mBank S.A. Group

IFRS Condensed Consolidated Financial Statements
for the first quarter of 2014

Contents

Selected financial data

SELECTED FINANCIAL DATA FOR THE GROUP	in PLN'000		in EUR'000	
	1 Quarter of 2014 the period from 01.01.2014 to 31.03.2014	1 Quarter of 2013 the period from 01.01.2013 to 31.03.2013 restated	1 Quarter of 2014 the period from 01.01.2014 to 31.03.2014	1 Quarter of 2013 the period from 01.01.2013 to 31.03.2013 restated
I. Interest income	957 742	1 048 123	228 611	251 120
II. Fee and commission income	353 775	296 069	84 445	70 935
III. Net trading income	92 118	75 798	21 988	18 160
IV. Operating profit	436 516	402 069	104 195	96 332
V. Profit before income tax	436 516	402 069	104 195	96 332
VI. Net profit attributable to Owners of mBank S.A.	337 770	325 736	80 625	78 043
VII. Net profit attributable to non-controlling interests	979	665	234	159
VIII. Net cash flows from operating activities	1 879 390	(1 818 425)	448 606	(435 676)
IX. Net cash flows from investing activities	(46 217)	(36 783)	(11 032)	(8 813)
X. Net cash flows from financing activities	(1 845 701)	(668 004)	(440 565)	(160 047)
XI. Net increase / decrease in cash and cash equivalents	(12 528)	(2 523 212)	(2 990)	(604 536)
XII. Basic earnings per share (in PLN/EUR)	8.01	7.73	1.91	1.85
XIII. Diluted earnings per share (in PLN/EUR)	8.00	7.72	1.91	1.85
XIV. Declared or paid dividend per share (in PLN/EUR)	17.00	-	4.06	-

SELECTED FINANCIAL DATA FOR THE GROUP	in PLN'000			in EUR'000		
	As at			As at		
	31.03.2014	31.12.2013	31.03.2013 restated	31.03.2014	31.12.2013	31.03.2013 restated
I. Total assets	107 143 257	104 282 761	103 050 129	25 685 819	25 145 342	24 668 485
II. Amounts due to the Central Bank	2	-	-	-	-	-
III. Amounts due to other banks	19 481 095	19 224 182	21 688 068	4 670 269	4 635 461	5 191 762
IV. Amounts due to customers	63 596 439	61 673 527	58 531 953	15 246 192	14 871 124	14 011 575
V. Equity attributable to Owners of mBank S.A.	9 838 129	10 229 342	9 863 872	2 358 528	2 466 566	2 361 247
VI. Non-controlling interests	28 075	27 096	25 156	6 731	6 534	6 022
VII. Share capital	168 702	168 696	168 565	40 444	40 677	40 352
VIII. Number of shares	42 175 558	42 174 013	42 141 346	42 175 558	42 174 013	42 141 346
IX. Book value per share (in PLN/EUR)	233.27	242.55	234.07	55.92	58.49	56.03
X. Total capital ratio/capital adequacy ratio	16.26	19.38	18.87	16.26	19.38	18.87

SELECTED FINANCIAL DATA FOR THE BANK	in PLN'000		in EUR'000	
	1st Quarter of 2014 the period from 01.01.2014 to 31.03.2014	1st Quarter of 2013 the period from 01.01.2013 to 31.03.2013 restated	1st Quarter of 2014 the period from 01.01.2014 to 31.03.2014	1st Quarter of 2013 the period from 01.01.2013 to 31.03.2013 restated
I. Interest income	882 670	962 818	210 691	230 681
II. Fee and commission income	297 219	247 233	70 945	59 235
III. Net trading income	85 413	71 201	20 388	17 059
IV. Operating profit	388 010	354 622	92 617	84 964
V. Profit before income tax	388 010	354 622	92 617	84 964
VI. Net profit	302 630	287 561	72 237	68 897
VII. Net cash flows from operating activities	1 674 611	(2 199 646)	399 726	(527 013)
VIII. Net cash flows from investing activities	(30 288)	(28 174)	(7 230)	(6 750)
IX. Net cash flows from financing activities	(1 850 875)	(382 852)	(441 800)	(91 727)
X. Net increase / decrease in cash and cash equivalents	(206 552)	(2 610 672)	(49 303)	(625 490)
XI. Basic earnings per share (in PLN/EUR)	7.18	6.82	1.71	1.63
XII. Diluted earnings per share (in PLN/EUR)	7.17	6.82	1.71	1.63
XIII. Declared or paid dividend per share (in PLN/EUR)	17.00	-	4.06	-

SELECTED FINANCIAL DATA FOR THE BANK	in PLN'000			in EUR'000		
	As at			As at		
	31.03.2014	31.12.2013	31.03.2013 restated	31.03.2014	31.12.2013	31.03.2013 restated
I. Total assets	102 984 689	100 232 132	99 194 398	24 688 871	24 168 628	23 745 487
II. Amounts due to the Central Bank	2	-	-	-	-	-
III. Amounts due to other banks	19 251 724	18 863 854	21 116 452	4 615 282	4 548 576	5 054 927
IV. Amounts due to customers	66 035 088	64 008 374	60 505 649	15 830 817	15 434 118	14 484 045
V. Own equity	9 145 875	9 573 220	9 305 322	2 192 572	2 308 357	2 227 539
VI. Share capital	168 702	168 696	168 565	40 444	40 677	40 352
VII. Number of shares	42 175 558	42 174 013	42 141 346	42 175 558	42 174 013	42 141 346
VIII. Book value per share (in PLN/EUR)	216.85	226.99	220.81	51.99	54.73	52.86
IX. Total capital ratio/capital adequacy ratio	18.12	20.59	19.92	18.12	20.59	19.92

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

- for items of the statement of financial position – exchange rate announced by the National Bank of Poland as at 31 March 2014: EUR 1 = PLN 4.1713, 31 December 2013: EUR 1 = PLN 4.1472 and 31 March 2013: EUR 1 = PLN 4.1774.
- for items of the income statement – exchange rate calculated as the arithmetic mean of exchange rates announced by the National Bank of Poland as at the end of each month of the first quarter of 2014 and 2013: EUR 1 = PLN 4.1894 and EUR 1 = PLN 4.1738 respectively.

Introduction

During Q1 2014, mBank Group generated a profit before income tax of PLN 436.5 million, representing an increase of PLN 31.0 million or 7.6% QoQ. Net profit attributable to the shareholders of mBank increased by PLN 23.6 million or 7.5% QoQ to reach PLN 337.8 million.
The main factors determining the changes in the results were as follows:

- **Stable revenues** of PLN 956.6 million, (-0.8% QoQ). Net interest income increased by PLN 2.9 million or 0.5% while net fee and commission income increased by PLN 12.5 million or 5.5%. Net trading income improved by PLN 13.7 million QoQ. Net other operating income decreased by PLN 11.4 million or 33.8% while the Group's gains less losses on investment securities decreased by PLN 15.5 million or 6.13% in Q1 2014. The Group reported no dividend income in the reported period.
- **Decrease of operating expenses** (including amortisation and depreciation) compared to the previous quarter, which stood at PLN 430.6 million. Consequently, the effectiveness of mBank Group measured by the cost/income ratio improved on a quarter-on-quarter basis. The cost/income ratio reached 45.0% in Q1 2014 compared to 45.8% in Q4 2013.
- **Decrease of risk costs** to 51 bps in Q1 2014. Net impairment losses on loans and advances decreased by PLN 27.6 million or 23.6% QoQ. The decrease was driven by lower provisions in both Retail Banking and the Corporates and Financial Markets area.
- **Continued organic growth and business expansion** as demonstrated by:
  - **Growth of the retail customer base,** which reached 4,427 thousand (+59 thousand clients compared to Q4 2013);
  - **Increase in the number of corporate customers** to a record high of 16,600 (+267 clients compared to Q4 2013).

Net loans and advances to customers stood at PLN 70,923.0 million at the end of Q1 2014 and were higher by PLN 2,712.6 million or 4.0% compared to the end of Q4 2013. The change was driven by an increase of volumes of both corporate loans and loans to individual clients (excluding FX effect, Group net loans and advances increased by 3.5% QoQ). The volume of gross corporate loans and loans to individual clients stood at PLN 31,884.2 million and PLN 38,972.5 million, respectively.

Customer deposits increased by PLN 1,922.9 million or 3.1% QoQ and reached PLN 63,596.4 million. Retail deposits increased by 1.7% to PLN 34,784.3 million whereas corporate deposits increased by 4.9% to PLN 28.068.6 million. Underlying corporate deposits (excluding repo/sell buy back transactions) grew by 7.2% during the period.

As a result, the loans to deposits ratio of mBank Group increased slightly compared to the previous quarter and reached 111.5%.

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

- Gross ROE amounted to 17.8% compared to 17.7% in Q4 2013;
- Net ROE amounted to 13.7% compared to 13.7% in Q4 2013.

The Group's capital ratios remained at a safe level. Total capital ratio at the end of March 2014 stood at 16.26% while Common Equity Tier 1 capital ratio at 13.58%. The ratios were calculated in accordance with the Regulation of the European Parliament and of the Council (EU) No 575/2013 of June 26, 2013, on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (rules based on "Basel III"). The capital adequacy ratio at the end of December 2013 reached 19.38% and was calculated in accordance with the requirements of Article 128 of the Polish Banking Law dated August 29, 1997 with further amendments (rules based on "Basel II"), while Core Tier 1 stood at 14.21%.

The difference between the newly reported total capital ratio and the capital adequacy ratio at the end of December 2013 was predominantly driven by the following factors:

- Derecognition of two tranches of subordinated loans with nominal value of CHF 400 million and CHF 120 million respectively in the calculation of Tier 2 capital;
- Derecognition of unrealized gains on debt and equity instruments classified as available for sale in the calculation of Tier 2 capital.

Major achievements of mBank S.A. Group in Q1 2014

Rebranding of the Group and the New mBank Project

November 25, 2013, when BRE Bank and MultiBank brands were replaced with the mBank brand, was a milestone date for the rebranding process. The rebranding process also covered the Group subsidiaries. Before the end of 2013 their logotypes and names were replaced with new ones with an "m" prefix. Within this process in Q1 2014, BRE Finance France changed its name to mFinance France.

In Q1 2014 the rebranding process of all the branches of the Group was continued. The process will be completed during 2014. Additionally, in accordance with the One Bank Strategy, all retail and corporate branches of the Bank will have been re-organized and repositioned by 2018 to provide a full range of services to all mBank clients.

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

In Q1 2014, the new transactional platform was successfully implemented in mBank in the Czech Republic and Slovakia.

Euro Medium Term Note Programme

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

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

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

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

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

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

Supervisory Board of mBank

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

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

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Fitch rating of mBank

On March 27, 2014, Fitch Ratings reaffirmed mBank's long-term foreign currency Issuer Default Rating of "A" and changed its outlook from stable to negative. The other ratings remained unchanged and were as follows:

Fitch Ratings – mBank's ratings	
Long–term IDR	A (outlook negative)
Short-term IDR	F1
Viability rating	bbb-
Support rating	1
Rating of senior debt under the EMTN programme	A; F1
Tranches of notes issued by m Finance France: EUR 500 million (October 2012), CHF 200 million (October 2013) and EUR 500 million (March 2014)	A

The outlook of mBank's rating was changed as a result of a change of the outlook of the long-term rating of Commerzbank from stable to negative following Fitch's global review of state support ratings of European banks. Commerzbank was one of 18 European commercial banks whose rating outlook was downgraded to negative by Fitch on March 26, 2014.

Distinctions and awards

In Q1 2014, the Group was appreciated by both clients and external experts, which was reflected in a number of awards and distinctions:

Złoty Bankier (Golden Banker)

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

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

Bank Innovation Awards 2014

The Bank Innovation Awards organised for the second time by Bank Innovation, a leading US financial service focusing on banking innovation, awarded mBank for the new transactional service (New mBank) launched in 2013. According to the jury, the platform brings new quality for electronic banking users.

Złota Akcja biznes.pl. (Golden Stock)

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

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

Service Quality Stars 2014 for traditional banking and online banking

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

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

Banking & Insurance Leaders Competition

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

mBank was acknowledged, among others, for the skilful unification of all brands and for launching the new electronic and mobile banking which offers solutions that were unprecedented in Poland.

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

Digital Model Bank 2014

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

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

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

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

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

Forbes Magazine ranking

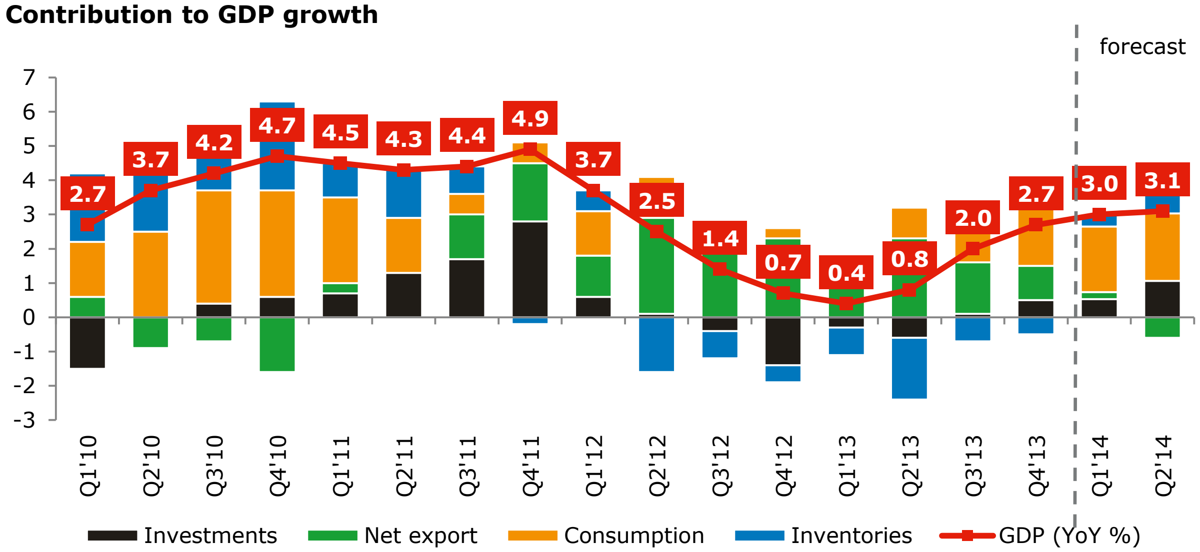
The research department of Dom Maklerski mBanku (mDM) once again ranked first in the annual ranking of the Forbes Magazine.

