In addition, in one of the Group's subsidiaries there is an incentive programme based on phantom shares. These payments meet the definition of cash-settled transactions based on own shares.

2.29. Equity

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

Registered share capital

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

- Own shares

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

Share premium

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

- Share issue costs

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

Retained earnings

Retained earnings include:

- other supplementary capital,
- other reserve capital,

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

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

Moreover, other reserve capital comprises valuation of employee options.

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

Other components of equity

Other components of equity result from:

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

2.30. Valuation of items denominated in foreign currencies

Functional currency and presentation currency

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

Transactions and balances

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

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

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

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

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

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

Companies belonging to the Group

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

- assets and liabilities in each presented statement of financial position are converted at the average rate of exchange of the National Bank of Poland (NBP) in force at the end of this reporting period;
- revenues and expenses in each income statement are converted at the rate equal to the arithmetical mean of the average rates quoted by NBP on the last day of each of 12 months of each presented periods; whereas
- all resulting foreign exchange differences are recognised as a distinct item of other comprehensive income.

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

Leasing business

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

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

2.31. Trust and fiduciary activities

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

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

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

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

2.32. New standards, interpretations and amendments to published standards

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

In 2013, the Group decided for early application, in relation to the adoption of the mandatory application of the European Union, of IFRS 10, IFRS 11, IFRS 12 and amendments to IFRS 10, IFRS 11 and IFRS 12. In relation to other standards and interpretations that have been approved by the European Union, but entered or will enter into force after the balance sheet date, the Group did not use the possibility of early application.

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

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

International Accounting Standards Board on 31 October 2012, binding for annual periods starting on or after 1 January 2014.

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

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

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

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

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

Standards and interpretations not yet approved by the European Union:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.33. Comparative data

The data for the previous periods presented in these condensed consolidated financial statements are fully comparable with the data for the current period and were not adjusted.

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

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

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

The Group reviews its loan portfolio in terms of possible impairments at least once per quarter. In order to determine whether any impairment loss should be recognised in the income statement, the Group assesses whether any evidence exists that would indicate some measurable reduction of estimated future cash flows attached to the loan portfolio. The methodology and the assumptions (on the basis of which the estimated cash flow amounts and their anticipated timing are determined) are regularly verified. Last such verification was performed in November 2013 and it did not have material impact on the overall level of provisions for loans and advances, however it had an impact on the structure of these provisions as well as on the level of loans and advances for which impairment was recognized. The detailed description of the changes implemented as a result of this verification is included under Note 3.4.4.2 of the consolidated financial statements for the year 2013, published on 3 March 2014 and under Note 18 of these condensed consolidated financial statements.

Fair value of derivative instruments

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

Impairment of available for sale investments

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

Deferred tax assets

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

Revenue and expenses from sale of insurance products bundled with loans

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

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

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

Liabilities due to post-employment employee benefits

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

Technical-insurance provisions

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

As at 31 December 2014, provisions for claims incurred but not reported to the insurer (IBNR) were calculated using the actuarial methods (Naive Loss Ratio and Bornhuetter-Ferguson). The expected loss ratios are composed on the basis of available market studies concerning loss arising from the given group of risks.

4. Business segments

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

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

Under the rebranding process, on 25 November 2013, BRE Bank and MultiBank changed their names. Entities of the former BRE Bank Group merged under the name mBank S.A. The rebranding process covered all outlets of the former BRE Group. Existing units were equipped with a new logo. The process was completed in 2014. In accordance with the strategy, in 2018 all retail and corporate branches of the Bank will be connected, offering all customers a full range of mBank.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	Corporates & Financial Markets		Retail Banking (including Private Banking)	Other	Total figure for the Group	Statement of financial position reconciliation/ income statement reconciliation
	Corporates and Investment Banking	Financial Markets				
Net interest income	**683 834**	**128 737**	**1 685 755**	**(7 668)**	**2 490 658**	**2 490 658**
- sales to external clients	591 306	619 754	1 280 713	(1 115)	2 490 658	
- sales to other segments	92 528	(491 017)	405 042	(6 553)	-	
Net fee and commission income	**381 906**	**(6 961)**	**512 986**	**13 759**	**901 690**	**901 690**
Dividend income	**17 223**	**191**	**78**	**2 500**	**19 992**	**19 992**
Trading income	**184 109**	**57 447**	**127 411**	**189**	**369 156**	**369 156**
Gains less losses from investment securities, investments in subsidiaries and associates	**10 074**	**45 299**	**(700)**	**(2 747)**	**51 926**	**51 926**
Other operating income	**95 880**	**1 234**	**116 725**	**133 083**	**346 922**	**346 922**
Net impairment losses on loans and advances	**(188 176)**	**(1 065)**	**(326 693)**	**31**	**(515 903)**	**(515 903)**
Overhead costs	**(573 967)**	**(86 488)**	**(881 000)**	**(39 088)**	**(1 580 543)**	**(1 580 543)**
Amortisation	**(71 624)**	**(8 772)**	**(106 407)**	**(3 219)**	**(190 022)**	**(190 022)**
Other operating expenses	**(39 352)**	**(96)**	**(64 446)**	**(137 282)**	**(241 176)**	**(241 176)**
Gross profit of the segment	**499 907**	**129 526**	**1 063 709**	**(40 442)**	**1 652 700**	**1 652 700**
Income tax					(363 390)	(363 390)
Net profit attributable to Owners of mBank S.A.					1 286 668	1 286 668
Net profit attributable to non-controlling interests					2 642	2 642
Assets of the segment	**27 883 921**	**42 158 138**	**47 579 311**	**364 452**	**117 985 822**	**117 985 822**
Liabilities of the segment	**25 757 739**	**36 864 794**	**43 585 612**	**704 697**	**106 912 842**	**106 912 842**
Other items of the segment						
Expenditures incurred on fixed assets and intangible assets	165 487	9 711	120 867	1 586	297 651	

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

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

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Geographical areas reporting on the activities of mBank S.A. Group for the period	from 1 January to 31 December 2014			from 1 January to 31 December 2013		
	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total
Net interest income	2 369 399	121 259	**2 490 658**	2 124 260	101 551	**2 225 811**
Net fee and commission income	875 745	25 945	**901 690**	811 613	23 125	**834 738**
Dividend income	19 992	-	**19 992**	26 856	-	**26 856**
Trading income	363 388	5 768	**369 156**	337 150	5 828	**342 978**
Gains less losses from investment securities, investments in subsidiaries and associates	51 926	-	**51 926**	78 578	-	**78 578**
Other operating income	345 279	1 643	**346 922**	370 182	4 639	**374 821**
Net impairment losses on loans and advances	(480 714)	(35 189)	**(515 903)**	(467 468)	(10 310)	**(477 778)**
Overhead costs	(1 473 145)	(107 398)	**(1 580 543)**	(1 395 426)	(94 727)	**(1 490 153)**
Amortisation	(185 911)	(4 111)	**(190 022)**	(183 337)	(4 553)	**(187 890)**
Other operating expenses	(238 129)	(3 047)	**(241 176)**	(202 490)	(7 768)	**(210 258)**
Gross profit of the segment	1 647 830	4 870	**1 652 700**	1 499 918	17 785	**1 517 703**
Income tax			(363 390)			(308 725)
Net profit attributable to Owners of mBank S.A.			1 286 668			1 206 375
Net profit attributable to non-controlling interests			2 642			2 603
Assets of the segment, including:	114 548 848	3 436 974	**117 985 822**	101 649 833	2 632 928	**104 282 761**
- tangible assets	1 171 783	11 220	1 183 003	1 147 730	17 167	1 164 897
- deferred income tax assets	266 382	6 034	272 416	367 611	3 210	370 821
Liabilities of the segment	101 151 600	5 761 242	**106 912 842**	88 968 671	5 057 652	**94 026 323**

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5. Net interest income

the period	from 01.01.2014 to 31.12.2014	from 01.01.2013 to 31.12.2013
Interest income		
Loans and advances including the unwind of the impairment provision discount	2 833 184	2 841 195
Investment securities	836 637	884 205
Cash and short-term placements	73 257	78 807
Trading debt securities	47 882	43 693
Interest income on derivatives classified into banking book	138 097	88 583
Interest income on derivatives concluded under the fair value hedge	18 429	181
Interest income on derivatives concluded under the cash flow hedge	1 400	-
Other	7 368	13 307
Total interest income	**3 956 254**	**3 949 971**
Interest expense		
Arising from amounts due to banks	(192 862)	(256 936)
Arising from amounts due to customers	(892 069)	(1 133 931)
Arising from issue of debt securities	(229 293)	(191 965)
Arising from subordinated liabilities	(77 254)	(64 101)
Other	(74 118)	(77 227)
Total interest expense	**(1 465 596)**	**(1 724 160)**

Interest income related to impaired financial assets amounted to PLN 151 468 thousand (31 December 2013: PLN 178 515 thousand).

6. Net fee and commission income

the period	from 01.01.2014 to 31.12.2014	from 01.01.2013 to 31.12.2013
Fee and commission income		
Payment cards-related fees	413 614	413 729
Credit-related fees and commissions	254 302	227 600
Commissions from insurance activity	116 675	106 637
Fees from brokerage activity	90 532	91 607
Commissions from bank accounts	157 474	154 980
Commissions from money transfers	97 627	88 239
Commissions due to guarantees granted and trade finance commissions	46 581	37 864
Commissions for agency service regarding sale of products of external financial entities	88 212	77 413
Commissions on trust and fiduciary activities	21 108	19 393
Fees from portfolio management services and other management-related fees	13 438	14 402
Other	100 038	71 970
Total fee and commission income	**1 399 601**	**1 303 834**
Fee and commission expense		
Payment cards-related fees	(194 993)	(217 668)
Commissions paid to external entities for sale of the Bank's products	(78 001)	(59 035)
Insurance activity-related fees	(9 007)	(3 628)
Discharged brokerage fees	(29 915)	(26 191)
Other discharged fees	(185 995)	(162 574)
Total fee and commission expense	**(497 911)**	**(469 096)**

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the period	from 01.01.2014 to 31.12.2014	from 01.01.2013 to 31.12.2013
Fee and commission income from insurance activity		
- Income from insurance intermediation	97 822	87 556
- Income from insurance policies administration	18 853	19 081
Total fee and commission income from insurance activity	**116 675**	**106 637**

7. Dividend income

the period	from 01.01.2014 to 31.12.2014	from 01.01.2013 to 31.12.2013
Trading securities	243	49
Securities available for sale	19 749	26 807
Total dividend income	**19 992**	**26 856**

8. Net trading income

the period	from 01.01.2014 to 31.12.2014	from 01.01.2013 to 31.12.2013
Foreign exchange result	**233 048**	**282 545**
Net exchange differences on translation	311 760	239 853
Net transaction gains/(losses)	(78 712)	42 692
Other net trading income and result on hedge accounting	**136 108**	**60 433**
Interest-bearing instruments	110 045	49 455
Equity instruments	(1 524)	145
Market risk instruments	(1 810)	2 833
Result on fair value hedge accounting, including:	29 059	8 000
- Net profit on hedged items	(108 241)	7 101
- Net profit on fair value hedging instruments	137 300	899
Ineffective portion of cash flow hedge	338	-
Total net trading income	**369 156**	**342 978**

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

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

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

the period	from 01.01.2014 to 31.12.2014	from 01.01.2013 to 31.12.2013
Sale/redemption of financial assets available for sale, investments in subsidiaries and associates	55 373	79 030
Impairment of investments in subsidiaries	(3 447)	(452)
Total gains and losses from investment securities and investments in subsidiaries and associates	**51 926**	**78 578**

Impairment of investments in subsidiaries relates mainly to the write-off of the carrying value of Transfinance a.s. assets to the fair value less costs to sale due to classification of the subsidiary as non-current assets held for sale (disposal group).

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10. Other operating income

the period	from 01.01.2014 to 31.12.2014	from 01.01.2013 to 31.12.2013
Income from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories	149 766	142 651
Income from insurance activity net	96 237	82 931
Income from services provided	24 009	30 818
Net income from operating lease	11 157	14 873
Income due to release of provisions for future commitments	12 490	36 195
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	1 857	1 169
Income from compensations, penalties and fines received	229	184
Other	51 177	66 000
Total other operating income	**346 922**	**374 821**

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

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

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

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

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

the period	from 01.01.2014 to 31.12.2014	from 01.01.2013 to 31.12.2013
Income from premiums		
- Premiums attributable	234 851	183 877
- Change in provision for premiums	(39 899)	2 518
Premiums earned	**194 952**	**186 395**
Reinsurer's shares		
- Gross premiums written	(66 607)	(72 131)
- Change in unearned premiums reserve	(2 416)	(2 098)
Reinsurer's share in premiums earned	**(69 023)**	**(74 229)**
Net premiums earned	**125 929**	**112 166**
Claims and benefits		
- Claims and benefits paid out in the current year including costs of liquidation before tax	(63 099)	(73 133)
- Change in provision for claims and benefits paid out in the current year including costs of liquidation before tax	(19 902)	(13 287)
- Reinsurer's share in claims and benefits paid out in the current year including costs of liquidation	46 141	51 868
- Change in provision for reinsurer's share of claims and benefits paid out in the current year including costs of liquidation	10 212	9 274
Claims and benefits net	**(26 648)**	**(25 278)**
- Other costs net of reinsurance	(3 183)	(3 744)
- Other operating income	440	8
- Costs of expertise and certificates concerning underwriting risk	(301)	(221)
Total net income from insurance activity	**96 237**	**82 931**

Net income from operating lease for the four quarters of 2014 and the four quarters of 2013 is presented below.

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the period	from 01.01.2014 to 31.12.2014	from 01.01.2013 to 31.12.2013
Net income from operating lease, including:		
- Income from operating lease	61 576	66 667
- Depreciation cost of fixed assets provided under operating lease	(50 419)	(51 794)
Total net income from operating lease	**11 157**	**14 873**

11. Net impairment losses on loans and advances

the period	from 01.01.2014 to 31.12.2014	from 01.01.2013 to 31.12.2013
Net impairment losses on amounts due from other banks	(1 114)	282
Net impairment losses on loans and advances to customers	(521 444)	(468 485)
Net impairment losses on off-balance sheet contingent liabilities due to customers	6 655	(9 575)
Total net impairment losses on loans and advances	**(515 903)**	**(477 778)**

12. Overhead costs

the period	from 01.01.2014 to 31.12.2014	from 01.01.2013 to 31.12.2013
Staff-related expenses	(844 131)	(808 259)
Material costs	(627 613)	(586 658)
Taxes and fees	(29 811)	(30 011)
Contributions and transfers to the Bank Guarantee Fund	(70 790)	(58 228)
Contributions to the Social Benefits Fund	(6 993)	(6 782)
Other	(1 205)	(215)
Total overhead costs	**(1 580 543)**	**(1 490 153)**

Staff-related expenses for the four quarters of 2014 and the four quarters of 2013 are presented below.

the period	from 01.01.2014 to 31.12.2014	from 01.01.2013 to 31.12.2013
Wages and salaries	(682 454)	(657 993)
Social security expenses	(102 000)	(98 847)
Employee contributions related to post-employment benefits	(582)	(857)
Remuneration concerning share-based payments, including:	(24 813)	(15 886)
- share-based payments settled in mBank S.A. shares	(14 250)	(15 759)
- cash-settled share-based payments	(10 563)	(127)
Other staff expenses	(34 282)	(34 676)
Staff-related expenses, total	**(844 131)**	**(808 259)**

13. Other operating expenses

the period	from 01.01.2014 to 31.12.2014	from 01.01.2013 to 31.12.2013
Costs arising from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories	(115 713)	(114 796)
Provisions for future commitments	(58 261)	(42 593)
Donations made	(2 669)	(2 726)
Compensation, penalties and fines paid	(1 869)	(718)
Costs arising from provisions created for other receivables (excluding loans and advances)	(7 093)	(4 624)
Costs of sale of services	(1 438)	(1 799)
Costs arising from receivables and liabilities recognised as prescribed, remitted and uncollectible	(3 584)	(478)
Impairment provisions created for tangible fixed assets and intangible assets	(8 065)	-
Other operating costs	(42 484)	(42 524)
Total other operating expenses	**(241 176)**	**(210 258)**

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

Costs of services provided concern non-banking services.