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

Economic environment in Q1 2014

Q1 2014 brought a continuation of positive trends in the Polish economy observed since mid-2013. According to the Bank's forecasts, based on monthly frequency data, the Polish economy accelerated in the first three months of the year from 2.7% reported at the end of 2013 to ca. 3.0%-3.2% YoY. While the mid-term outlook for Poland remains positive, developments outside of Poland have revealed a number of risks to economic growth and inflation.

Contribution to GDP growth



In February 2014, the political and economic crisis in Ukraine entered a more radical phase, resulting in the country's virtual bankruptcy and precipitating a nearly certain deep recession. The economy of Russia, which is involved in the conflict, had already approached stagnation and is bound to be hit by recession. A drop of demand for Polish products on these two markets and their lower competitiveness (due to significant appreciation of the zloty against the hryvnia and the rouble) bring about a negative external shock to the Polish economy. Considering the position of both markets in Poland's foreign trade, the Bank estimates the negative impact of the recession in Russia and Ukraine on Polish GDP to reach 0.6-0.8 percentage points.

Naturally, these are static estimates which we consider in any case to be the extreme worst-case. Part of the affected exports could be sold on the Polish market, thus generating a downward price pressure and causing, with some delay, positive supply effects. The first phase of this offsetting mechanism has already been observed on the meat market (Russian embargo) where prices have dropped significantly. Consequently, in the opinion of the Bank, the overall impact of the Ukrainian crisis might lie in the absence of a major economic acceleration in H1 2014.

The scenario of moderate though still negative impact of the developments in the East on the Polish exports is substantiated by available statistics for exports in February and industrial production in February and March. However, in the opinion of the Bank, these will not halt the cyclical recovery of the economy. Q1 2014 has already confirmed that the structure of economic growth is moving in a direction typical of the mature phase of economic recovery. The falling contribution of net exports (and the rising contribution of domestic demand) has been accompanied in the last months by a steady improvement of the financial standing, expectations and investment plans of companies which produce for the domestic market. Private consumption and investments (including mainly corporate investments) have joined exports at the crucial moment.

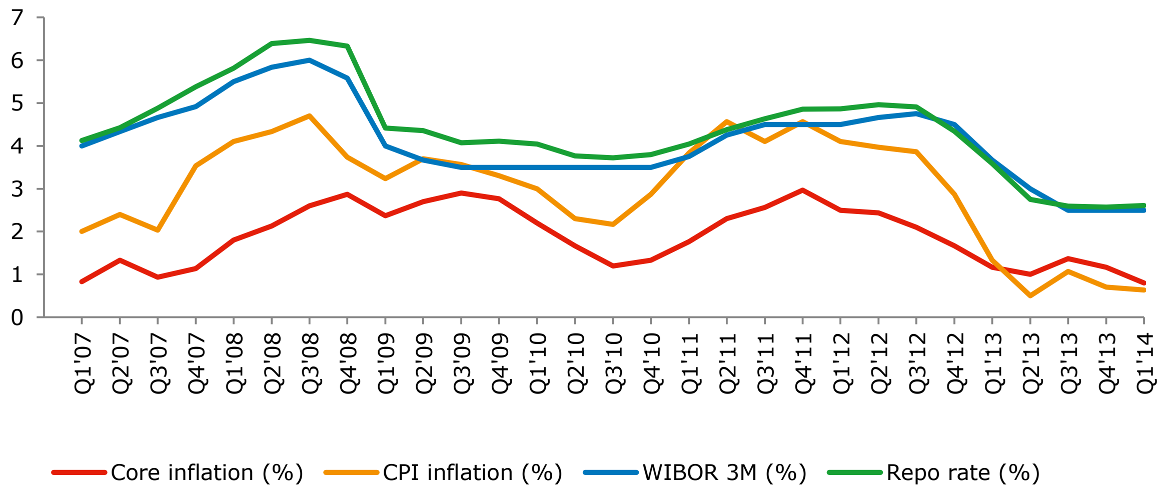
The growth rate of real consumer income in Q1 2014 changed only modestly QoQ and remained at around 2.5%. However, its structure was different. A smaller indexation of retirement and disability pensions was offset in Q1 by a significant improvement of wages and salaries. The growth rate of real wages and salaries was 3.7% in Q1 2014, the highest since 2011. According to the Bank, the growth potential of wages and salaries in Poland is underestimated; it is also greater than in the previous phase of economic recovery (2010-2011) because the Polish labour market is increasingly employee-driven. This factor supported among others by relaxed criteria of consumer lending and dynamic improvement of the sentiment will in the coming quarters be the main driver of improved consumption and one of the main pillars of economic growth.

Investment demand most likely accelerated in Q1 2014. According to the Bank's preliminary estimates, the growth rate of gross fixed capital formation was 4.5% YoY. Growing investments in the Polish economy include not only construction (infrastructure, housing, commercial properties), additionally supported in the winter by very auspicious weather conditions, but also acquisition of machinery and equipment, as corroborated by the structure of outlays in Q4 2013, as well as the high growth rate of those industries which manufacture investment goods. While the scale of investments remains low and investments are concentrated in a small group of large enterprises (according to the results of market and corporate finance research carried out by the National Bank of Poland), yet the constellation of macroeconomic factors (perceptible growth of demand and decrease of macroeconomic uncertainty) favours corporate investment decisions. Furthermore, the high utilisation of the production capacity suggests that companies will feel the pressure to expand the production capacity already in the early phase of the economic recovery. In the opinion of the Bank, the expected "fat years" for investments will be bolstered by the starting new EU budget perspective, which will help to finance public investments. The latter will be a contributor to a larger and longer growth phase of the current economic cycle.

Inflation, interest rates and FX rates

Inflation decreased very modestly in Q1 2014 from 0.7% on average in the last three months of 2013 to 0.6% YoY. Inflation remained very low (only 0.5% YoY in January) mainly due to very low food prices (including an additional factor in March: the Russian embargo on Polish imports of pork) as well as stable fuel and energy prices and the still low core inflation.

CPI inflation and NBP reference rate



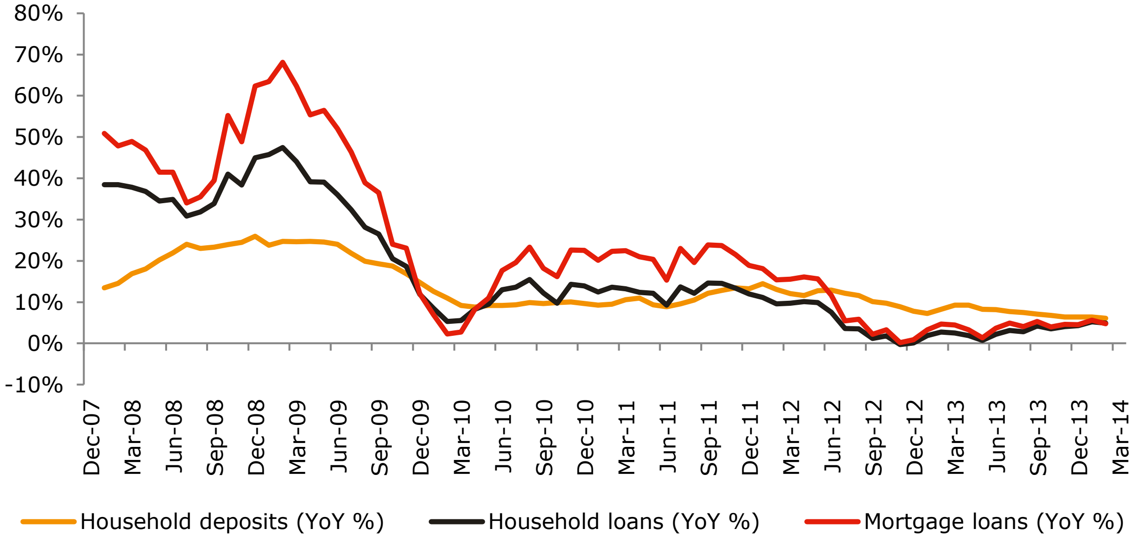
In view of accelerating economic growth in an environment of low inflation, the monetary policy bias remained relaxed. Similar to the end of 2013, the Monetary Policy Council (RPP) did not continue with interest rate cuts but was attempting to impact future rate expectations. Only with the outbreak of the crisis in Ukraine was the Council forced to formally extend the time horizon of low interest rates until the end of Q3 2014; moreover, some of the Council members have on many occasions suggested that interest rate hikes may be further postponed. In the opinion of the Bank, the interest rates are likely to remain unchanged throughout 2014 and possibly in the early months of 2015. Nevertheless, the still unknown scale of impact of the Ukrainian crisis on the Polish economy opens room for a more relaxed monetary policy, in the first phase in the rhetoric. In the event of a significant downturn, the Monetary Policy Council could most likely impose a corrective rates cut.

After many weeks of calm, volatility returned to the FX market in Q1 2014 and the Polish currency went through several episodes of sharp depreciation and equally dynamic appreciation. In both cases, the drivers included global factors and a change of sentiment about the emerging markets. Waves of risk aversion, initially caused by the problems of Argentina, South Africa and Turkey and concerns about Chinese growth and subsequently by the turbulences east of Poland, were intertwined with waves of enthusiasm. The latter proved beneficial for the Polish currency and the Treasury bond market. In the opinion of the Bank, the zloty will continue to appreciate with an increasingly optimistic outlook of the Polish economy and the unfolding economic recovery in Europe. The trend could be strengthened and accelerated by further monetary policy measures of the European Central Bank.

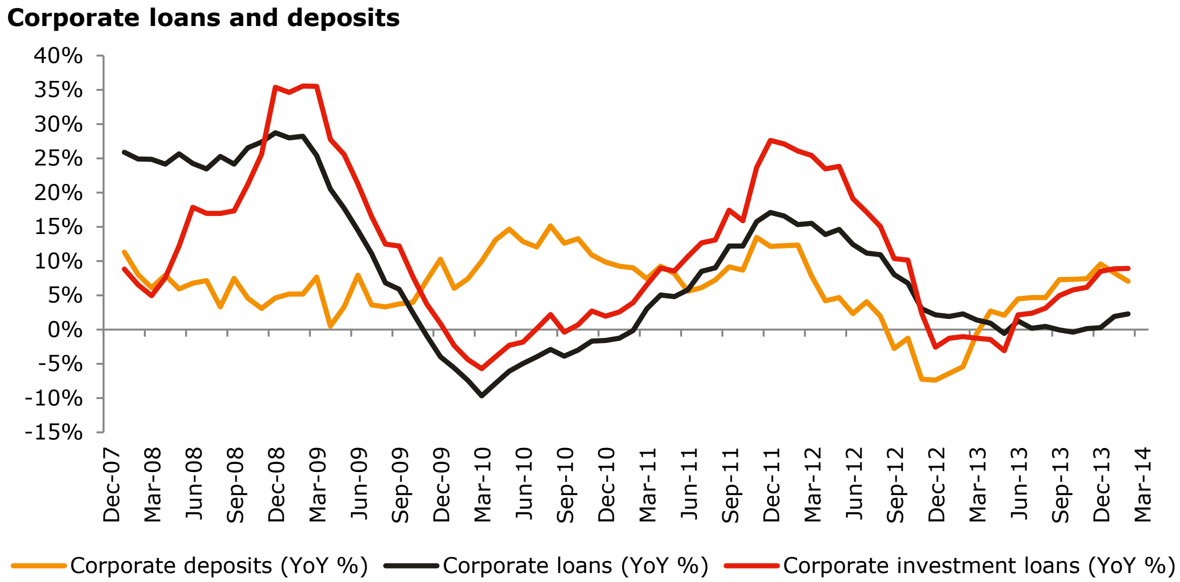
Money supply and the banking sector reflecting the economy

The situation in the banking and financial sector in Q1 2014 reflected the real economy trends described above. In view of stabilisation of the NBP rates at a record-low level of 2.5%, market interest rates in most part stabilised or were slightly raised by banks early in the year. As chances for real return on term deposits remained high, the migration of household savings to current accounts came to an end and the share of term deposits grew nominally. Finally, economic recovery in Q1 2014 continued largely at minimum growth of new lending, which was concentrated in selected segments of the market.

Household loans and deposits



Household deposits increased by ca. PLN 14 billion in Q1 2014 (and by PLN 17 billion in Q1 2013). As a result, the growth rate of retail deposits continued to fall in Q1: it dropped to 4.9% YoY at the end of March 2014, the lowest since mid-2006. While the major part of household savings remained in current accounts, the uptrend in the share of current accounts modestly reversed in the first months of the year. Cash inflows to investment funds also decreased in Q1 as fund assets seemed to stabilise at around PLN 190 billion. As for lending, the volume of consumer loans stabilised while the volume of mortgage loans grew only at a moderate rate. In the opinion of the Bank, the volume of housing loans should stabilise in the coming quarters due to the steady (though slow) growth of new lending, largely offset however by repayments, as well as a decreasing volume of FX loans in view of the expected appreciation of the zloty.



The growth rate of corporate deposits decreased moderately in Q1 2014 (from 9.9% to 7.4%); however, the decrease was driven by the unfavourable base effect as the monthly cash inflows into corporate accounts remained high, reflecting the improving financial standing of companies, i.e., growing profits (at this time increasingly driven by revenue). A look at corporate financial results suggests that the latter is now the case. Lending has accelerated from 1.6% year on year at the end of 2013 to 4.8% YoY at the end of Q1 2014. This was driven not only by growth of investment loans (stronger than in the same phase of the previous economic recovery) but also by a significant increase of interest in corporate overdraft facilities (which, by the way, were used early this year mainly to pay out bonuses to employees). The Bank expects the upward trend in the volume of corporate loans to continue and approach 10% YoY at the end of 2014.