14. Earnings per share

Earnings per share for 12 months – mBank S.A. Group consolidated data

the period	from 01.01.2014 to 31.12.2014	from 01.01.2013 to 31.12.2013
Basic:		
Net profit attributable to Owners of mBank S.A.	1 286 668	1 206 375
Weighted average number of ordinary shares	42 189 705	42 155 456
Net basic profit per share (in PLN per share)	**30.50**	**28.62**
Diluted:		
Net profit attributable to Owners of mBank S.A., applied for calculation of diluted earnings per share	1 286 668	1 206 375
Weighted average number of ordinary shares	42 189 705	42 155 456
Adjustments for:		
- share options	31 590	12 035
Weighted average number of ordinary shares for calculation of diluted earnings per share	42 221 295	42 167 491
Diluted earnings per share (in PLN per share)	**30.47**	**28.61**

Earnings per share for 12 months – mBank S.A. stand-alone data

the period	from 01.01.2014 to 30.09.2014	from 01.01.2013 to 30.09.2013
Basic:		
Net profit	1 174 096	1 070 306
Weighted average number of ordinary shares	42 189 705	42 155 456
Net basic profit per share (in PLN per share)	**27.83**	**25.39**
Diluted:		
Net profit applied for calculation of diluted earnings per share	1 174 096	1 070 306
Weighted average number of ordinary shares	42 189 705	42 155 456
Adjustments for:		
- share options	31 590	12 035
Weighted average number of ordinary shares for calculation of diluted earnings per share	42 221 295	42 167 491
Diluted earnings per share (in PLN per share)	**27.81**	**25.38**

15. Trading securities

	31.12.2014			30.09.2014			31.12.2013		
	Trading securities without pledge	Pledged trading securities	Total trading securities	Trading securities without pledge	Pledged trading securities	Total trading securities	Trading securities without pledge	Pledged trading securities	Total trading securities
Debt securities:	**547 962**	**598 035**	**1 145 997**	**937 583**	**1 679 083**	**2 616 666**	**482 343**	**252 278**	**734 621**
Issued by government	19 871	598 035	617 906	496 812	1 679 083	2 175 895	135 981	252 278	388 259
- government bonds	19 871	598 035	617 906	496 812	1 679 083	2 175 895	135 981	252 278	388 259
Other debt securities	528 091	-	528 091	440 771	-	440 771	346 362	-	346 362
- bank's bonds	473 097	-	473 097	407 937	-	407 937	264 922	-	264 922
- deposit certificates	-	-	-	-	-	-	37 787	-	37 787
- corporate bonds	54 994	-	54 994	32 834	-	32 834	43 653	-	43 653
Equity securities:	**17 947**	**-**	**17 947**	**20 893**	**-**	**20 893**	**28 443**	**-**	**28 443**
- listed	10 431	-	10 431	13 379	-	13 379	6 893	-	6 893
- unlisted	7 516	-	7 516	7 514	-	7 514	21 550	-	21 550
Total debt and equity securities:	**565 909**	**598 035**	**1 163 944**	**958 476**	**1 679 083**	**2 637 559**	**510 786**	**252 278**	**763 064**

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16. Derivative financial instruments

	31.12.2014		30.09.2014		31.12.2013	
			assets	liabilities	assets	liabilities
Held for trading derivative financial instruments classified into banking book	93 811	165 367	127 168	57 079	137 092	40 303
Held for trading derivative financial instruments classified into trading book	4 617 313	4 549 407	3 777 004	3 911 971	2 212 493	2 411 656
Derivative financial instruments held for fair value hedging	102 226	3 592	155 260	906	-	7 756
Derivative financial instruments held for cash flow hedging	52 167	690	13 593	-	-	-
Total derivative financial instruments assets/liabilities	**4 865 517**	**4 719 056**	**4 073 025**	**3 969 956**	**2 349 585**	**2 459 715**

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

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

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

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

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

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

17. Derivatives held for hedges

The Group applies fair value hedge accounting for:

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

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- Covered bonds issued by mBank Hipoteczny, subsidiary of mBank. An Interest Rate Swap is the hedging instrument changing the fixed interest rate to a variable interest rate.

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

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

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

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

The following note presents other comprehensive income due to cash flow hedges as at 31 December 2014 and as at 30 September 2014.

	31.12.2014	30.09.2014
Other comprehensive income from cash flow hedge at the beginning of the period	-	-
Gains/losses rocognized in comprehensive income during the reporting period (gross)	6 746	(102)
Amount included as interest income in income statement during the reporting period	1 400	8
Ineffective portion of cash flow hedge recognized in the income statement	338	-
Accumulated other comprehensive income at the end of the reporting period (gross)	5 008	(110)
Deferred tax	(952)	21
Accumulated net other comprehensive income at the end of the reporting period	4 056	(89)
Impact on other comprehensive income in the reporting period (gross)	5 008	(110)
Deferred tax on cash flow hedges	(952)	21
Impact on other comprehensive income in the reporting period (net)	4 056	(89)

Total result on fair value hedge accounting in 2014 and 2013

	31.12.2014	31.12.2013
Interest income on derivatives concluded under the fair value hedge (Note 5)	18 429	181
Net profit on fair value hedging instruments (Note 8)	137 300	899
Total result on fair value hedging instruments	**155 729**	**1 080**

Total result on cash flow hedge accounting in 2014 and 2013

	31.12.2014	31.12.2013
Interest income on derivatives concluded under the cash flow hedge (Note 5)	1 400	-
Ineffective portion of cash flow hedge (Note 8)	338	-
Total result on cash flow hedging instruments	**1 738**	**-**

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18. Loans and advances to customers

	31.12.2014	30.09.2014	31.12.2013
Loans and advances to individuals:	**41 560 477**	**40 554 970**	**38 307 915**
- current receivables	5 207 679	5 472 126	4 978 854
- term loans, including:	36 352 798	35 082 844	33 329 061
housing and mortgage loans	30 577 150	29 713 814	28 692 896
Loans and advances to corporate entities:	**32 841 046**	**31 534 790**	**29 475 274**
- current receivables	3 701 490	4 055 931	3 597 377
- term loans:	23 977 679	23 283 929	21 076 873
corporate & institutional enterprises	5 751 583	5 704 843	5 115 320
medium & small enterprises	18 226 096	17 579 086	15 961 553
- reverse repo / buy-sell-back transactions	3 838 553	2 738 616	3 287 066
- other	1 323 324	1 456 314	1 513 958
Loans and advances to public sector	**1 924 395**	**1 921 507**	**2 177 976**
Other receivables	**1 047 273**	**686 563**	**620 627**
Total (gross) loans and advances to customers	**77 373 191**	**74 697 830**	**70 581 792**
Provisions for loans and advances to customers (negative amount)	(2 790 841)	(2 739 429)	(2 371 407)
Total (net) loans and advances to customers	**74 582 350**	**71 958 401**	**68 210 385**

Short-term (up to 1 year)	26 964 700	25 018 811	24 596 330
Long-term (over 1 year)	47 617 650	46 939 590	43 614 055

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

Loans to micro enterprises in the presented reporting periods amounted to respectively: 31 December 2014 – PLN 4 472 041, 30 September 2014 – PLN 4 461 592 thousand, 31 December 2013 – PLN 4 041 584 thousand.

Provisions for loans and advances

	31.12.2014	30.09.2014	31.12.2013
Incurred but not identified losses			
Gross balance sheet exposure	72 497 182	69 981 086	66 158 075
Impairment provisions for exposures analysed according to portfolio approach	(242 401)	(299 947)	(256 556)
Net balance sheet exposure	**72 254 781**	**69 681 139**	**65 901 519**
Receivables with impairment			
Gross balance sheet exposure	4 876 009	4 716 744	4 423 717
Provisions for receivables with impairment	(2 548 440)	(2 439 482)	(2 114 851)
Net balance sheet exposure	**2 327 569**	**2 277 262**	**2 308 866**

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

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

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

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

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

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

No.	Sectors	Principal exposure (in PLN thousand)	%	Principal exposure (in PLN thousand)	%	Principal exposure (in PLN thousand)	%
		31.12.2014		30.09.2014		31.12.2013	
1.	Household customers	41 560 477	53.71	40 554 970	54.29	38 307 915	54.27
2.	Real estate management	4 901 307	6.33	4 757 886	6.37	4 671 081	6.62
3.	Wholesale trade	2 977 441	3.85	2 710 419	3.63	2 380 927	3.37
4.	Building industry	2 884 365	3.73	2 818 715	3.77	2 443 150	3.46
5.	Retail trade	2 430 956	3.14	2 237 713	3.00	1 738 372	2.46
6.	Transport and logistics	1 819 827	2.35	1 743 206	2.33	2 077 249	2.94
7.	Food sector	1 705 944	2.20	1 816 934	2.43	1 726 721	2.45
8.	Fuels and chemicals	1 628 617	2.10	1 811 202	2.42	1 601 544	2.27
9.	Public administration	1 574 513	2.04	1 588 596	2.13	1 781 251	2.52
10.	Power industry and heating services	1 422 625	1.84	1 583 151	2.12	1 520 261	2.15
11.	Wood sector	1 286 566	1.66	1 188 320	1.59	1 057 731	1.50
12.	Metals	1 266 991	1.64	1 244 678	1.67	1 139 522	1.61
13.	Information and communication	1 197 133	1.55	960 063	1.29	965 072	1.37
14.	Professional activities	586 923	0.76	494 859	0.66	329 015	0.47
15.	Hotels and restaurants	455 059	0.59	439 949	0.59	433 275	0.61
16.	Services	453 169	0.59	205 946	0.28	112 793	0.16
17.	Motorization	452 873	0.58	572 743	0.77	379 357	0.54
18.	Culture and entertainment	439 693	0.57	435 608	0.58	438 596	0.62
19.	Finance sector	427 299	0.55	595 025	0.80	427 727	0.61
20.	Electronics and household equipment	408 000	0.53	500 052	0.67	463 705	0.66
21.	Industry	307 850	0.40	362 221	0.48	235 055	0.33
22.	Municipal services	299 883	0.39	279 964	0.37	220 436	0.31

As at 31 December 2014, the total exposure of the Group in the above sectors (excluding household customers) amounted to 37.39% of the credit portfolio (30 September 2014 – 37.95%, 31 December 2013 – 37.03%).

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19. Investment securities

	31.12.2014			30.09.2014			31.12.2013		
	Investment securities without pledge	Pledged investment securities	Total investment securities	Investment securities without pledge	Pledged investment securities	Total investment securities	Investment securities without pledge	Pledged investment securities	Total investment securities
Debt securities	**22 471 551**	**4 945 447**	**27 416 998**	**17 927 205**	**9 971 136**	**27 898 341**	**19 303 219**	**5 766 038**	**25 069 257**
Issued by government	17 640 675	4 945 447	22 586 122	14 305 597	9 971 136	24 276 733	12 839 094	5 744 542	18 583 636
- government bonds	17 640 675	4 945 447	22 586 122	14 305 597	9 971 136	24 276 733	12 839 094	5 744 542	18 583 636
Issued by central bank	4 479 540	-	4 479 540	3 385 464	-	3 385 464	6 292 700	21 496	6 314 196
Other debt securities	351 336	-	351 336	236 144	-	236 144	171 425	-	171 425
- bank's bonds	24 907	-	24 907	25 248	-	25 248	25 136	-	25 136
- corporate bonds	284 854	-	284 854	171 883	-	171 883	107 906	-	107 906
- communal bonds	41 575	-	41 575	39 013	-	39 013	38 383	-	38 383
Equity securities:	**261 616**	**-**	**261 616**	**256 053**	**-**	**256 053**	**272 506**	**-**	**272 506**
Listed	229 961	-	229 961	227 831	-	227 831	229 617	-	229 617
Unlisted	31 655	-	31 655	28 222	-	28 222	42 889	-	42 889
Total debt and equity securities:	**22 733 167**	**4 945 447**	**27 678 614**	**18 183 258**	**9 971 136**	**28 154 394**	**19 575 725**	**5 766 038**	**25 341 763**
Short-term (up to 1 year)	9 034 437	-	9 034 437	6 768 416	168 095	6 936 511	6 706 581	23 494	6 730 075
Long-term (over 1 year)	13 698 730	4 945 447	18 644 177	11 414 842	9 803 041	21 217 883	12 869 144	5 742 544	18 611 688

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

As at 31 December 2014, presented above value of equity securities includes provisions for impairment of PLN 14 744 thousand (30 September 2014: PLN 11 305 thousand, 31 December 2013: PLN 11 422 thousand).

As at 31 December 2014, listed equity securities include fair value of PZU shares in amount of PLN 229 961 thousand, (30 September 2014: PLN 227 831 thousand, 31 December 2013: PLN 212 430 thousand).

20. Intangible assets

	31.12.2014	30.09.2014	31.12.2013
Development costs	1	2	382
Goodwill	3 532	3 532	4 728
Patents, licences and similar assets, including:	361 214	344 382	343 802
- computer software	269 674	263 889	289 606
Other intangible assets	6 278	6 540	7 067
Intangible assets under development	94 601	93 790	99 366
Total intangible assets	**465 626**	**448 246**	**455 345**

21. Tangible assets

	31.12.2014	30.09.2014	31.12.2013
Tangible assets, including:	644 774	660 530	672 519
- land	1 335	1 335	1 267
- buildings and structures	202 454	207 624	215 061
- equipment	116 923	131 810	147 926
- vehicles	225 322	219 482	190 017
- other fixed assets	98 740	100 279	118 248
Fixed assets under construction	72 603	40 340	37 033
Total tangible assets	**717 377**	**700 870**	**709 552**

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22. Amounts due to customers

	31.12.2014	30.09.2014	31.12.2013
Individual customers:	**39 284 776**	**36 641 785**	**34 203 119**
Current accounts	27 974 843	26 094 584	24 260 502
Term deposits	11 202 722	10 481 945	9 889 000
Other liabilities:	107 211	65 256	53 617
- liabilities in respect of cash collaterals	19 357	19 504	24 566
- other	87 854	45 752	29 051
Corporate customers:	**32 237 087**	**31 576 302**	**26 752 869**
Current accounts	13 516 365	13 190 783	12 849 839
Term deposits	11 128 087	10 188 124	6 434 108
Loans and advances received	3 218 105	3 151 521	2 100 331
Repo transactions	3 738 058	4 366 914	4 629 955
Other liabilities:	636 472	678 960	738 636
- liabilities in respect of cash collaterals	492 975	477 865	433 438
- other	143 497	201 095	305 198
Public sector customers:	**900 616**	**1 345 447**	**717 539**
Current accounts	627 765	583 882	579 319
Term deposits	250 263	759 254	129 981
Repo transactions	12 951	-	-
Other liabilities:	9 637	2 311	8 239
- liabilities in respect of cash collaterals	125	103	137
- other	9 512	2 208	8 102
Total amounts due to customers	**72 422 479**	**69 563 534**	**61 673 527**

Short-term (up to 1 year)	67 174 957	64 439 334	57 590 020
Long-term (over 1 year)	5 247 522	5 124 200	4 083 507

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

In the presented reporting periods the value of liabilities in respect of current accounts and term deposits accepted from micro enterprises amounted to respectively: 31 December 2014: PLN 3 258 296 thousand, 30 September 2014: PLN 2 735 645 thousand, 31 December 2013: PLN 2 784 616 thousand).

23. Provisions

	31.12.2014	30.09.2014	31.12.2013
For off-balance sheet granted contingent liabilities *	49 613	37 396	56 068
For legal proceedings	96 933	87 664	56 275
Technical-insurance provisions	-	-	87 168
Other	30 335	27 068	28 717
Total provisions	**176 881**	**152 128**	**228 228**

* includes valuation of financial guarantees

Technical-insurance provisions presented in previous reporting periods, as at 31 December 2014 and as at 30 September 2014 are the part of the liabilities held for sale.

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Movements in the provisions

	31.12.2014	30.09.2014	31.12.2013
As at the beginning of the period (by type)	**228 228**	**228 228**	**213 327**
For off-balance sheet granted contingent liabilities	56 068	56 068	46 462
For legal proceedings	56 275	56 275	47 204
Technical-insurance provisions	87 168	87 168	84 512
Other	28 717	28 717	35 149
Change in the period (due to)	**(51 347)**	**(76 100)**	**14 901**
- increase of provisions	219 980	148 905	151 374
- release of provisions	(164 836)	(127 195)	(115 307)
- write-offs	(19 548)	(10 747)	(20 942)
- utilization	-	-	(150)
- reclassification	(87 168)	(87 168)	-
- foreign exchange differences	225	105	(74)
As at the end of the period (by type)	**176 881**	**152 128**	**228 228**
For off-balance sheet granted contingent liabilities	49 613	37 396	56 068
For legal proceedings	96 933	87 664	56 275
Technical-insurance provisions	-	-	87 168
Other	30 335	27 068	28 717

24. Assets and provisions for deferred income tax

Deferred income tax assets	31.12.2014	30.09.2014	31.12.2013
As at the beginning of the period	**614 352**	**614 352**	**737 353**
Changes recognized in the income statement	34 892	(2 047)	(122 461)
Changes recognized in other comprehensive income	443	510	166
Other changes	(4 133)	(2 815)	(706)
As at the end of the period	**645 554**	**610 000**	**614 352**

Provisions for deferred income tax	31.12.2014	30.09.2014	31.12.2013
As at the beginning of the period	**(246 485)**	**(246 485)**	**(347 833)**
Changes recognized in the income statement	(73 566)	(50 631)	56 775
Changes recognized in other comprehensive income	(65 440)	(71 002)	44 482
Other changes	2 568	-	91
As at the end of the period	**(382 923)**	**(368 118)**	**(246 485)**

Income tax	31.12.2014	30.09.2014	31.12.2013
Current income tax	(324 716)	(235 414)	(243 039)
Deferred income tax recognised in the income statement	(38 674)	(52 678)	(65 686)
Income tax recognised in the income statement	**(363 390)**	**(288 092)**	**(308 725)**
Recognised in other comprehensive income	(92 619)	(103 569)	44 648
Total income tax	**(456 009)**	**(391 661)**	**(264 077)**

25. Assets and liabilities held for sale

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 the materialisation of all contractual suspending conditions. The sale of Transfinance is the result of implementing the One Bank Strategy for 2012-2016 and is the last stage of restructuring of foreign factoring activities of the Group i.e. after the sale of Magyar Factor zRt and Intermarket Bank AG in 2011.

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

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

In accordance with the Agreement on the Sale of Shares, the sale of 100% of shares of BRE TUiR to Avanssur SA is conditioned by meeting specific conditions precedent, in particular: (i) obtain the consent of the Office of Competition and Consumer Protection and (ii) no objections raised by the Polish Financial Supervision Authority.

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

Below are presented financial data concerning non-current assets (disposal group) held for sale as at 31 December 2014 and as at 30 September 2014.