Financial performance of mBank S.A. Group in Q1 2014

Changes in reporting of business segments

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

A detailed description of the business segments of mBank Group is presented in Note 4 to the Condensed consolidated financial statements for Q1 2014.

The historical financial results of the segments taking into account the new reporting layout are illustrated in the tables below.

Retail Banking

PLN M	Q1 2013	Q2 2013	Q3 2013	Q4 2013	2013	Q1 2014
Net interest income	**338,519**	**373,312**	**386,225**	**407,951**	**1,506,007**	**406,266**
Net fee and commission income	**102,258**	**112,925**	**129,128**	**146,530**	**490,841**	**144,330**
Dividend income	22	77	60	27	186	-
Net trading income	31,092	30,627	32,669	28,515	122,903	31,058
Gains less losses from investment securities	-	13,442	-	62	13,504	-
Other operating income	35,546	37,027	35,297	35,246	143,116	26,177
Net impairment losses on loans and advances	(51,106)	(80,085)	(96,914)	(69,616)	(297,721)	(53,155)
Overhead costs, amortization and depreciation	(227,856)	(236,676)	(233,872)	(249,404)	(947,808)	(243,381)
Other operating expenses	(12,322)	(14,489)	(15,615)	(30,427)	(72,853)	(9,948)
Profit before income tax	**216,153**	**236,160**	**236,978**	**268,884**	**958,175**	**301,347**

Corporate and Investment Banking

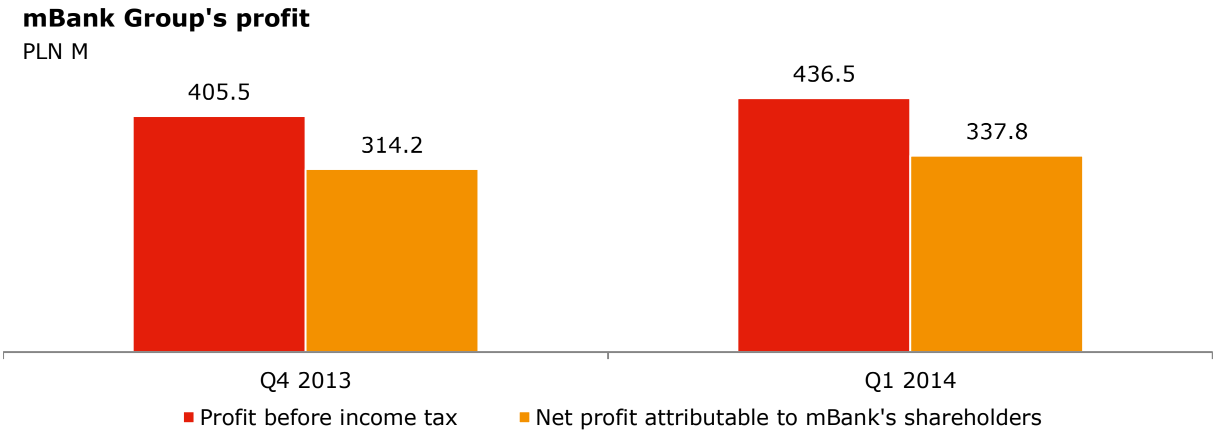
PLN M	Q1 2013	Q2 2013	Q3 2013	Q4 2013	2013	Q1 2014
Net interest income	**180,618**	**180,324**	**181,281**	**179,375**	**721,598**	**168,210**
Net fee and commission income	**81,967**	**93,256**	**80,686**	**79,164**	**335,073**	**95,243**
Dividend income	-	11	14,691	9,752	24,454	-
Net trading income	48,698	57,583	45,750	47,508	199,539	45,648
Gains less losses from investment securities	3	(259)	5,668	6,268	11,680	8,048
Other operating income	19,824	18,865	21,740	28,833	89,262	15,634
Net impairment losses on loans and advances	23,464	(79,391)	(76,823)	(47,214)	(179,964)	(35,812)
Overhead costs, amortization and depreciation	(145,718)	(148,860)	(152,093)	(166,077)	(612,748)	(156,139)
Other operating expenses	(6,551)	(17,084)	(7,837)	(7,839)	(39,311)	(9,068)
Profit before income tax	**202,305**	**104,445**	**113,063**	**129,770**	**549,583**	**131,764**

Financial Markets

PLN M	Q1 2013	Q2 2013	Q3 2013	Q4 2013	2013	Q1 2014
Net interest income	**1,236**	**(258)**	**4,815**	**2,874**	**8,666**	**18,948**
Net fee and commission income	**(1,819)**	**(967)**	**(1,704)**	**153**	**(4,336)**	**(1,677)**
Dividend income	-	-	-	-	-	-
Net trading income	(4,035)	13,169	8,342	3,128	20,604	15,528
Gains less losses from investment securities	771	22,977	10,701	18,945	53,394	1,797
Other operating income	139	213	128	233	713	216
Net impairment losses on loans and advances	(9)	22	143	(201)	(45)	(551)
Overhead costs, amortization and depreciation	(18,986)	(23,439)	(20,426)	(22,782)	(85,633)	(22,652)
Other operating expenses	(2)	(8)	(22)	(2)	(33)	(39)
Profit before income tax	**(22,705)**	**11,708**	**1,978**	**2,348**	**(6,671)**	**11,570**

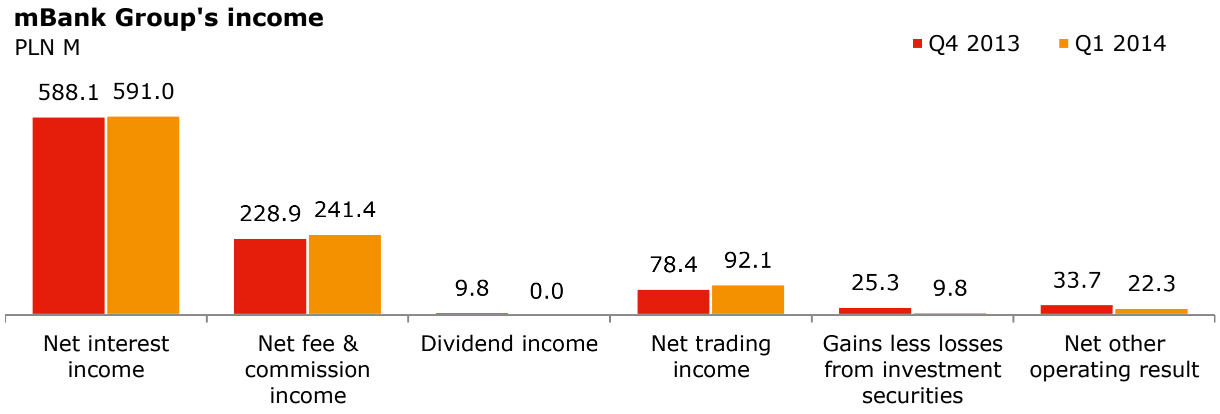
Financial Results of mBank Group

mBank Group generated a profit before income tax of PLN 436.5 million in Q1 2014 or +7.6% QoQ. Net profit attributable to the shareholders of mBank grew by 7.5% QoQ to PLN 337.8 million.



Income of mBank Group

Total income of mBank Group in Q1 2014, stood at PLN 956.6 million, which represents a decrease of PLN 7.6 million or 0.8% QoQ.



Net interest income remained the Group's largest revenue source and reached PLN 591.0 million in Q1 2014, which was higher by PLN 2.9 million or 0.5% compared to Q4 2013.
Interest income increased by PLN 12.4 million or 1.3% QoQ and reached PLN 957.7 million in Q1 2014. Loans and advances remained the main source of interest income (71.2%). Interest income from loans and advances decreased by PLN 3.9 million or 0.6% QoQ to PLN 681.7 million. In the reported period, interest income from investment securities grew by PLN 2.0 million or 2.0%, while interest income from debt securities held for trading increased by PLN 2.6 million or 27.4%.

Interest costs increased by PLN 9.5 million or 2.7% QoQ and stood at PLN 366.7 million. In Q1 2014, the interest expense on client deposits increased by PLN 2.5 million or 1.2%. The second largest interest cost driver was once again the cost arising from amounts due to banks which declined by PLN 6.6 million or 11.1% QoQ. Interest costs on debt securities in issue increased by PLN 0.6 million or 1.3% QoQ.

Net interest margin remained stable at 2.3% at the end of Q1 2014.

Net fee and commission income in Q1 2014 stood at PLN 241.4 million, which represents an increase of PLN 12.5 million or 5.5% compared to Q4 2013.

Fee and commission income increased by PLN 9.0 million or 2.6% QoQ and stood at PLN 353.8 million in Q1 2014. Credit related fees and commissions increased by PLN 9.0 million or 17.1%, while fees and commissions from credit cards decreased by PLN 3.9 million or 3.4%. Commissions on bank accounts increased by PLN 1.6 million or 4.0% QoQ.

Fee and commission costs stood at PLN 112.4 million in Q1 2014, which represents a decrease compared to PLN 115.9 million in Q4 2013. The cost of payment card processing and insurance decreased by PLN 5.7 million or 10.9% QoQ. Commissions paid to third parties for selling mBank's products decreased by PLN 1.2 million or 7.0% in Q1 2014.

The Group reported no **dividend income** in Q1 2014. Dividend income registered in Q4 2013 reached PLN 9.8 million, mainly driven by an additional dividend received from PZU S.A.

Trading income stood at PLN 92.1 million in Q1 2014 and increased by PLN 13.7 million or 17.5% QoQ. The Group's FX income decreased by PLN 2.2 million or 3.3% mainly due to lower activity of corporate customers. In turn, other trading income increased by PLN 15.9 million or 143.2% owing to higher profits on interest rate derivatives.

Gains less losses on investment securities and on investments in subsidiaries and affiliates reached PLN 9.8 million, which represents a decrease by PLN 15.5 million QoQ. The Group realized no gains on sales of government bonds in Q1 2014 but it reported gains on sales of non-controlling interests in two companies listed on the Warsaw Stock Exchange as part of the Bank's management of non-core participations.

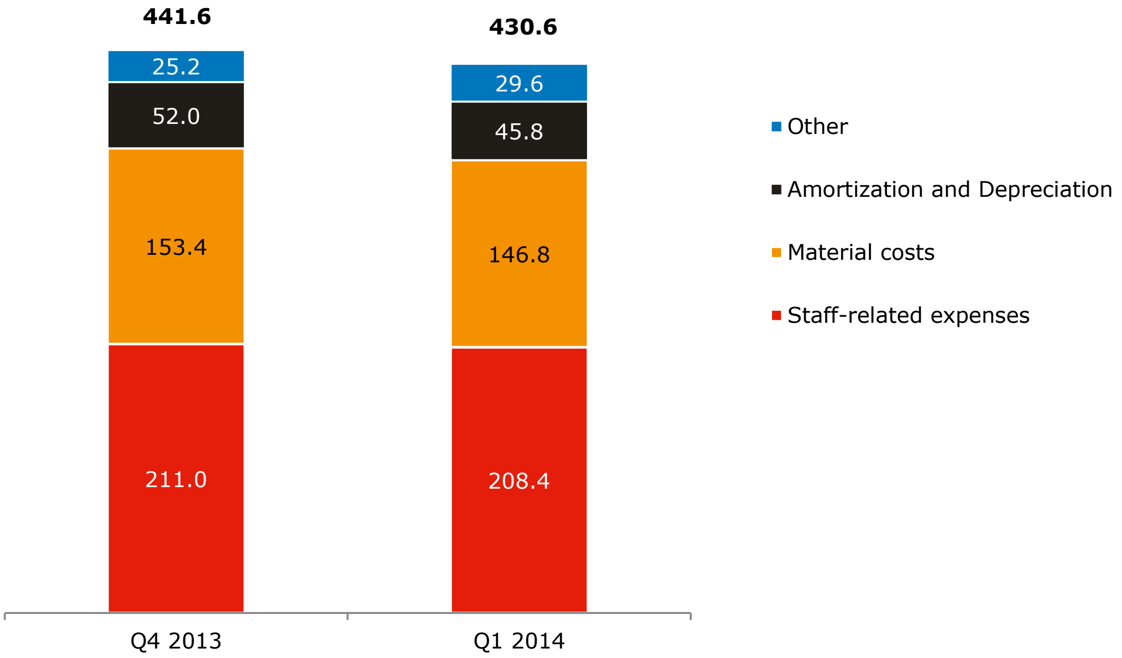
Net other operating income and cost (other operating income less other operating expenses) stood at PLN 22.3 million in Q1 2014, compared to PLN 33.7 million in Q4 2013. Income from the sale or liquidation of fixed assets and inventories decreased while legal risk provisions were higher in Q1 2014.

Overhead costs of mBank Group

Overhead costs of mBank Group including amortisation and depreciation stood at PLN 430.6 million in Q1 2014, which represents a decrease by PLN 11.0 million or 2.5% QoQ. Effective cost management allowed the Group to improve its efficiency as measured by the cost/income ratio from 45.8% in Q4 2013 to 45.0% in Q1 2014.

Overhead costs and amortization

PLN M



Personnel costs decreased by PLN 2.6 million or 1.2% in Q1 2014 due to lower provisions for incentive bonuses. The headcount of the mBank Group decreased by 11 FTEs in Q1 2014.