Non-current assets held for sale	31.12.2014	30.09.2014
Cash and balances with the Central Bank	18	-
Loans and advances to banks	86 838	-
Trading securities	122 677	124 562
Loans and advances to customers	289 969	233
Intangible assets	3 204	2 681
Tangible assets	831	888
Current income tax assets	804	-
Deferred income tax assets	1 092	798
Other assets	71 405	53 760
Total non-current assets held for sale	**576 838**	**182 922**

Liabilities held for sale	31.12.2014	30.09.2014
Amounts due to other banks	85 994	-
Amounts due to customers	4 908	1 002
Other liabilities	45 836	42 548
Current income tax liabilities	4 048	3 005
Provisions	135 555	111 635
Total liabilities held for sale	**276 341**	**158 190**

Financial data concerning cash-flow positions connected with non-current assets held for sale for the year ended on 31 December 2014.

	31.12.2014
Cash flow from operating activities	(72 335)
Cash flow from investing activities	(2 384)
Cash flow from financing activities	-

26. Fair value of financial assets and liabilities

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

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

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

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

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

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

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

	31.12.2014		30.09.2014		31.12.2013	
	Wartość księgowa	Wartość godziwa	Wartość księgowa	Wartość godziwa	Wartość księgowa	Wartość godziwa
Aktywa finansowe						
Należności od banków	**3 751 415**	**3 748 671**	**3 721 009**	**3 719 786**	**3 471 241**	**3 515 772**
Kredyty i pożyczki udzielone klientom	**74 582 350**	**75 070 806**	**71 958 401**	**72 872 632**	**68 210 385**	**67 300 927**
Klienci indywidualni	**40 079 997**	**40 874 815**	**39 189 392**	**40 212 073**	**37 153 418**	**36 413 808**
należności bieżące	4 778 644	4 857 472	4 949 752	5 046 913	4 534 640	4 567 052
kredyty terminowe w tym:	35 301 353	36 017 343	34 239 640	35 165 160	32 618 778	31 846 756
- kredyty hipoteczne i mieszkaniowe	30 035 732	30 619 879	29 181 706	29 961 419	28 223 739	27 403 194
Klienci korporacyjni	**31 532 054**	**31 236 795**	**30 162 329**	**30 061 369**	**28 270 161**	**28 124 414**
należności bieżące	3 460 379	3 435 981	3 703 828	3 681 710	3 362 963	3 353 764
kredyty terminowe	22 916 016	22 645 175	22 324 297	22 245 410	20 161 638	20 025 090
- udzielone dużym klientom	5 557 635	5 516 855	5 512 218	5 514 291	4 934 639	4 953 138
- udzielone średnim i małym klientom	17 358 381	17 128 320	16 812 079	16 731 119	15 226 999	15 071 952
transakcje reverse repo /buy sell back	3 838 553	3 838 533	2 738 616	2 738 616	3 287 066	3 287 066
pozostałe	1 317 106	1 317 106	1 395 588	1 395 633	1 458 494	1 458 494
Klienci budżetowi	**1 923 026**	**1 911 923**	**1 921 032**	**1 913 542**	**2 166 179**	**2 142 078**
Inne należności	**1 047 273**	**1 047 273**	**685 648**	**685 648**	**620 627**	**620 627**
Zobowiązania finansowe						
Zobowiązania wobec innych banków	**13 383 829**	**13 508 323**	**19 777 663**	**19 837 675**	**19 224 182**	**19 239 265**
Zobowiązania wobec klientów	**72 422 479**	**72 501 565**	**69 563 534**	**69 653 174**	**61 673 527**	**61 670 841**
Zobowiązania z tytułu emisji dłużnych papierów wartościowych	**10 341 742**	**10 425 444**	**8 009 714**	**8 111 921**	**5 402 056**	**5 444 193**
Zobowiązania podporządkowane	**4 127 724**	**4 105 811**	**3 312 935**	**3 313 041**	**3 762 757**	**3 764 754**

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

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

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

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

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

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

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

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

31.12.2014	Including:	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS				
TRADING SECURITIES	**1 163 944**	**629 361**	**7 494**	**527 089**
Debt securities	**1 145 997**	**618 930**	**-**	**527 067**
- government bonds	617 906	617 906	-	-
- banks bonds	473 097	1 024	-	472 073
- corporate bonds	54 994	-	-	54 994
Equity securities	**17 947**	**10 431**	**7 494**	**22**
- listed	10 431	10 431	-	-
- unlisted	7 516	-	7 494	22
DERIVATIVE FINANCIAL INSTRUMENTS	**4 865 517**	**-**	**4 865 048**	**469**
Derivative financial instruments held for trading	**4 711 124**	**-**	**4 710 655**	**469**
- interest rate derivatives	4 409 385	-	4 409 385	-
- foreign exchange derivatives	295 564	-	295 564	-
- market risks derivatives	6 175	-	5 706	469
Derivative financial instruments held for hedging	**154 393**	**-**	**154 393**	**-**
- derivatives designated as cash flow hedges	52 167	-	52 167	-
INVESTMENT SECURITIES	**27 678 614**	**22 858 617**	**4 479 540**	**340 457**
Debt securities	**27 416 998**	**22 627 697**	**4 479 540**	**309 761**
- government bonds	22 586 122	22 586 122	-	-
- money bills	4 479 540	-	4 479 540	-
- banks bonds	24 907	-	-	24 907
- corporate bonds	284 854	-	-	284 854
- communal bonds	41 575	41 575	-	-
Equity securities	**261 616**	**230 920**	**-**	**30 696**
- listed	229 961	229 961	-	-
- unlisted	31 655	959	-	30 696
TOTAL FINANCIAL ASSETS	**33 708 075**	**23 487 978**	**9 352 082**	**868 015**

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)

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

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

IFRS Condensed Consolidated Financial Statements for the fourth quarter of 2014 PLN (000's)

Assets Measured at Fair Value Based on Level 3 - changes in the year 2014	Debt trading securities	Equity trading securities	Derivative financial instruments	Debt investment securities	Equity investment securities
As at the beginning of the period	**346 263**	**6**	**450**	**133 042**	**40 206**
Gains and losses for the period:	12 053	-	19	6 736	(710)
Recognised in profit or loss:	12 053	-	19	-	(710)
Net trading income	*12 053*	-	*19*	-	-
Gains less losses from investment securities, investments in subsidiaries and associates	-	-	-	-	*(710)*
Recognised in other comprehensive income:	-	-	-	*6 736*	-
Available for sale financial assets	-	-	-	*6 736*	-
Purchases	*3 121 268*	-	-	*61 902*	*7 369*
Redemptions	*(344 563)*	-	-	-	-
Sales	*(11 866 323)*	-	-	*(198 072)*	*(15 947)*
Issues	*9 260 092*	-	-	*304 918*	-
Settlements	*(1 723)*	*16*	-	*1 235*	*(1 135)*
Transfers into Level 3	-	-	-	-	*913*
As at the end of the period	**527 067**	**22**	**469**	**309 761**	**30 696**

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

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

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

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30.09.2014	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	**2 637 559**	**2 190 391**	**7 508**	**439 660**
Debt securities	**2 616 666**	**2 177 012**	**-**	**439 654**
- government bonds	2 175 895	2 175 895	-	-
- banks bonds	407 937	1 117	-	406 820
- corporate bonds	32 834	-	-	32 834
Equity securities	**20 893**	**13 379**	**7 508**	**6**
- listed	13 379	13 379	-	-
- unlisted	7 514	-	7 508	6
DERIVATIVE FINANCIAL INSTRUMENTS	**4 073 025**	**-**	**4 071 912**	**1 113**
Derivative financial instruments held for trading	**3 904 172**	**-**	**3 903 059**	**1 113**
- interest rate derivatives	3 734 260	-	3 734 260	-
- foreign exchange derivatives	160 934	-	160 934	-
- market risks derivatives	8 978	-	7 865	1 113
Derivative financial instruments held for hedging	**168 853**	**-**	**168 853**	**-**
- derivatives designated as fair value hedges	155 260	-	155 260	-
- derivatives designated as cash flow hedges	13 593	-	13 593	-
INVESTMENT SECURITIES	**28 154 394**	**24 544 370**	**3 385 464**	**224 560**
Debt securities	**27 898 341**	**24 315 746**	**3 385 464**	**197 131**
- government bonds	24 276 733	24 276 733	-	-
- money bills	3 385 464	-	3 385 464	-
- banks bonds	25 248	-	-	25 248
- corporate bonds	171 883	-	-	171 883
- communal bonds	39 013	39 013	-	-
Equity securities	**256 053**	**228 624**	**-**	**27 429**
- listed	227 831	227 831	-	-
- unlisted	28 222	793	-	27 429
TOTAL FINANCIAL ASSETS	**34 864 978**	**26 734 761**	**7 464 884**	**665 333**