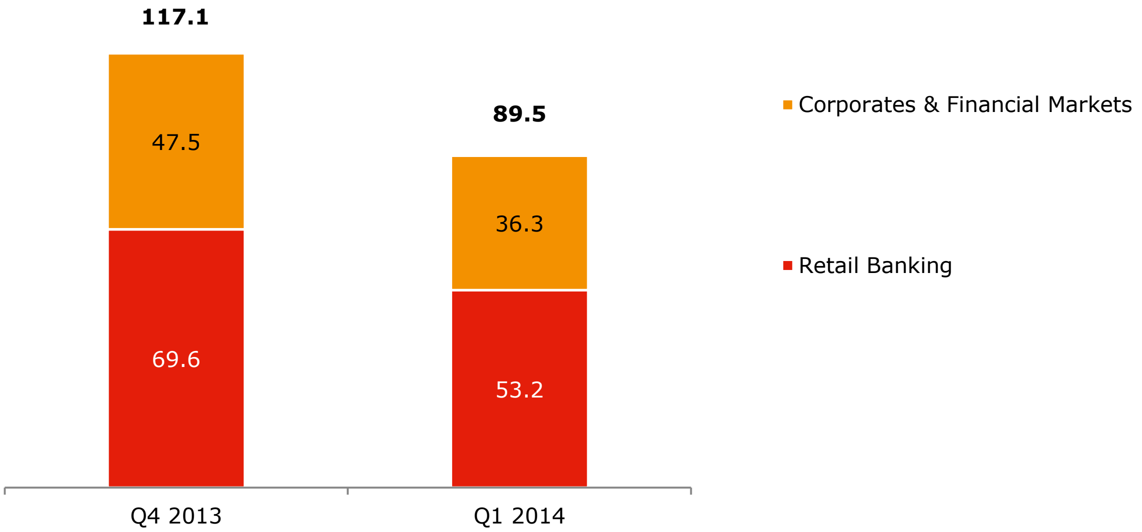
mBank Group Headcount	31.12.2013	31.03.2014	% change QoQ
FTE	6,073	6,062	-0.2%

Material costs decreased by PLN 6.6 million or 4.3% QoQ. In the reporting period, logistics and legal costs decreased while marketing costs increased as a result of an advertising campaign targeting clients in Poland, the Czech Republic and Slovakia. Cost of fees to the Banking Guarantee Fund remained stable QoQ.

Net impairment losses of loans and advances

Net impairment losses on loans and advances of the Group stood at PLN 89.5 million in Q1 2014, which represents a decrease by PLN 27.6 million or 23.6% QoQ.

Net impairment losses on loans and advances
PLN M



Net impairment losses on loans and advances in Retail Banking stood at PLN 53.2 million in Q1 2014 compared to PLN 69.6 million a quarter earlier.

Net impairment losses on loans and advances in Corporates and Financial Markets stood at PLN 36.3 million in Q1 2014, which represents a decrease of PLN 11.2 million QoQ.

Consolidated statement of financial position

Total assets of mBank Group stood at PLN 107,143.3 million at the end of Q1 2014, which represents an increase of PLN 2,860.5 million or 2.7% QoQ.

Assets of mBank Group

Loans and advances to customers remained the largest asset category of the Group at the end of Q1 2014. Their share in total assets increased modestly to 66.2% compared to 65.4% at the end of Q4 2013. Net loans and advances to customers stood at PLN 70,923.0 million in Q1 2014 and increased by 2,712.6 million or 14.0% QoQ (excluding reverse repo / buy sell back transactions and the FX effect, net loans and advances increased by 1.3%).

Gross loans and advances to corporate clients increased to PLN 31,884.2 million, i.e. by PLN 2,408.9 million or 8.2% (excluding reverse repo / buy sell back transactions and the FX effect, the volume of loans and advances to corporate clients increased by ca. 2.7% QoQ). The volume of loans to individuals was up by PLN 664.6 million or 1.7% QoQ to PLN 38,972.5 million. Excluding the FX effect, loans to individuals increased by approximately 1.1%. Gross loans and advances to the public sector stood at PLN 2,022.3 million in Q1 2014, and were down by PLN 155.7 million or 7.1% compared to Q4 2013.

Investment securities were the Bank's second largest asset category at the end of Q1 2014 and stood at PLN 26,605.2 million or 24.8% of total assets. The value of investment securities increased by PLN 1,263.4 million or 5.0% compared to Q4 2013. Moreover, in the reporting period the portfolio of government bonds increased while the portfolio of securities issued by the central bank decreased in Q1 2014.

Liabilities of mBank Group

Amounts due to customers, which are the Group's principal source of funding, increased by PLN 1,922.9 million or 3.1% in Q1 2014 (excluding repo transactions, amounts due to customers increased by 3.9%). At the end of March 2014, they amounted to PLN 63,596.4 million, representing 59.4% of total liabilities.

Amounts due to corporate clients increased by PLN 1,315.7 million or 4.9% to PLN 28,068.6 million at the end of Q1 2014. Excluding repo transactions, amounts due to corporate clients increased by 7.2%. Amounts due to retail clients increased by PLN 581.2 million or 1.7% to PLN 34,784.3 million in Q1 2014 mainly due to higher volumes of current accounts. Amounts due to the public sector stood at PLN 743.5 million, which represents an increase by PLN 26.0 million or 3.6%.

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Amounts due to banks stood at PLN 19,481.1 million at the end of Q1 2014, representing 18.2% of total liabilities. Compared to Q4 2013, amounts due to banks grew by PLN 256.9 million or 1.3%. Two loans granted to the Group by Commerzbank with a nominal value of CHF 500 million and USD 100 million were repaid in Q1 2014.

The proportion of equity attributable to the shareholders of mBank in total liabilities of mBank Group stood at 9.2% at the end of March 2014, compared to 9.5% at the end of December 2013. At the end of March 2014, equity attributable to the shareholders of mBank amounted to PLN 9,866.3 million (decreasing by PLN 390.2 million or -3.8% compared to the end of December 2013). The decrease was a result of a deduction from shareholders' equity of the planned dividend payment approved by the General Shareholders Meeting.

Quality of the loan portfolio of mBank Group

On March 31, 2014, impaired receivables increased by 2.0% compared to Q4 2013 while total gross loans increased by 4.0%. Consequently, the ratio of impaired loans (NPL) decreased from 6.3% in Q4 2013 to 6.1% in Q1 2014.

Provisions for loans and advances to clients increased by PLN 95.1 million QoQ to PLN 2,466.5 million, including PLN 2,201.2 million in provisions for impaired receivables (compared to PLN 2,114.9 million in Q4 2013). Additionally, Incurred But Not Identified provisions (IBNI) increased from PLN 265.3 million in Q4 2013 to PLN 256.6 million in Q1 2014.

The ratio of provisions to impaired loans (including Incurred but Not identified provisions) increased from 53.6% in Q4 2013 to 54.7% at the end of Q1 2014.

Performance Indicators

The key performance indicators of mBank Group were as follows:

	Q4 2013	Q1 2014
Net ROA	1.18%	1.26%
Gross ROE	17.7%	17.8%
Net ROE	13.7%	13.7%
Cost/Income ratio	45.8%	45.0%
Core Tier 1 ratio / Common Equity Tier 1 capital ratio	14.21%	13.58%
Capital adequacy ratio / Total capital ratio	19.38%	16.26%

Net ROA = net profit attributable to shareholders/average total assets;

Gross ROE = profit before income tax/average total equity;

Net ROE = net profit attributable to shareholders/average total equity;

Cost/Income ratio = overhead costs + depreciation/total income (including net other operating income/costs);

Core Tier 1 ratio = core funds after deductions/risk weighted assets;

Common Equity Tier 1 capital ratio = Common Equity Tier I capital (after deductions)/ total risk exposure amount;

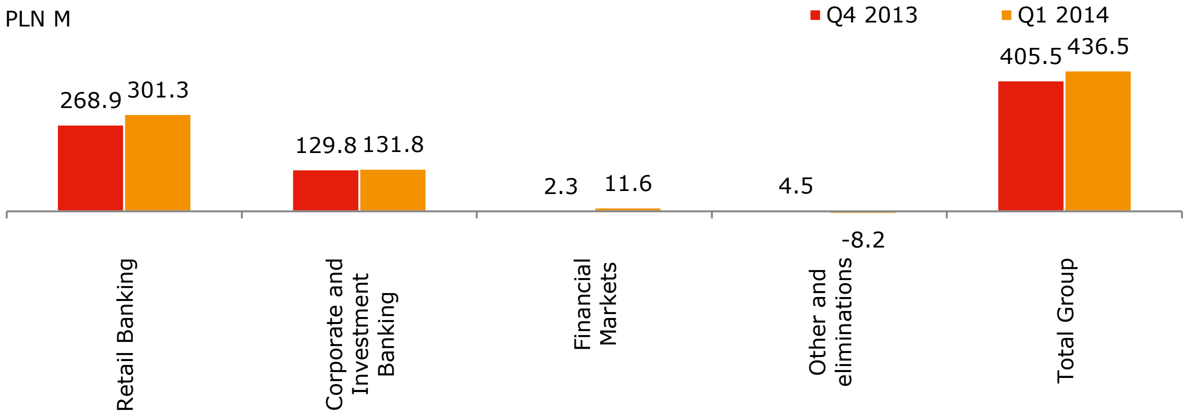
Capital adequacy ratio = own funds (core funds and supplementary funds after deductions)/risk weighted assets;

Total capital ratio = own funds (Tier I and Tier II capital)/total risk exposure amount.

Performance of the business segments and business lines

In Q1 2014, the segment of Retail Banking had the largest share in the Group's profit before income tax and its contribution reached 69.0%. The contribution of Corporates and Financial Markets constituted 32.9% and covered the result of Corporate and Investment Banking (30.2%) and Financial Markets (2.6%).

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

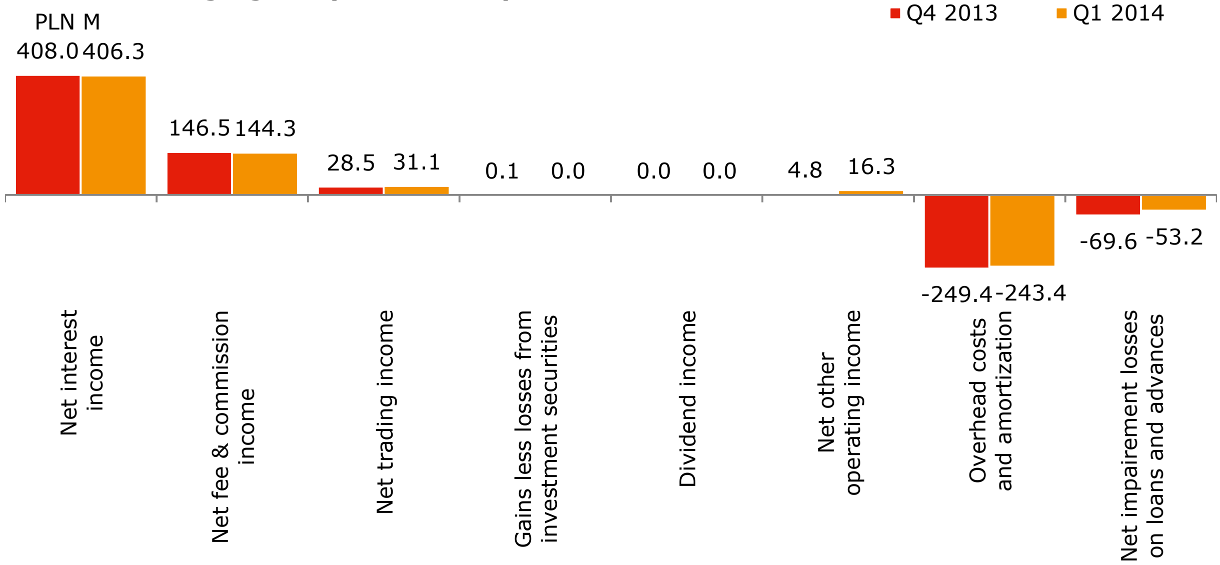


Retail Banking

Summary of segment results

In Q1 2014, the Retail Banking segment generated a profit before income tax of PLN 301.3 million, up by PLN 32.4 million or 12.0% QoQ.

Retail Banking - gross profit decomposition



The profit before income tax of the Retail Banking segment in Q1 2014 was predominantly driven by:

- **Increase of total income** by PLN 10.1 million or 1.7% QoQ to PLN 598.0 million. Net interest income decreased by PLN 1.7 million or 0.4% while net fee and commission income decreased by PLN 2.2 million or 1.5%. Net other operating income increased by PLN 11.5 million or 239.6% in Q1 2014.
- **Decrease of overhead costs including depreciation and amortisation** by PLN 6.0 million or 2.4% QoQ to PLN 243.4 million, mainly due to lower personnel costs. In Q1 2014 material costs increased slightly as a result of marketing campaign in Poland, the Czech Republic and Slovakia.
- **Decrease of net impairment losses on loans and advances** compared to Q4 2013 by PLN 16.4 million due to lower provisions for loans both in mBank in Poland and in mBank Hipoteczny.

Retail Operations in Poland (including Private Banking)

Customers

mBank's Retail Banking in Poland had 3,739.8 thousand customers at the end of Q1 2014. The number of new customers acquired in Q1 2014 reached 43.7 thousand (+1.2%) QoQ and 150.8 thousand (+4.2%) YoY.

Deposits and Investment Funds

Retail Banking deposits stood at PLN 29,657.9 million at the end of March 2014, which represents an increase of PLN 610.2 million or 2.1% QoQ.

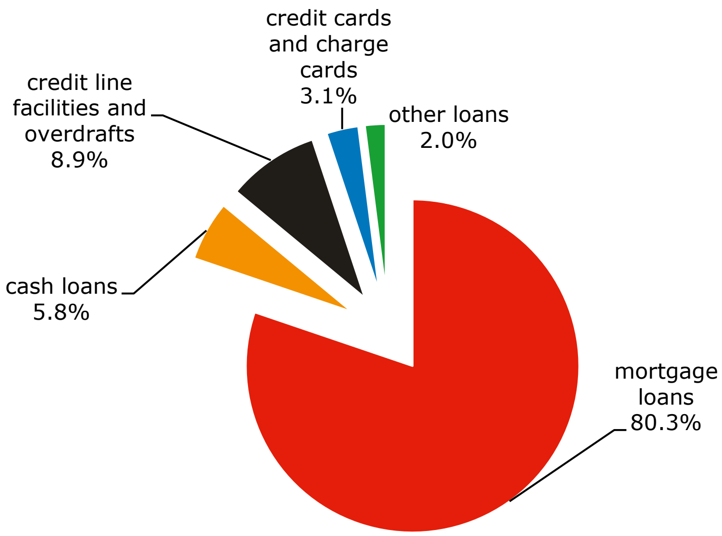
The increase of the deposit base was accompanied by the growth in assets under management of mBank retail customers. These stood at PLN 4,605 million at the end of March 2014, up by PLN 115.5 million or 2.6% QoQ.

Loans

Net loans granted to retail clients stood at PLN 36,508.1 million at the end of March 2014. In Q1 2014, loans increased by PLN 498.5 million or 1.4% QoQ.

The structure of the loan portfolio was as follows:

Retail loan portfolio in Poland



Mortgage loans granted to retail customers stood at PLN 29,119.1 million at the end of March 2014. The main parameters of the Bank's mortgage loan portfolio are presented below:

Mortgage loans to households (excluding Private Banking)	Total
Balance-sheet value (PLN billion)	26.6
Average maturity (years)	20.7
Average value (PLN thousand)	273.6
Average LTV (%)	80.8
NPL (%)	2.2

Cards

The number of credit cards issued by the Bank until the end of Q1 2014 stood at 771.5 thousand. In Q1 2014, the number of new credit cards issued by mBank reached 13.8 thousand.

The number of debit cards issued until the end of Q1 2014 stood at 5,836.8 thousand increasing by 153.2 thousand QoQ.

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Distribution Network

Aspiro (managing mBank' s distribution network)	24 Financial Centres 67 mKiosks 22 Agent Service Points
former MultiBank	70 Financial Services Centres 62 Partner Outlets

Retail Banking offer development

In Q1 2014, as in the previous quarter, the Bank observed growing interest in investment and savings products. This was yet another quarter in which the balances of deposit and investment products increased, despite difficulties on the market of investment funds in March 2014.

At the beginning of Q1 2014, mBank clients were offered a new version of Investment Funds Supermarket. Changes included i.e. platform layout, a new funds browser was added as well as charts that facilitate the tracing and analyzing of investments.

Therefore, the Bank strengthened its position in the investment and savings area by diversifying solutions offered to its clients, in particular through:

- introducing of investment certificates of a closed-end investment fund to the offer subscription;
- providing clients with an opportunity to invest in subsequent subscriptions of structured deposits;
- introducing public offering of bonds for retail banking clients;
- implementing deposits for new funds as a regular Bank offer.

In addition, mBank extended its bank accounts offer. New account package was introduced for freelancers, who wish to manage their finances at one place: "I - Professional", combining an mBiznes Professional account and an individual mKonto Aquarius or mKonto Aquarius Intensive account.

mBank in Czech Republic (CZ) and Slovakia (SK)

Customers

mBank in the Czech Republic and Slovakia had 688.4 thousand customers at the end of March 2014 (494.5 thousand at mBank CZ and 193.9 thousand at mBank SK). The number of customers of mBank's foreign operations grew by 15.3 thousand in Q1 2014.

Deposits

Deposits in the Czech Republic and Slovakia stood at PLN 4,873.0 million at the end of March 2014 (PLN 3,089.5 million at mBank CZ, PLN 1,783.4 million at mBank SK), which represents an increase by PLN 22.8 million or 0.5% QoQ.

Loans

Loans in the Czech Republic and Slovakia stood at PLN 2,267.0 million at the end of March 2014 (PLN 1,817.0 million at mBank CZ, PLN 449.9 million at mBank SK), which constitutes an increase by PLN 137.9 million or 6.5% QoQ.

Distribution Network

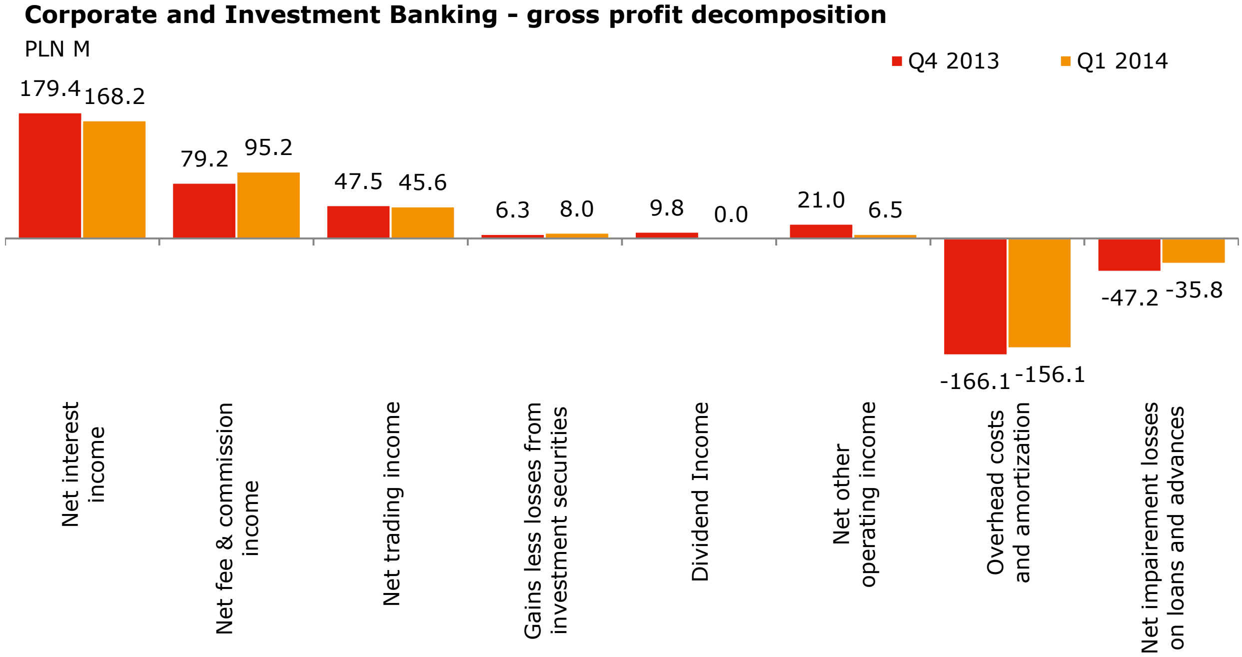
mBank CZ	9 Financial Centres 17 mKiosks	4 Financial Centres 5 mKiosks	**mBank SK**

Corporates and Financial Markets

Corporate and Investment Banking

Summary of segment results

In Q1 2014 Corporate and Investment Banking generated a profit before income tax of PLN 131.8 million, up by PLN 2.0 million or 1.5% QoQ.



The profit before income tax of the Corporate and Investment Banking segment in Q1 2014 was predominantly driven by:

- **Decrease of total income** to PLN 323.5 million compared to PLN 343.2 million in Q4 2013. Net interest income decreased by PLN 11.2 million or 6.2% and net fee and commission income increased by PLN 16.0 million or 20.2%. Credit related fees and commissions were up in Q1 2014. A decrease of net other operating income in Q1 2014 was driven to a large extend by a PLN 9.5 million of VAT refund at mLeasing registered in Q4 2013.

- **Decrease of overhead costs including amortisation and depreciation** by PLN 10.0 million or 6.0% QoQ to PLN 156.1 million, mainly due to lower material costs.

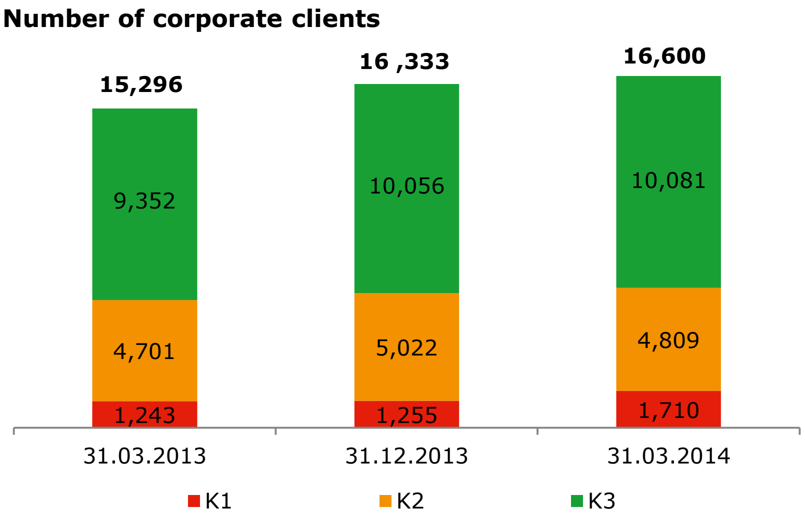
- **Decrease of net impairment losses on loans and advances** by PLN 11.4 million or 24.2% to PLN 35.8 million.

Customers

The total number of corporate customers stood at 16,600 at the end of March 2014, which constitutes an increase by 267 customers QoQ and 1,304 customers YoY.

In January 2014, as a result of a methodological change, all non-banking financial institutions were reclassified and moved to the K1 segment (the change concerned ca. 400 clients, mainly from K2 segment).

The following chart presents additional details on the Bank's corporate clients structure:



K1 is the segment of the largest corporations with annual sales over PLN 500 million and non-banking financial institutions;
K2 is the segment of corporations with annual sales between PLN 30 and 500 million;
K3 is the segment of SMEs with annual sales between PLN 3 and 30 million.

Deposits

Deposits placed by corporate customers with mBank (excluding repo transactions) stood at PLN 21,452 million at the end of March 2014 and were up by 5.9% QoQ and up by 8.5% YoY.

Deposits placed by enterprises stood at PLN 17,330 million at the end of March 2014 and were down by 3.6% QoQ and up by 2.0% YoY. The share of mBank in corporate deposits market increased to 8.5% at the end of March 2014 compared to 8.3% at the end of December 2013.

Deposits placed by local governments stood at PLN 261.4 million at the end of March 2014 and were up by 45.7% QoQ and down by 29.8% YoY

Loans

Loans granted to corporate clients by mBank reached PLN 24,353 million at the end of March 2014 and were up by 3.5% QoQ and up by 2.7% YoY.

Loans to enterprises stood at PLN 16,453 million at the end of March 2014 and were up 4.4% QoQ and stable YoY (PLN 16,429 million at the end of March 2013). In Q1 2014, the market share of mBank's lending increased slightly from 5.9% in Q4 2013 to 6.0%. The loan to deposit ratio for enterprises reached 94.9% and was considerably lower compared to the market average of 134.4%.

Loans granted to local governments totalled PLN 1,381 million at the end of March 2014 and were down by 6.0% QoQ and down by 21.2% YoY.

Development of the Corporate Banking offer

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

- placing offers for purchase or sales of foreign currencies at a defined exchange rate;
- reviewing the list of concluded transactions and the list of deposits;
- receiving individual quotations of currency exchange rates as part of the Dialog with the Dealer in the case of Rapid FX transactions, exceeding the set thresholds;
- reviewing the most important news "HotNews" (briefing of the most important news presented so far at mBank CompanyNet). Activation of this functionality is the first stage of the implementation of the entire Business Information module in the mobile application.

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Cash Management

Development of transactional banking in Q1 2014 was illustrated by the following figures:

- the number of domestic transfers made by corporate clients amounted to 16.3 million, which represents an increase by 10.3% YoY;
- the number of foreign transfers made by corporate clients amounted to 238.9 thousand, which represents an increase by 22.8% YoY;
- the total number of corporate cards issued at the end of Q1 2014 was higher by 16.9% QoQ and 93.0% YoY; the most dynamic growth was observed in prepaid cards (+17.2% QoQ and +94.0% YoY);
- over 976 thousand cards were issued as Electronic Money Instrument at the end of March 2014;
- the number of mBank CompanyNet clients increased by 14.9% YoY. Currently, there are 72,053 active authorizations allowing the entitled employees of mBank's clients to co-operate with the Bank.

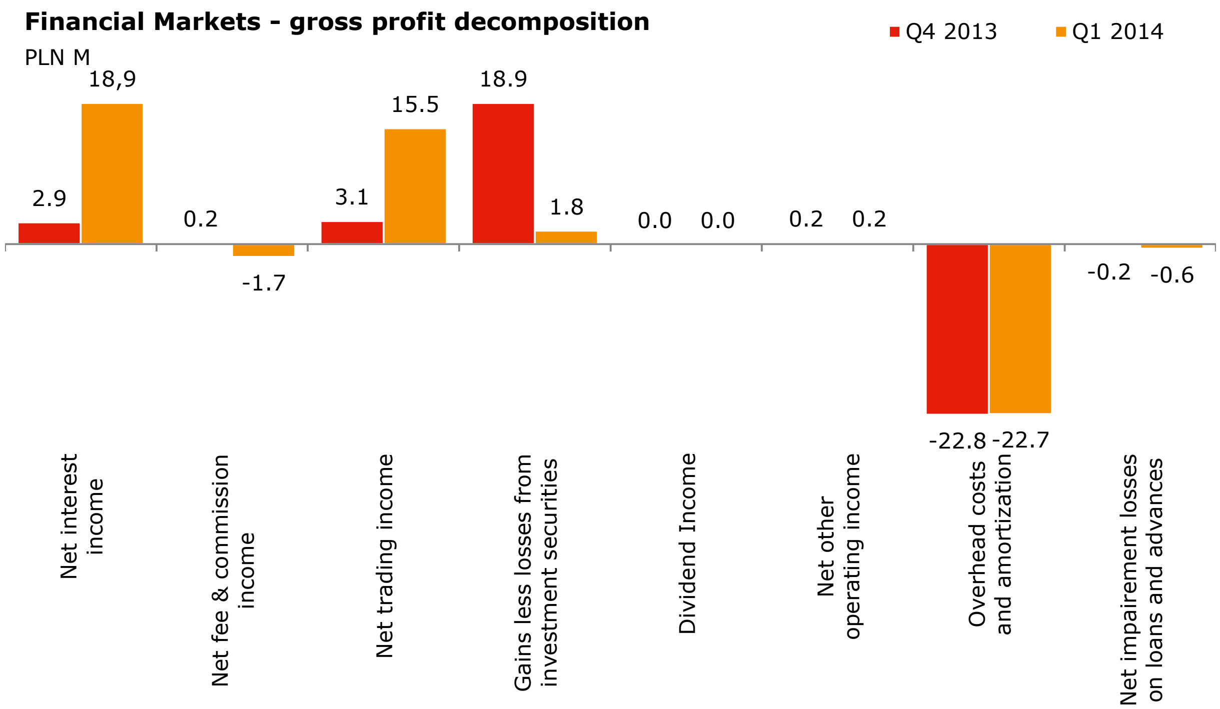
Distribution network

29	Corporate Branches		Corporate Offices	18

Financial Markets

Summary of segment results

In Q1 2014, Financial Markets segment generated a profit before income tax of PLN 11.6 million compared to PLN 2.3 million in Q4 2013.