30.09.2014	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	**3 969 956**	**-**	**3 968 703**	**1 253**
Derivative financial instruments held for trading	**3 969 050**	**-**	**3 967 797**	**1 253**
- interest rate derivatives	3 794 974	-	3 794 974	-
- foreign exchange derivatives	159 244	-	159 244	-
- market risks derivatives	14 832	-	13 579	1 253
Derivative financial instruments held for hedging	**906**	**-**	**906**	**-**
- derivatives designated as fair value hedges	906	-	906	-
- derivatives designated as cash flow hedges	-	-	-	-
Total financial liabilities	**3 969 956**	**-**	**3 968 703**	**1 253**
TOTAL RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS	**34 864 978**	**26 734 761**	**7 464 884**	**665 333**
FINANCIAL LIABILITIES	**3 969 956**	**-**	**3 968 703**	**1 253**

Assets Measured at Fair Value Based on Level 3 - changes in the period from 1 January to 30 September 2014	Debt trading securities	Equity trading securities	Derivative financial instruments	Debt investment securities	Equity investment securities
As at the beginning of the period	**346 263**	**6**	**450**	**133 042**	**40 206**
Gains and losses for the period:	**2 763**	**-**	**663**	**4 217**	**(8)**
Recognised in profit or loss:	2 763	-	663	-	(8)
Net trading income	2 763	-	663	-	(8)
Recognised in other comprehensive income:	-	-	-	4 217	-
Available for sale financial assets	-	-	-	4 217	-
Purchases	2 678 106	-	-	37 417	2 271
Redemptions	(280 925)	-	-	-	-
Sales	(9 111 888)	-	-	(124 394)	(15 887)
Issues	6 798 711	-	-	146 803	-
Settlements	6 624	-	-	46	847
As at the end of the period	**439 654**	**6**	**1 113**	**197 131**	**27 429**

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31.12.2013	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS				
TRADING SECURITIES	**763 064**	**395 214**	**21 581**	**346 269**
Debt securities	**734 621**	**388 358**	**-**	**346 263**
- government bonds	388 259	388 259	-	-
- deposit certificates	37 787	-	-	37 787
- banks bonds	264 922	99	-	264 823
- corporate bonds	43 653	-	-	43 653
Equity securities	**28 443**	**6 856**	**21 581**	**6**
- listed	6 893	6 856	37	-
- unlisted	21 550	-	21 544	6
DERIVATIVE FINANCIAL INSTRUMENTS	**2 349 585**	**153**	**2 348 982**	**450**
Derivative financial instruments held for trading	**2 349 585**	**153**	**2 348 982**	**450**
- interest rate derivatives	2 103 034	-	2 103 034	-
- foreign exchange derivatives	232 776	-	232 733	43
- market risks derivatives	13 775	153	13 215	407
INVESTMENT SECURITIES	**25 341 763**	**18 852 508**	**6 316 007**	**173 248**
Debt securities	**25 069 257**	**18 622 019**	**6 314 196**	**133 042**
- government bonds	18 583 636	18 583 636	-	-
- money bills	6 314 196	-	6 314 196	-
- banks bonds	25 136	-	-	25 136
- corporate bonds	107 906	-	-	107 906
- communal bonds	38 383	38 383	-	-
Equity securities	**272 506**	**230 489**	**1 811**	**40 206**
- listed	229 617	229 617	-	-
- unlisted	42 889	872	1 811	40 206
TOTAL FINANCIAL ASSETS	**28 454 412**	**19 247 875**	**8 686 570**	**519 967**

31.12.2013	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
FINANCIAL LIABILITIES				
Derivative financial instruments	**2 459 715**	**12**	**2 459 296**	**407**
Derivative financial instruments held for trading	**2 451 959**	**12**	**2 451 540**	**407**
- interest rate derivatives	2 253 550	-	2 253 550	-
- foreign exchange derivatives	183 643	-	183 643	-
- market risks derivatives	14 766	12	14 347	407
Derivative financial instruments held for hedging	**7 756**	**-**	**7 756**	**-**
- derivatives designated as fair value hedges	7 756	-	7 756	-
Total financial liabilities	**2 459 715**	**12**	**2 459 296**	**407**
TOTAL RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS	**28 454 412**	**19 247 875**	**8 686 570**	**519 967**
FINANCIAL LIABILITIES	**2 459 715**	**12**	**2 459 296**	**407**

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

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

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Assets Measured at Fair Value Based on Level 3 - changes in 2013	Debt trading securities	Equity trading securities	Derivative financial instruments	Debt investment securities	Equity investment securities
As at the beginning of the period	**303 587**	**17**	**96**	**204 032**	**34 885**
Gains and losses for the period:	13 874	(11)	(53)	(3 408)	2 830
Recognised in profit or loss:	13 874	(11)	(53)	-	62
Net trading income	*13 874*	*(11)*	*(53)*	-	-
Gains less losses from investment securities, investments in subsidiaries and associates	-	-	-	-	*62*
Recognised in other comprehensive income:	-	-	-	*(3 408)*	*2 768*
Available for sale financial assets	-	-	-	*(3 408)*	*2 768*
Purchases	2 149 795	-	-	136 374	13 145
Redemptions	(1 462 147)	-	-	-	(884)
Sales	(11 822 979)	-	-	(409 537)	(13 851)
Issues	11 164 133	-	-	204 000	(452)
Settlements	-	-	-	1 581	4 533
Transfers into Level 3	-	-	407	-	-
As at the end of the period	**346 263**	**6**	**450**	**133 042**	**40 206**

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

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

Level 1

As at 31 December 2014, at level 1 of the fair value hierarchy, the Group has presented the fair value of held for trading government bonds in the amount of PLN 617 906 thousand (see Note 15) and the fair value of investment government bonds in the amount of PLN 22 586 122 thousand (see Note 19) (30 September 2014 and 31 December 2013 respectively: PLN 2 175 895 thousand and PLN 24 276 733 thousand and PLN 388 259 thousand and PLN 18 583 636 thousand). Level 1 also includes the fair value of local government bonds in the amount of PLN 41 575 thousand (30 September 2014: PLN 39 013 thousand, 31 December 2013: PLN 38 383 thousand), and the fair value of bonds issued by banks in the amount of PLN 1 024 thousand (30 September 2014: PLN 1 117 thousand, 31 December 2013: PLN 99 thousand).

In addition, as at 31 December 2014 level 1 includes the value of the shares of listed companies in the amount of PLN 240 392 thousand, including the value of shares in PZU S.A. in the amount of PLN 229 961 thousand (30 September 2014 respectively: PLN 241 210 thousand and PLN 227 831 thousand; 31 December 2013 respectively: PLN 236 473 thousand and PLN 212 430 thousand).

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

Level 2

Level 2 of the fair vale hierarchy includes the fair values of short term bills issued by NBP in the amount of PLN 4 479 540 thousand (30 September 2014:PLN 3 385 464 thousand, 31 December 2013: PLN 6 314 196 thousand), whose valuation is based on a NPV model (discounted future cash flows) fed with interest rate curves generated by transformation of quotations taken directly from active and liquid financial markets.

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

As at 31 December 2014, 30 September 2014 and 31 December 2013, level 2 also includes the value of options referencing on the WIG 20 index, listed on the Stock Exchange.

Level 3

Level 3 of the hierarchy presents the fair values of commercial debt securities issued by local banks and companies (bonds, mortgage bonds and certificates of deposit) in the amount of PLN 836 828 thousand (30 September 2014: PLN 636 785 thousand, 31 December 2013: PLN 479 305 thousand).

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

Moreover, level 3 covers mainly the fair value of equity securities amounting to PLN 30 718 thousand (30 September 2014: PLN 27 435 thousand, 31 December 2014: PLN 40 212 thousand) valuated using the market multiples method. The market multiples method, consists of valuating the equity capital of a company by using a relation between the market values of the own equity capital or market values of the total capital invested in comparable companies (goodwill) and selected economic and financial figures.

27. Capital ratios

Common Equity Tier 1 capital ratios and total capital ratios of mBank S.A. and mBank S.A. Group as of 31 December 2014 were calculated in accordance with the Regulation of the European Parliament and of the Council (EU) No 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 ("CRR Regulation"). According to the CRR Regulation, certain decisions (so called "national discretions"), relevant for the process of capital ratios calculation, are taken and published in member states by public authorities or bodies empowered to supervise credit institutions and investment firms. National discretions were not determined and published by the respective Polish public authority or body till the date of issuing of these condensed consolidated financial statements.

The capital ratios of mBank S.A. Group presented as of 31 December 2014 were calculated on a best effort basis and preserving consistency of the information disclosed by the Group.

Selected explanatory information

1. Compliance with international financial reporting standards

The presented condensed consolidated report for the fourth quarter of 2014 fulfils the requirements of the International Accounting Standard (IAS) 34 'Interim Financial Reporting' relating to interim financial reports.

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

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

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

3. Seasonal or cyclical nature of the business

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

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

Events as indicated above did not occur in the Group.