The profit before income tax of Financial Markets segment in Q1 2014 was predominantly driven by:

- **Increase of total income** by PLN 9.4 million or 37.2% QoQ to PLN 34.7 million. Net interest income grew by PLN 16.0 million or 551.7% to PLN 18.9 million. The segment reported a negative net fee and commission income of PLN 1.7 million compared to a positive PLN 0.2 million in Q4 2013.

- **Stable overhead costs including amortisation and depreciation** of PLN 22.7 million. Personnel costs increased while material costs decreased in Q1 2014.

<u>Market position</u>

mBank ranked first in mid-term bank debt securities issuance with a market share of 31.3%, second in mid-term corporate bonds issuance with a market share of 13.2% and fourth in the market for arranging short-term debt securities with a market share of 13.6% (all data as at the end of March 2014).

The Bank remains very active in trading of financial instruments. Its market share stood at ca. 18.2% in interest rate derivatives, treasury bonds and bills trading stood at 15.5% and in trading in FX spot and forward instruments stood at 13.2% (data as at the end of February 2014).

Subsidiaries of mBank Group

BRE TUiR S.A., BRE Ubezpieczenia Sp. z o.o. i BRE Agent Ubezpieczeniowy Sp. z o.o.

In the direct area, premiums written decreased by 6.6% QoQ (from PLN 37.5 million to PLN 35.0 million), while in the bancassurance area, premiums written reached PLN 62.5 million (excluding investment products), which represents a 0.7% decrease QoQ.

In Q1 2014, the company generated a profit before income tax of PLN 11.6 million, representing a decrease by PLN 1.4 million or 10.7% QoQ. In the first 3 months of 2014, the Group reported a growth in profit on insurance related to mortgage loans. The decrease in profit was observed in cash loan insurance and car insurance as well as in profit on insurance linked to cards, bank accounts and stand-alone insurance.

Dom Maklerski

The market share of Dom Maklerski mBanku (mDM) in equities trading stood at 4.0%, equivalent to the position of the ninth biggest market participant. mDM maintained the second position in derivatives trading with a market share of 17.7%. The company is still a market leader in options trading with a market share of 20.4%.

The number of clients of mDM stood at 291.4 thousand at the end of Q1 2014 and decreased by 4.1 thousand QoQ.

The profit before income tax stood at PLN 6.2 million in Q1 2014 compared to PLN 11.5 million in Q4 2013, mainly due to lack of IPOs in Q1 2014 while IPOs in Q4 2013 had a significant impact on the profit of the quarter. Fee and commission income on transactions on foreign markets and on the forex market increased dynamically.

Aspiro

In Q1 2014, Aspiro offered products of 23 different financial companies, including those of mBank. The offering covered 45 products, including mortgage loans, cash loans, insurance products, investment products, leasing and factoring.

In Q1 2014, Aspiro reported a slight decrease in the sales of mortgage loans (-4.8% QoQ) and an increase in the sales of cash loans (+24.0%) compared to Q4 2013. The sales of car loans was up by 70.8% compared to the previous quarter, driven by changes in the tax laws, in addition to a competitive offer of Aspiro.

In Q1 2014, Aspiro reported a profit before income tax of PLN 1.3 million compared to a pre-tax loss of PLN 0.9 million compared in Q4 2013, mainly due to an increase in sales of high-margin products.

Wealth Management

At the end of Q1 2014, the company held assets under management worth PLN 4.8 billion (the assets remained unchanged QoQ).

In Q1 2014, the company's operating revenues stood at PLN 9.1 million and decreased by 27.2% QoQ. The company's profit before income tax reached PLN 4.0 million compared to PLN 6.2 million in Q4 2013.

The Q4 results can be explained by the booking of a "success fee" for asset management performance in December.

mBank Hipoteczny

mBank Hipoteczny (mBH) specialises in offering mortgage loans to commercial and residential developers as well as local governments. The company is the largest issuer of mortgage and public covered bonds to finance its lending operations.

mBH's gross loan portfolio remained almost unchanged compared to the level reported at the end of 2013 and amounted to PLN 4.1 billion (+0.4%). At the end of Q1 2014, the nominal value of covered bonds issued by mBH amounted to PLN 2.5 billion. In Q1 2014 the company issued covered bonds with a value of EUR 30.5 million, including 15-year maturity bonds with a value of EUR 23.0 million.

In Q1 2014, mBH reported a profit before income tax of PLN 9.9 million compared to PLN 2.1 million in Q4 2013, mainly driven by a decrease of impairment losses.

mLeasing

The value of leasing contracts concluded by mLeasing in Q1 2014 was related only to the movables sector and stood at PLN 616.4 million (-0.3% QoQ). No real estate leasing contracts were signed in Q1 2014, compared to PLN 30.1 million of contracts signed in Q4 2013. Consequently, the market share of the company reached 6.1% (6.3% in the movables market).

The company's profit before income tax stood at PLN 13.0 million in Q1 2014, which represents a decrease of 28.9% compared to Q4 2013, mainly driven by the VAT refund on re-invoiced insurance of PLN 9.5 million registered in Q4 2013.

mFaktoring

mFaktoring generated sales of PLN 1.9 billion in Q1 2014, which represents a decrease by 17.4% QoQ. The company maintained its seventh position on the market.

mFaktoring's profit before income tax in Q1 2014 reached PLN 4.8 million compared to PLN 5.4 million in Q4 2013 (-12.5%) driven by declining sales.

Transfinance

Transfinance provides factoring services to small and medium sized enterprises in the Czech Republic. In Q1 2014 the company recorded a turnover of PLN 1.0 billion and maintained its fourth position on the market.

The company's profit before income tax in Q1 2014 amounted to PLN 0.8 million, compared to PLN 1.2 million in Q4 2013.

mCentrum Operacji

mCentrum Operacji (mCO) supports back-office processes to mBank Group subsidiaries related to settlements, mail room services, database and archive services.

In Q1 2014, the company generated a profit before tax of PLN 290.7 thousand compared to a pre-tax loss of PLN 10.9 thousand in Q4 2013.

The positive result of Q1 2014 compared to Q4 2013 was mainly driven by lower operating costs. The biggest decrease in costs was observed in depreciation and amortisation, third-party services, and payroll.

mLocum

mLocum is a property developer operating on the primary market for residential estate. The company carries out residential projects in major Polish cities, i.e. Kraków, Łódź, Wrocław, Warszawa, Poznań and Sopot.

In Q1 2014, the company sold 72 apartments via preliminary agreements in comparison to 68 apartments sold in Q4 2013.

mLocum reported a profit before income tax of PLN 6.1 million compared to PLN 3.6 million a quarter earlier.

mFinance France S.A. (mFF)

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

In Q1 2014, the company reported a profit before income tax of PLN 8 thousand compared to PLN 86 thousands a quarter earlier.

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

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

In Q1 2014, the company generated a pre-tax loss of PLN 32 thousand compared to a loss of PLN 29 thousand in Q4 2013.

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

Consolidated income statement

	Note	1 Quarter (current year) period from 01.01.2014 to 31.03.2014	1 Quarter (previous year) period from 01.01.2013 to 31.03.2013 restated
Interest income	5	957 742	1 048 123
Interest expense	5	(366 728)	(530 640)
Net interest income		**591 014**	**517 483**
Fee and commission income	6	353 775	296 069
Fee and commission expense	6	(112 369)	(110 180)
Net fee and commission income		**241 406**	**185 889**
Dividend income	7	-	26
Net trading income, including:	8	92 118	75 798
Foreign exchange result		*65 151*	*68 978*
Other trading income and result on hedge accounting		*26 967*	*6 820*
Gains less losses from investment securities, investments in subsidiaries and associates	9	9 845	774
Other operating income	10	73 271	93 029
Net impairment losses on loans and advances	11	(89 487)	(27 654)
Overhead costs	12	(384 785)	(356 928)
Amortization and depreciation		(45 832)	(44 774)
Other operating expenses	13	(51 034)	(41 574)
Operating profit		**436 516**	**402 069**
Profit before income tax		**436 516**	**402 069**
Income tax expense		(97 767)	(75 668)
Net profit		**338 749**	**326 401**
Net profit attributable to:			
- Owners of mBank S.A.		337 770	325 736
- Non-controlling interests		979	665

Net profit attributable to Owners of mBank S.A.		**337 770**	**325 736**
Weighted average number of ordinary shares	14	**42 175 344**	**42 140 918**
Basic earnings per share (in PLN)	14	**8.01**	**7.73**
Weighted average number of ordinary shares for diluted earnings	14	**42 225 951**	**42 181 191**
Diluted earnings per share (in PLN)	14	**8.00**	**7.72**

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

Consolidated statement of comprehensive income

	1 Quarter (current year) period from 01.01.2014 to 31.03.2014	1 Quarter (previous year) period from 01.01.2013 to 31.03.2013 restated
Net profit	**338 749**	**326 401**
Other comprehensive income net of tax, including:	**(15 820)**	**(59 792)**
Items that may be reclassified subsequently to the income statement		
Exchange differences on translation of foreign operations (net)	247	(226)
Change in valuation of available for sale financial assets (net)	(16 067)	(59 566)
Items that will not be reclassified to the income statement		
Actuarial gains and losses relating to post-employment benefits (net)	-	-
Total comprehensive income (net)	**322 929**	**266 609**
Total comprehensive income (net), attributable to:		
- Owners of mBank S.A.	321 950	265 944
- Non-controlling interests	979	665

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

Consolidated statement of financial position

ASSETS	Note	31.03.2014	31.12.2013	31.03.2013 restated
Cash and balances with the Central Bank		2 089 199	1 650 467	2 493 404
Loans and advances to banks		1 500 011	3 471 241	3 778 497
Trading securities	15	1 180 071	763 064	1 429 069
Derivative financial instruments	16	2 216 630	2 349 585	2 726 519
Loans and advances to customers	17	70 923 030	68 210 385	66 573 348
Hedge accounting adjustments related to fair value of hedged items		821	970	1 944
Investment securities	18	26 605 235	25 341 763	23 544 201
Intangible assets	19	431 959	455 345	419 014
Tangible fixed assets	20	705 955	709 552	746 056
Current income tax assets		89 753	7 332	2 504
Deferred income tax assets	23	300 272	370 821	397 495
Other assets		1 100 321	952 236	938 078
Total assets		**107 143 257**	**104 282 761**	**103 050 129**

LIABILITIES AND EQUITY				
Liabilities				
Amounts due to the Central Bank		2	-	-
Amounts due to other banks		19 481 095	19 224 182	21 688 068
Derivative financial instruments	16	2 120 892	2 459 715	3 291 664
Amounts due to customers	21	63 596 439	61 673 527	58 531 953
Debt securities in issue		5 658 722	5 402 056	4 807 377
Hedge accounting adjustments related to fair value of hedged items		4 189	(4 349)	(2 898)
Other liabilities		2 723 505	1 267 672	1 344 053
Current income tax liabilities		3 269	9 581	39 265
Provisions for deferred income tax	23	2 908	2 954	1 703
Provisions	22	233 029	228 228	194 446
Subordinated liabilities		3 453 003	3 762 757	3 265 470
Total liabilities		**97 277 053**	**94 026 323**	**93 161 101**
Equity				
Equity attributable to Owners of mBank S.A.		**9 838 129**	**10 229 342**	**9 863 872**
Share capital:		**3 512 798**	**3 512 338**	**3 502 233**
- Registered share capital		168 702	168 696	168 565
- Share premium		3 344 096	3 343 642	3 333 668
Retained earnings:		**6 023 084**	**6 398 937**	**5 937 422**
- Profit from the previous years		5 685 314	5 192 562	5 611 686
- Profit for the current year		337 770	1 206 375	325 736
Other components of equity		**302 247**	**318 067**	**424 217**
Non-controlling interests		**28 075**	**27 096**	**25 156**
Total equity		**9 866 204**	**10 256 438**	**9 889 028**
Total liabilities and equity		**107 143 257**	**104 282 761**	**103 050 129**

Total capital ratio/capital adequacy ratio *)	24	**16.26**	**19.38**	**18.87**
Book value		**9 838 129**	**10 229 342**	**9 863 872**
Number of shares		**42 175 558**	**42 174 013**	**42 141 346**
Book value per share (in PLN)		**233.27**	**242.55**	**234.07**

*) As at 31 March 2014, total capital ratio is presented, calculated in accordance with the Regulation of the European Parliament and of the Council (EU) No 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (rules based on "Basel III"). As at 31 December 2013 and as at 31 March 2013 capital adequacy ratio is presented, calculated in accordance with the requirements of Article 128 of the Banking Law of 29 August 1997 as later amended (rules based on "Basel II"). As at 31 March 2013, data relating to the capital adequacy ratio for comparative periods has not been restated.

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

Consolidated statement of changes in equity

Changes from 1 January to 31 March 2014

	Share capital		Retained earnings					Other components of equity					
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	Exchange differences on translation of foreign operations	Valuation of available for sale financial assets	Actuarial gains and losses relating to post-employment benefits	Equity attributable to Owners of mBank S.A., total	Non-controlling interests	Total equity
Equity as at 1 January 2014	**168 696**	**3 343 642**	**4 118 312**	**100 057**	**989 953**	**1 190 615**	**-**	**(2 010)**	**320 561**	**(484)**	**10 229 342**	**27 096**	**10 256 438**
Total comprehensive income							**337 770**	**247**	**(16 067)**	**-**	**321 950**	**979**	**322 929**
Dividends paid	-	-	-	-	-	(716 984)	-	-	-	-	(716 984)	-	(716 984)
Transfer to general banking risk reserve	-	-	-	-	50 000	(50 000)	-	-	-	-	-	-	-
Transfer to supplementary capital	-	-	212 034	-	-	(212 034)	-	-	-	-	-	-	-
Issue of shares	6	-	-	-	-	-	-	-	-	-	6	-	6
Stock option program for employees	-	454	-	3 361	-	-	-	-	-	-	3 815	-	3 815
- value of services provided by the employees	-	-	-	3 815	-	-	-	-	-	-	3 815	-	*3 815*
- settlement of exercised options	-	454	-	(454)	-	-	-	-	-	-	-	-	-
Equity as at 31 March 2014	**168 702**	**3 344 096**	**4 330 346**	**103 418**	**1 039 953**	**211 597**	**337 770**	**(1 763)**	**304 494**	**(484)**	**9 838 129**	**28 075**	**9 866 204**

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**

Changes from 1 January to 31 March 2013

	Share capital		Retained earnings					Other components of equity					
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year - restated	Exchange differences on translation of foreign operations	Valuation of available for sale financial assets	Actuarial gains and losses relating to post-employment benefits	Equity attributable to Owners of mBank S.A., total	Non-controlling interests	Total equity
Equity as at 1 January 2013	**168 556**	**3 333 077**	**3 353 504**	**94 863**	**945 953**	**1 214 468**	**-**	**106**	**483 678**	**225**	**9 594 430**	**24 491**	**9 618 921**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**325 736**	**(226)**	**(59 566)**	**-**	**265 944**	**665**	**266 609**
Issue of shares	9	-	-	-	-	-	-	-	-	-	9	-	9
Stock option program for employees	-	591	-	2 898	-	-	-	-	-	-	3 489	-	3 489
- value of services provided by the employees	-	-	-	3 489	-	-	-	-	-	-	3 489	-	*3 489*
- settlement of exercised options	-	591	-	(591)	-	-	-	-	-	-	-	-	-
Equity as at 30 March 2013 - restated	**168 565**	**3 333 668**	**3 353 504**	**97 761**	**945 953**	**1 214 468**	**325 736**	**(120)**	**424 112**	**225**	**9 863 872**	**25 156**	**9 889 028**

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

Consolidated statement of cash flows

the period	from 01.01.2014 to 31.03.2014	from 01.01.2013 to 31.03.2013 restated
A. Cash flows from operating activities	**1 879 390**	**(1 818 425)**
Profit before income tax	**436 516**	**402 069**
Adjustments:	***1 442 874***	***(2 220 494)***
Income taxes paid	(94 604)	(256 725)
Amortisation, including amortisation of fixed assets provided under operating lease	58 425	58 051
Foreign exchange (gains) losses related to financing activities	236 609	337 677
(Gains) losses on investing activities	73	(378)
Dividends received	-	(26)
Interest income (income statement)	(957 742)	(1 048 123)
Interest expense (income statement)	366 728	530 640
Interest received	811 345	1 098 795
Interest paid	(278 664)	(433 681)
Changes in loans and advances to banks	1 141 945	(398 514)
Changes in trading securities	17 504	62 181
Changes in assets and liabilities on derivative financial instruments	(188 304)	(107 931)
Changes in loans and advances to customers	(2 612 522)	354 802
Changes in investment securities	(1 382 035)	(3 577 764)
Changes in other assets	(148 047)	(61 078)
Changes in amounts due to other banks	2 306 537	500 180
Changes in amounts due to customers	1 279 305	655 081
Changes in debt securities in issue	138 856	132 021
Changes in provisions	4 801	(18 881)
Changes in other liabilities	742 664	(46 821)
Net cash generated from operating activities	**1 879 390**	**(1 818 425)**
B.Cash flows from investing activities	**(46 217)**	**(36 783)**
Investing activity inflows	**7 769**	**6 819**
Disposal of intangible assets and tangible fixed assets	7 769	6 793
Dividends received	-	26
Investing activity outflows	**53 986**	**43 602**
Purchase of intangible assets and tangible fixed assets	53 986	43 602
Net cash used in investing activities	**(46 217)**	**(36 783)**
C. Cash flows from financing activities	**(1 845 701)**	**(668 004)**
Financing activity inflows	**937 977**	**331 786**
Proceeds from loans and advances from other banks	-	82 356
Proceeds from other loans and advances	659 842	-
Issue of debt securities	278 129	249 421
Issue of ordinary shares	6	9
Financing activity outflows	**2 783 678**	**999 790**
Repayments of loans and advances from other banks	2 239 666	270 078
Repayments of other loans and advances	5 032	226 266
Redemption of debt securities	186 462	479 289
Acquisition of shares in subsidiaries - increase of involvement	-	650
Decrease of subordinated liabilities	310 032	-
Payments of financial lease liabilities	107	114
Interest paid from loans and advances received from other banks and from subordinated liabilities	42 379	23 393
Net cash generated from financing activities	**(1 845 701)**	**(668 004)**
Net increase / decrease in cash and cash equivalents (A+B+C)	**(12 528)**	**(2 523 212)**
Effects of exchange rate changes on cash and cash equivalents	(844)	5 592
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	**3 672 268**	**5 060 697**

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

mBank S.A. stand-alone financial information

Income statement

	Note	1st Quarter (current year) period from 01.01.2014 to 31.03.2014	1 Quarter (previous year) period from 01.01.2013 to 31.03.2013 restated
Interest income		882 670	962 818
Interest expense		(344 684)	(495 804)
Net interest income		**537 986**	**467 014**
Fee and commission income		297 219	247 233
Fee and commission expense		(98 298)	(97 672)
Net fee and commission income		**198 921**	**149 561**
Dividend income		-	26
Net trading income, including:		85 413	71 201
Foreign exchange result		*62 604*	*65 723*
Other trading income and result on hedge accounting		*22 809*	*5 478*
Gains less losses from investment securities, investments in subsidiaries and associates		9 845	771
Other operating income		9 005	26 387
Net impairment losses on loans and advances		(73 786)	(17 389)
Overhead costs		(318 518)	(295 382)
Amortization and depreciation		(39 231)	(38 381)
Other operating expenses		(21 625)	(9 186)
Operating profit		**388 010**	**354 622**
Profit before income tax		**388 010**	**354 622**
Income tax expense		**(85 380)**	**(67 061)**
Net profit		**302 630**	**287 561**

Net profit		**302 630**	**287 561**
Weighted average number of ordinary shares	14	**42 175 344**	**42 140 918**
Basic earnings per share (in PLN)	14	**7.18**	**6.82**
Weighted average number of ordinary shares for diluted earnings	14	**42 225 951**	**42 181 191**
Diluted earnings per share (in PLN)	14	**7.17**	**6.82**

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

mBank S.A. stand-alone financial information

Statement of comprehensive income

	1st Quarter (current year) period from 01.01.2014 to 31.03.2014	1 Quarter (previous year) period from 01.01.2013 to 31.03.2013 restated
Net profit	**302 630**	**287 561**
Other comprehensive income net of tax, including:	**(16 812)**	**(58 531)**
Items that may be reclassified subsequently to the income statement		
Exchange differences on translation of foreign operations (net)	39	14
Change in valuation of available for sale financial assets (net)	(16 851)	(58 545)
Items that will not be reclassified to the income statement		
Actuarial gains and losses relating to post-employment benefits (net)	-	-
Total comprehensive income net of tax, total	**285 818**	**229 030**

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

mBank S.A. stand-alone financial information

Statement of financial position

ASSETS	31.03.2014	31.12.2013	31.03.2013 restated
Cash and balances with the Central Bank	2 082 300	1 643 073	2 489 177
Loans and advances to banks	2 348 067	4 488 865	4 911 742
Trading securities	1 210 334	903 912	1 641 260
Derivative financial instruments	2 218 849	2 349 542	2 725 626
Loans and advances to customers	66 780 852	63 756 680	61 913 488
Hedge accounting adjustments related to fair value of hedged items	821	970	1 944
Investment securities	26 340 527	25 081 290	23 314 455
Investments in subsidiaries	759 259	757 259	947 336
Intangible assets	386 461	408 784	372 686
Tangible fixed assets	439 821	442 726	463 806
Current income tax assets	88 551	6 593	1 601
Deferred income tax assets	60 111	133 258	155 896
Other assets	268 736	259 180	255 381
Total assets	**102 984 689**	**100 232 132**	**99 194 398**

LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the Central Bank	2	-	-
Amounts due to other banks	19 251 724	18 863 854	21 116 452
Derivative financial instruments	2 132 798	2 472 350	3 292 832
Amounts due to customers	66 035 088	64 008 374	60 505 649
Hedge accounting adjustments related to fair value of hedged items	4 189	(4 349)	(2 898)
Debt securities in issue	390 626	451 916	459 733
Other liabilities	2 427 255	962 870	1 111 329
Current income tax liabilities	-	-	30 094
Provisions for deferred income tax	81	80	81
Provisions	144 048	141 060	110 334
Subordinated liabilities	3 453 003	3 762 757	3 265 470
Total liabilities	**93 838 814**	**90 658 912**	**89 889 076**
Equity			
Share capital:	**3 512 798**	**3 512 338**	**3 502 233**
- Registered share capital	168 702	168 696	168 565
- Share premium	3 344 096	3 343 642	3 333 668
Retained earnings:	**5 327 683**	**5 738 676**	**5 375 055**
- Profit for the previous year	5 025 053	4 668 370	5 087 494
- Net profit for the current year	302 630	1 070 306	287 561
Other components of equity	**305 394**	**322 206**	**428 034**
Total equity	**9 145 875**	**9 573 220**	**9 305 322**
Total liabilities and equity	**102 984 689**	**100 232 132**	**99 194 398**

Total capital ratio/capital adequacy ratio *)	**18.12**	**20.59**	**19.92**
Book value	**9 145 875**	**9 573 220**	**9 305 322**
Number of shares	**42 175 558**	**42 174 013**	**42 141 346**
Book value per share (in PLN)	**216.85**	**226.99**	**220.81**

*) As at 31 March 2014, total capital ratio is presented, calculated in accordance with the Regulation of the European Parliament and of the Council (EU) No 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (rules based on "Basel III"). As at 31 December 2013 and as at 31 March 2013 capital adequacy ratio is presented, calculated in accordance with the requirements of Article 128 of the Banking Law of 29 August 1997 as later amended (rules based on "Basel II"). As at 31 March 2013, data relating to the capital adequacy ratio for comparative periods has not been restated.

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

mBank S.A. stand-alone financial information

Statement of changes in equity

Changes from 1 January to 31 March 2014

	Share capital		Retained earnings					Other components of equity			Total equity
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	Exchange differences on translation of foreign operations	Valuation of available for sale financial assets	Actuarial gains and losses relating to post-employment benefits	
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	-	-	-	-	-	-	**302 630**	**39**	**(16 851)**	**-**	**285 818**
Dividends paid	-	-	-	-	-	(716 984)	-	-	-	-	(716 984)
Transfer to general banking risk reserve	-	-	-	-	50 000	(50 000)	-	-	-	-	-
Transfer to supplementary capital	-	-	212 034	-	-	(212 034)	-	-	-	-	-
Issue of shares	6	-	-	-	-	-	-	-	-	-	6
Stock option program for employees	-	454	-	3 361	-	-	-	-	-	-	3 815
- value of services provided by the employees	-	-	-	3 815	-	-	-	-	-	-	3 815
- settlement of exercised options	-	454	-	(454)	-	-	-	-	-	-	-
Equity as at 31 March 2014	**168 702**	**3 344 096**	**3 977 488**	**32 422**	**1 015 143**	**-**	**302 630**	**(6 473)**	**312 386**	**(519)**	**9 145 875**

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	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**

Changes from 1 January to 31 March 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 - restated	Exchange differences on translation of foreign operations	Valuation of available for sale financial assets	Actuarial gains and losses relating to post-employment benefits	
Equity 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	-	-	-	-	-	-	**287 561**	**14**	**(58 545)**	**-**	**229 030**
Issue of shares	9	-	-	-	-	-	-	-	-	-	9
Stock option program for employees	-	591	-	2 898	-	-	-	-	-	-	3 489
- value of services provided by the employees	-	-	-	3 489	-	-	-	-	-	-	*3 489*
- settlement of exercised options	-	591	-	(591)	-	-	-	-	-	-	-
Equity as at 31 March 2013 - restated	**168 565**	**3 333 668**	**3 027 390**	**26 765**	**925 143**	**1 108 196**	**287 561**	**(7 764)**	**435 573**	**225**	**9 305 322**

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

mBank S.A. stand-alone financial information

Statement of cash flows

the period	from 01.01.2014 to 31.03.2014	from 01.01.2013 to 31.03.2013 restated
A. Cash flows from operating activities	**1 674 611**	**(2 199 646)**
Profit before income tax	**388 010**	**354 622**
Adjustments:	***1 286 601***	***(2 554 268)***
Income taxes paid	(81 959)	(249 550)
Amortisation	39 231	38 381
Foreign exchange (gains) losses related to financing activities	238 451	331 186
(Gains) losses on investing activities	84	(379)
Dividends received	-	(26)
Interest income (income statement)	(882 670)	(962 818)
Interest expense (income statement)	344 684	495 804
Interest received	798 304	1 012 037
Interest paid	(286 292)	(396 900)
Changes in loans and advances to banks	1 138 785	(504 943)
Changes in trading securities	47 047	237 896
Changes in assets and liabilities on derivative financial instruments	(194 735)	(119 934)
Changes in loans and advances to customers	(3 000 429)	51 736
Changes in investment securities	(1 316 002)	(3 619 660)
Changes in other assets	(13 659)	(79 499)
Changes in amounts due to other banks	2 281 575	530 647
Changes in amounts due to customers	1 419 463	728 439
Changes in debt securities in issue	519	4 974
Changes in provisions	2 988	(18 481)
Changes in other liabilities	751 216	(33 178)
Net cash generated from operating activities	**1 674 611**	**(2 199 646)**
B.Cash flows from investing activities	**(30 288)**	**(28 174)**
Investing activity inflows	**58**	**495**
Disposal of intangible assets and tangible fixed assets	58	469
Dividends received	-	26
Investing activity outflows	**30 346**	**28 669**
Purchase of intangible assets and tangible fixed assets	30 346	28 669
Net cash used in investing activities	**(30 288)**	**(28 174)**
C. Cash flows from financing activities	**(1 850 875)**	**(382 852)**
Financing activity inflows	**630 101**	**82 365**
Proceeds from loans and advances from other banks	-	82 356
Proceeds from other loans and advances	630 095	-
Issue of ordinary shares	6	9
Financing activity outflows	**2 480 976**	**465 217**
Repayments of loans and advances from other banks	2 054 000	2 079
Repayments of other loans and advances	5 032	226 266
Redemption of debt securities	66 462	204 289
Acquisition of shares in subsidiaries - increase of involvement	2 000	10 000
Decrease of subordinated liabilities	310 032	-
Payments of financial lease liabilities	1 071	2 416
Interest paid from loans and advances received from other banks and from subordinated liabilities	42 379	20 167
Net cash generated from financing activities	**(1 850 875)**	**(382 852)**
Net increase / decrease in cash and cash equivalents (A+B+C)	**(206 552)**	**(2 610 672)**
Effects of exchange rate changes on cash and cash equivalents	(2 765)	11 757
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	**3 598 574**	**5 395 735**

Explanatory notes to the 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 March 2014, mBank S.A. Group covered by the 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 mBank S.A.. The new name of the Bank was entered in the Business Register on 23 March 1999. On 11 July 2001, the District Court in Warsaw issued the decision on the entry of the Bank in the National Court Register (KRS) under number KRS 0000025237.