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

The impact of introduced in 2013, changes in the methodology of measuring impairment of loans and advances for the structure of provisions for loans and advances portfolio and the level of receivables with impairment is described under Note 18. Besides the above described, in the fourth quarter of 2014, there were no significant changes in estimate values of items presented in previous reporting periods.

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

In the fourth quarter of 2014, mBank Hipoteczny S.A. (mBH S.A.) issued mortgage bonds in the amount of EUR 70 000 thousand. In the same time, mBH S.A. redeemed mortgage bonds in the amount of PLN 100 000 thousand and bonds in the amount of PLN 105 000 thousand.

On 20 November 2014, mFinance France S.A. (mFF) issued Eurobonds with a nominal value of EUR 500 000 thousand (PLN 2 107 750 thousand at the average exchange rate of the National Bank of Poland as at 20 November 2014) maturing in 2021. The funds comprising the security deposit signed on 20 November 2014 under the agreement between mBank and the Company are used to back the guarantee issued by the Bank to secure the payment obligations from the Eurobonds. The amount of security deposit is EUR 495 916 thousand (PLN 2 089 265 thousand at the average exchange rate of the National Bank of Poland as at 20 November 2014).

On 17 December 2014 the Bank issued subordinated bonds with a total nominal value of PLN 750 000 thousand. There were issued 7 500 subordinated bonds with a nominal value of PLN 100 000 each. The redemption date of the subordinated bonds is 17 January 2025. The Bank applied to the Polish Financial Supervision Authority in accordance with Article 127, item 3, point 2, letter b) of the Banking Law, for approval to subject the financial liabilities in the amount of PLN 750 000 thousand obtained from the above mentioned issue into the Bank's supplementary capital and obtained the consent on 8 January 2015. As at 31 December 2014, these bonds were not included in the Bank's and Group's own funds.

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

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

8. Significant events after the end of the fourth quarter of 2014, which are not reflected in the financial statements

Following the entry into force of the Interpretation 21 *Levies* issued by the International Financial Reporting Interpretations Committee, starting from 2015 the Group will change the accounting approach for the fees payable to the Bank Guarantee Fund.

From 15 January 2015 there has been a significant appreciation of CHF against PLN associated with the Swiss Central Bank's decision to stop maintaining minimum exchange rate of CHF at the level of 1.20 to EUR.

Further information on the above events is presented in the selected explanatory information, point *30. Factors affecting the results in the coming quarter.*

Additionally, as described in the selected explanatory information, point *6. Issues, redemption and repayment of non-equity and equity securities*, on 8 January 2015 Bank received approval from the Polish Financial Supervision Authority to include subordinated bonds in the amount of PLN 750 000 thousand into the Bank's supplementary capital.

9. Effect of changes in the structure of the entity in the fourth quarter of 2014, including business combinations, acquisitions or disposal of subsidiaries, long-term investments, restructuring, and discontinuation of business activities

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 the materialisation of all contractual suspending conditions. The sale of Transfinance is the result of implementing the One Bank Strategy for 2012-2016 and is the last stage of restructuring of foreign factoring activities of the Group i.e. after the sale of Magyar Factor zRt and Intermarket Bank AG in 2011.

10. Changes in contingent liabilities and commitments

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

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

In the fourth quarter of 2014, the Group has made write-offs of inventories in the amount PLN 1 720 thousand.

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

In the fourth quarter of 2014, the Group has made write-offs of tangible fixed assets in the amount PLN 3 369 thousand.

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

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

14. Reversals of provisions against restructuring costs

Events as indicated above did not occur in the Group.

15. Acquisitions and disposals of tangible fixed asset items

In the fourth quarter of 2014, there were no material transactions of acquisition or disposal of any tangible fixed assets, with the exception of typical lease and property development operations that are performed by the companies of the Group.

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

Events as indicated above did not occur in the Group.

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

In the fourth quarter of 2014, events as indicated above did not occur in the Group.

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

According to the information included under Note 25 "Assets and liabilities held for sale", as at 31 December 2014, due to the agreement for sale of Transfinance a.s., the Group classified Transfinance as non-current assets (disposal groups) held for sale.

Starting from the financial statements as of 30 September 2014, due to an agreement for sale of 100% shares of BRE Ubezpieczenia TUiR S.A. (BRE TUiR), the Group reclassified BRE TUiR and indirectly its subsidiary AWL I Sp. z o.o. as non-current assets (disposal groups) held for sale.

19. Corrections of errors from previous reporting periods

In the fourth quarter of 2014, there were no corrections of errors from previous reporting periods.

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

Events as indicated above did not occur in the Group.

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

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

22. Registered share capital

The total number of ordinary shares as at 31 December 2014 was 42 207 402 shares (31 December 2013: 42 174 013) at PLN 4 nominal value each (31 December 2013: PLN 4). All issued shares were fully paid up.

IFRS Condensed Consolidated Financial Statements for the fourth quarter of 2014 PLN (000's)

REGISTERED SHARE CAPITAL (THE STRUCTURE) AS AT 31 DECEMBER 2014						
Share type	**Type of privilege**	**Type of limitation**	**Number of shares**	**Series / face value of issue in PLN**	**Paid up**	**Registered on**
ordinary bearer*	-	-	9 982 500	39 930 000	fully paid in cash	1986
ordinary registered*	-	-	17 500	70 000	fully paid in cash	1986
ordinary bearer	-	-	2 500 000	10 000 000	fully paid in cash	1994
ordinary bearer	-	-	2 000 000	8 000 000	fully paid in cash	1995
ordinary bearer	-	-	4 500 000	18 000 000	fully paid in cash	1997
ordinary bearer	-	-	3 800 000	15 200 000	fully paid in cash	1998
ordinary bearer	-	-	170 500	682 000	fully paid in cash	2000
ordinary bearer	-	-	5 742 625	22 970 500	fully paid in cash	2004
ordinary bearer	-	-	270 847	1 083 388	fully paid in cash	2005
ordinary bearer	-	-	532 063	2 128 252	fully paid in cash	2006
ordinary bearer	-	-	144 633	578 532	fully paid in cash	2007
ordinary bearer	-	-	30 214	120 856	fully paid in cash	2008
ordinary bearer	-	-	12 395 792	49 583 168	fully paid in cash	2010
ordinary bearer	-	-	16 072	64 288	fully paid in cash	2011
ordinary bearer	-	-	36 230	144 920	fully paid in cash	2012
ordinary bearer	-	-	35 037	140 148	fully paid in cash	2013
ordinary bearer	-	-	36 044	144 176	fully paid in cash	2014
Total number of shares			**42 210 057**			
Total registered share capital				**168 840 228**		
Nominal value per share (PLN)		4				

* As at the end of the reporting period

23. Material share packages

Commerzbank AG is a shareholder holding over 5% of the share capital and votes at the General Meeting and as at 31 December 2014 it held 69.54% of the share capital and votes at the General Meeting of mBank S.A.

In the fourth quarter of 2014, there were changes in the holding of material share packages of the Bank.

On 11 December 2014, the Bank received from ING Otwarty Fundusz Emerytalny (Fund) a notification that the total number of votes controlled at the General Meeting of mBank S.A. decreased below 5%.

Before the sale of shares the Fund held 2 126 430 shares of mBank, representing 5.04% of the share capital of mBank S.A. and entitled the Fund to 2 126 430 of votes at the General Meeting of mBank S.A.

On 10 December 2014, there were 2 085 679 shares of mBank S.A. at the Fund's securities account. It constitutes 4.94% of the Bank's share capital which entitles to exercise 2 085 679 votes at the General Meeting of mBank S.A.

In the fourth quarter of 2014, the National Depository of Securities (KDPW) has registered 2 655 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 fourth quarter of 2014 the Bank's share capital increased by PLN 10 620 thousand.

Moreover, in connection with the registration of 100 shares of mBank S.A. by KDPW, on 26 January 2015, the Bank's share capital increased by the amount of PLN 400. The shares were issued as part of the conditional increase in the share capital of the Bank by issuance of shares with no subscription rights for the existing shareholders with the aim of granting those shares to beneficiaries of the incentive programmes. As at the publication date of these condensed consolidated financial statements, the share capital of mBank S.A. amounted to PLN 168 840 628 and was divided into 42 210 157 shares.

IFRS Condensed Consolidated Financial Statements for the fourth quarter of 2014 PLN (000's)

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

	Number of shares held as at the date of publishing the report for Q3 2014	Number of shares acquired from the date of publishing the report for Q3 2014 to the date of publishing the report for Q4 2014	Number of shares sold from the date of publishing the report for Q3 2014 to the date of publishing the report for Q4 2014	Number of shares held as at the date of publishing the report for Q4 2014
Management Board				
1. Cezary Stypułkowski	2 034	-	-	2 034
2. Lidia Jabłonowska-Luba	-	-	-	-
3. Przemysław Gdański	3 706	-	1 706	2 000
4. Joerg Hessenmueller	901	-	901	-
5. Hans-Dieter Kemler	1 000	-	-	1 000
6. Cezary Kocik	-	-	-	-
7. Jarosław Mastalerz	-	-	-	-

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

As at the date of the publishing the report for the third quarter of 2014 and as at the date of the publishing the report for the fourth quarter of 2014, Mr. Wiesław Thor had 3 000 shares of mBank.

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

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

As at 31 December 2014, the Bank was not involved in any proceedings before a court, arbitration body, or public administration authority concerning liabilities of the Bank or its subsidiaries, which represent at least 10% of the Bank's equity. Moreover, the total value of claims concerning liabilities of the Bank or its subsidiary in all proceedings before a court, an arbitration body or a public administration authority as at 31 December 2014 was also not higher than 10% of the Bank's equity.

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

Report on major proceedings brought against the Bank

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

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

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

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

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

3. Claims of clients of Interbrok

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

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

4. Class action against mBank S.A.

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

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

As at 31 December 2014, the Bank was not involved in any proceedings before a court, arbitration body, or public administration authority concerning receivables of the Bank or its subsidiaries, which represent at least 10% of the Bank's equity. The total value of claims concerning receivables of the Bank or its subsidiaries in all proceedings before a court, an arbitration body or a public administration authority underway at 31 December 2014 was also not higher than 10% of the Bank's equity.

Information regarding tax audits

On 9 December 2014, Director of the Treasury Control Office in Łódź (Urząd Kontroli Skarbowej w Łodzi) initiated audit proceedings in Aspiro S.A. concerning correctness of the settlement of value added tax for the year 2012. Audit proceedings are still pending.

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

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

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

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

From 9 January 2014 to 7 February 2014, Director of the First Mazovian Treasury Office in Warsaw (Pierwszy Mazowiecki Urząd Skarbowy w Warszawie) carried out tax audit at the company BRE Ubezpieczenia Sp. z o.o. concerning correctness of the settlement of the value added tax for the third quarter of 2013. The audit did not identify any irregularities.

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

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

26. Off-balance sheet liabilities

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

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mBank Group consolidated data

	31.12.2014	30.09.2014	31.12.2013
1. Contingent liabilities granted and received	**25 269 992**	**24 079 395**	**23 128 865**
Commitments granted	**23 611 095**	**22 509 302**	**21 729 866**
- financing	19 973 966	18 912 925	18 532 287
- guarantees and other financial facilities	3 622 399	3 572 146	3 188 247
- other commitments	14 730	24 231	9 332
Commitments received	**1 658 897**	**1 570 093**	**1 398 999**
- financial commitments	31 841	21 763	210 735
- guarantees	1 627 056	1 548 330	1 188 264
2. Derivative financial instruments (nominal value of contracts)	**754 171 408**	**724 748 774**	**602 679 318**
Interest rate derivatives	677 374 381	655 686 126	558 866 816
Currency derivatives	75 432 608	67 307 551	42 339 260
Market risk derivatives	1 364 419	1 755 097	1 473 242
Total off-balance sheet items	**779 441 400**	**748 828 169**	**625 808 183**

mBank stand-alone data

	31.12.2014	30.09.2014	31.12.2013
1. Contingent liabilities granted and received	**30 946 119**	**27 319 881**	**24 394 472**
Commitments granted	**29 372 865**	**25 832 432**	**22 997 849**
- financing	18 569 299	17 299 766	16 875 724
- guarantees and other financial facilities	10 789 166	8 508 966	6 113 125
- other commitments	14 400	23 700	9 000
Commitments received	**1 573 254**	**1 487 449**	**1 396 623**
- financial commitments	31 841	21 763	210 735
- guarantees	1 541 413	1 465 686	1 185 888
2. Derivative financial instruments (nominal value of contracts)	**757 949 811**	**727 952 134**	**604 655 028**
Interest rate derivatives	679 867 169	657 595 747	559 530 365
Currency derivatives	76 718 706	68 601 835	43 651 657
Market risk derivatives	1 363 936	1 754 552	1 473 006
Total off-balance sheet items	**788 895 930**	**755 272 015**	**629 049 500**

27. Transactions with related entities

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

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

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

PLN (000's)	mBank S.A. subsidiaries not consolidated by the acquisition method			Commerzbank AG Group		
As at the end of the period	**31.12.2014**	**30.09.2014**	**31.12.2013**	**31.12.2014**	**30.09.2014**	**31.12.2013**
Statement of Financial Position						
Assets	110 055	104 451	59 358	907 869	495 188	948 518
Liabilities	509	1 181	1 541	15 852 630	15 810 716	18 245 291
Income Statement						
Interest income	8 467	6 260	3 822	162 714	115 567	113 713
Interest expense	(25)	(22)	(34)	(332 127)	(248 545)	(345 291)
Fee and commission income	42	22	35	-	-	-
Other operating income	26 776	26 760	3	378	7	320
Overhead costs, amortisation and other operating expenses	(58)	(58)	(70)	(9 532)	(7 348)	(9 022)
Contingent liabilities granted and received						
Contingent liabilities granted	2 617	371	857	1 309 589	1 305 927	1 278 880
Contingent liabilities received	-	-	-	836 870	786 551	717 528

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

As at 31 December 2014, the Bank's exposure under guarantees granted in excess of 10% of own funds related to the guarantee payment of all amounts to be paid in respect of debt securities issued by mFinance France S.A. (mFF), a subsidiary of the mBank S.A.

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

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

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

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

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

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

On 20 October 2014, Mr Maciej Leśny, Chairman of the Supervisory Board of mBank S.A., received from Mr Jan Szomburg, Member of the Supervisory Board of mBank S.A. and Member of the Executive Committee, a letter of resignation from his function. The resignation took place on 27 October 2014. The resignation was related with the received proposal to acquire new advisory functions in the Commerzbank AG Group.

Under the Resolution from 27 October 2014, in place of Mr Jan Szomburg, the resigning Member of the Supervisory Board, starting 28 October 2014 Mrs Agnieszka Słomka-Gołębiowska was appointed as a new Member of the Supervisory Board for the period until the end of the current term of the Supervisory Board. Mrs Agnieszka Słomka-Gołębiowska, was also posted as a Member of the Risk Committee of the Supervisory Board of mBank S.A.

30. Factors affecting the results in the coming quarter

- Change in method of accounting for the cost of the fees payable to the Bank Guarantee Fund

  Entering into force of Interpretation *21 Levies* issued by the Committee of International Financial Reporting Interpretations (IFRIC 21 interpretation) will have significant impact on the Group's results in the first quarter of 2015. According to the Interpretation annual and prudential fees payable to the Bank Guarantee Fund (BFG) in the year 2015 will be included in full amounts in the cost of the first quarter of 2015. Until the end of 2014 the costs of these fees were recognized on accrual basis throughout the year. The impact will be further deepened by the growth of these fees rates in 2015 as compared to 2014. The annual fee rate increased from 0.1% to 0.189%, while the prudential fee rate increased from 0.037% to 0.05%.

The first time to be applied IFRIC 21 interpretation only relates to the Group's interim reporting and does not affect the full year financial reporting for the fiscal year 2015, whereby the significantly higher fees to be paid to the BFG will impact also the cost base of the entire fiscal year.

- Change of the CHF to PLN exchange rate in 2015

An unexpected decision of the Swiss Central Bank taken on 15 January 2015 to discontinue maintaining a minimum exchange rate of CHF to EUR at the level of 1.20 resulted in significant appreciation of CHF against PLN. The official average exchange rate of NBP as of 14 January 2015 was PLN 3.5712 for 1CHF, while as of 30 January 2015 the average exchange rate of NBP was PLN 4.0179 for 1CHF.

As the Group has a substantial portfolio of mortgage loans denominated in CHF, the weakening of PLN against CHF as described above will cause an increase in risk-weighted assets and consequently decrease of the total capital ratios and Common Equity Tier 1 capital ratios of the Bank and the Group.

The Group estimates that having exchange rate 1 CHF = PLN 4.20:

- Consolidated Common Equity Tier 1 capital ratio would fall by 0.41 pp,

- Consolidated total capital ratio would fall by 0.36 pp,

- Stand-alone Common Equity Tier 1 capital ratio would fall by 0.54 pp,

- Stand-alone total capital ratio would fall by 0.50 pp.

Above estimates are based on financial data as of 31 December 2014.

With regard to the capital ratios of the Bank and the Group, a negative impact of weakening of PLN against CHF will be offset by recognizing PLN 750 000 thousand of subordinated bonds into supplementary capital in accordance with the decision of the Polish Financial Supervision Authority from 8 January 2015 as described in the selected explanatory information, point *6. Issues, redemption and repayment of non-equity and equity securities*.

In addition, an increase of the PLN value of mortgage loans denominated in CHF, together with unchanged value of collaterals, will have a one-off moderately negative impact on the profit and loss account due to the necessity to create additional provisions for a part of this loan portfolio that is impaired.