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

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

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

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

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

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

As at 31 March 2014 the headcount of mBank S.A. amounted to 4 676 FTEs (Full Time Equivalents) and of the Group to 6 061 FTEs (31 March 2013: Bank 4 734 FTEs, Group 6 129 FTEs).

As at 31 March 2014 the employment in mBank S.A. was 5 678 persons and in the Group 7 819 persons (31 March 2013: Bank 5 689 persons, Group 7 875 persons).

In the first quarter of 2014, in connection with the change of the Bank's name in 2013, the company BRE Finance France S.A. changed its name on mFinance France S.A.

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

Corporates and Financial Markets Segment, including:

Corporates and Investment Banking

- mFaktoring S.A., subsidiary
- mLeasing Sp. z o.o., subsidiary
- 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
- Dom Maklerski mBanku S.A., subsidiary

Retail Banking Segment (including Private Banking)

- Aspiro S.A., subsidiary
- AWL I Sp. z o.o., subsidiary, insurance agent
- mBank Hipoteczny S.A., subsidiary
- mWealth Management S.A., subsidiary
- BRE Ubezpieczenia TUiR S.A., subsidiary, insurer
- BRE Ubezpieczenia Sp. z o.o., subsidiary, insurance agent
- BRE Agent Ubezpieczeniowy Sp. z o.o., subsidiary, insurance agent

Other

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

Other information concerning companies of the Group

Starting from the first quarter of 2014, the Group began to consolidate its subsidiary AWL I Sp. z o.o. The company is a direct owner of shares of BRE Ubezpieczenia Sp. z o.o. and BRE Agent Ubezpieczeniowy Sp. z o.o.

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

2. Description of 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 3-month period ended 31 March 2014.

The condensed consolidated financial statements of mBank S.A. Group have been prepared in compliance with the International Financial Reporting Standards (IFRS) as adopted for use in the European Union, according to the historical cost method, as modified by the revaluation of available for sale financial assets, financial assets and financial liabilities measured at fair value through the income statement as well as all derivative contracts.

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 Group. 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 consolidated financial statements are disclosed in Note 3.

2.2. Consolidation

Subsidiaries

Subsidiaries comprise entities, regardless of the nature of the involvement with an entity (including special purpose vehicles) over which the Group controls the investee. The control is achieved when the Group has power over the investee, is exposed or has rights, to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. When the

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

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

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

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

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

<u>Associates</u>

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

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

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

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

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

Company	31.03.2014		31.03.2013	
	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
AWL I Sp. z o.o.	100%	full	-	-
BDH Development Sp. z o.o.	100%	full	-	-
BRE Agent Ubezpieczeniowy Sp. z o.o.	100%	full	100%	full
BRE Ubezpieczenia Sp. z o.o.	100%	full	100%	full
BRE Ubezpieczenia TUiR S.A.	100%	full	100%	full
Dom Maklerski mBanku S.A.	100%	full	100%	full
Garbary Sp. z o.o.	100%	full	100%	full
mBank Hipoteczny S.A.	100%	full	100%	full
mCentrum Operacji Sp. z o.o.	100%	full	100%	full
mFaktoring S.A.	100%	full	100%	full
mLeasing Sp. z o.o.	100%	full	100%	full
mWealth Management S.A.	100%	full	100%	full
MLV 35 Sp. z o.o. spółka komandytowo - akcyjna	-	-	100%	full
MLV 45 Sp. z o.o. spółka komandytowa (previously BRE Holding Sp. z o.o.)	100%	full	100%	full
Transfinance a.s.	100%	full	100%	full
mFinance France S.A.	99.98%	full	99.98%	full
mLocum S.A.	79.99%	full	79.99%	full

2.3. Interest income and expenses

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

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

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

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

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

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

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

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

2.4. Fee and commission income

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

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

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

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

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

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

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

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

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

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

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

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

2.6. Insurance premium revenue

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

2.7. Compensations and benefits, net

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

2.8. Segment reporting

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

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

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

2.9. Financial assets

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

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

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

Financial assets valued at fair value through the income statement

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

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

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

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

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

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

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

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

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

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

<u>Loans and receivables</u>

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

<u>Held to maturity investments</u>

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

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

In reporting periods presented in these 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

Assets carried at amortised cost

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

The list of definite loss events:

1. Default or delinquency in interest or principal payments.
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.

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

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

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

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

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

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

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

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

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

Assets measured at fair value

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

Renegotiated agreements

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

2.13. Financial guarantee contracts

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

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

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

2.14. Cash and cash equivalents

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

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

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

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

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

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

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

2.16. Derivative financial instruments and hedge accounting

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

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

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

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

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

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

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

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

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

Fair value hedges

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

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

Cash flow hedges

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

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

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

Derivative instruments not fulfilling the criteria of hedge accounting

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

The Group holds the following derivative instruments in its portfolio:

Market risk instruments:

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

Interest rate risk instruments:

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

Foreign exchange risk instruments:

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

2.17. Gains and losses on initial recognition

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

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

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

2.18. Borrowings and deposits taken

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

2.19. Intangible assets

Intangible assets are recognised at their cost of acquisition adjusted by the costs of improvement (rearrangement, development, reconstruction or modernisation) and accumulated amortization. Accumulated amortization is accrued by the straight line method taking into account the expected period of economic useful life of the respective intangible assets.

Goodwill

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

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

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

Computer software

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

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

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

Development costs

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

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

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

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

2.20. Tangible fixed assets

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

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

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

Buildings and structures	25-40 years,
Equipment	5-15 years,
Vehicles	5 years,
Information technology hardware	3.33-5 years,
Investments in third party fixed assets	10-40 years or the period of the lease contract,
Office equipment, furniture	5-10 years.

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

Depreciable fixed assets are tested in terms of possible impairment always after the occurrence of events or change of circumstances indicating that their carrying value in the statement of financial position might not be possible to be recovered. The value of a fixed asset carried in the statement of financial position is reduced to the level of its recoverable value if the carrying value in the statement of financial position exceeds the estimated recoverable amount. The recoverable value is the higher of two amounts: the fair value of the fixed asset reduced by its selling costs and the value in use.

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

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

2.21. Inventories

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

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

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

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

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

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

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

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

2.23. Deferred income tax

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

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

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

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

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

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

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

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

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

2.24. Assets repossessed for debt

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

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

2.25. Prepayments, accruals and deferred income

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

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

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

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

2.26. Leasing

mBank S.A. Group as a lessor

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

Revenue from leasing agreements is recognised as follows:

- Interests on finance lease

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

- Net revenue from operating lease

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

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

mBank S.A. Group as a lessee

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

2.27. Provisions

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

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

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

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

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

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

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

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

2.28. Post-employment employee benefits and other employee benefits

Post-employment employee benefits

The Group forms provisions against future liabilities on account of post-employment benefits determined on the basis of an estimation of liabilities of that type, using an actuarial model. The Group uses a principle of recognition of actuarial gains or losses from the measurement of post-employment benefits related to changes in actuarial assumptions in other comprehensive income. The Group recognizes service cost and net interest on the net defined benefit liability in profit or loss.

Benefits based on shares

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

2.30. Valuation of items denominated in foreign currencies

Functional currency and presentation currency

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

Transactions and balances

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

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

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

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

Companies belonging to the Group

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

- assets and liabilities in each presented statement of financial position are converted at the average rate of exchange of the National Bank of Poland (NBP) in force at the end of this reporting period;
- revenues and expenses in each income statement are converted at the rate equal to the arithmetical mean of the average rates quoted by NBP on the last day of each of 3 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 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 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 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, *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 36, Recoverable Amount Disclosures for Non-Financial Assets, published by the International Accounting Standards Board on 29 May 2013, binding for annual periods starting on or after 1 January 2014
- 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 but are not yet binding or have not been adopted early:

Standards and interpretations not yet approved by the European Union:

- IFRIC 21, *Levies*, published by International Financial Reporting Standard Interpretations Committee on 20 May 2013, binding for annual periods starting on or after 1 January 2014.

  The Group believes that the application of IFRIC 21 will have no impact on the total level of recognised fees of the financial year, but it may have an impact on the level of such costs recognised in each quarter of the financial year.
- 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 had no significant impact on the financial statements in the period of its initial application.
- IFRS 9, Financial Instruments Part 1: *Recognition and Measurement*, published by the International Accounting Standards Board on 12 November 2009, supersedes the parts of IAS 39 addressing classification and measurement of financial assets. On 28 October 2010, new requirements addressing classification and measurement of financial liabilities were added to IFRS 9. The new standard is binding for annual periods beginning on or after 1 January 2015.

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

  The real impact of the IFRS 9 application will be possible to estimate after the publication of the final, complete version of the standard.
- 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 amended standard will have no significant impact on the financial statements in the period of its initial application.

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

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

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

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

2.33. Comparative data

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

a) Actuarial gains and losses

In 2013, the Group introduced a change of accounting policies in the presentation of actuarial gains or losses from the measurement of post-employment benefits. On the basis of the application of revised IAS 19 the Group introduced a principle of recognition of actuarial gains or losses from the measurement of post-employment benefits related to changes in actuarial assumptions in other comprehensive income and not as previously in profit or loss.

The above described change made by the Group, resulted in reduction of consolidated and stand-alone net profit as of 31 March 2013 by the amount of PLN 225 thousand and increase of other components of equity, by the same amount. The adjustment had no impact on the total amount of consolidated and stand-alone equity as at 31 March 2013.

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

In 2013, the Group introduced a change of its accounting policies regarding recognition of income and expenses from selling insurance products attached to loans.

Due to fact that the purchase of insurance products attached to loans by the Group's clients has always voluntary character, in 2012 and before the Group treated such insurance contracts as separate products and income from the sale of insurance products attached to loans was in most cases recognised as an upfront income. At the same time, in cases where for certain products and certain sales channels intermediary costs of selling insurance products existed, the Group considered such costs as costs related to sale of loans. As a result, in cases where intermediary costs existed, they were deemed as part of the effective interest rate calculation for loans.

In 2013, also as a result of a detailed guidance provided by the Polish Financial Supervision Authority in December 2013, the Group verified its approach towards the recognition of bancassurance income and adhered to the afore-mentioned guidance. As a result of this change the Group implemented the recommended definition of bundled products and retrospectively implemented the policy of recognition of income and expenses from sale of insurance products attached to loans split into interest income and fee and commission income based on the relative fair value analysis of each of these products. The remuneration included in interest income is recognised over time as part of effective interest rate calculation for the bundled loan. The remuneration included in fee and commission income is recognised partly as upfront income and partly including deferring over time based on the analysis of the stage of completion of the service. Expenses directly linked to the sale of insurance products are recognised using the same pattern as in case of income. This means that part of expenses is treated as an element adjusting the calculation of effective interest rate for interest income and the remaining part of expenses is recognised in fee and commission expenses as upfront cost or as cost accrued over time. The Group estimates also the part of remuneration which in the future will be returned due to early termination of insurance contract and appropriately decreases interest income or fee and commission income to be recognised.

The restatement of comparative data for Q1 2013 due to this change, resulted in an increase of consolidated and stand-alone net profit for Q1 2013 by the amount of PLN 1 790 thousand and a decrease of the total amount of consolidated and stand-alone equity as at 31 March 2013 by the amount of PLN 89 273 thousand.

The following tables present the impact of the changes in accounting policies introduced in 2013 on presented comparative data regarding Q1 2013 in these condensed consolidated financial statements.

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

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

ASSETS	31.03.2013 before restatement	Restatement	31.03.2013 after restatement
Loans and advances to customers	66 683 562	(110 214)	66 573 348
Deferred income tax assets	376 554	20 941	397 495
Other items of assets	36 079 286	-	36 079 286
Total assets	**103 139 402**	**(89 273)**	**103 050 129**
LIABILITIES AND EQUITY			
Liabilities			
Total liabilities	**93 161 101**	**-**	**93 161 101**
Equity			
Share capital	**3 502 233**	**-**	**3 502 233**
Retained earnings:	**6 026 920**	**(89 498)**	**5 937 422**
- Profit for the previous year	5 702 974	(91 288)	5 611 686
- Net profit for the current year	323 946	1 790	325 736
Other components of equity	**423 992**	**225**	**424 217**
Non-controlling interests	**25 156**	**-**	**25 156**
Total equity	**9 978 301**	**(89 273)**	**9 889 028**
Total liabilities and equity	**103 139 402**	**(89 273)**	**103 050 129**

Adjustments in the mBank S.A. Group consolidated income statement.

	1 Quarter (previous year) period from 01.01.2013 to 31.03.2013 before restatement	Restatement	1 Quarter (previous year) period from 01.01.2013 to 31.03.2013 after restatement
Interest income	1 034 266	13 857	1 048 123
Interest expense	(530 640)	-	(530 640)
Net interest income	**503 626**	**13 857**	**517 483**
Fee and commission income	308 896	(12 827)	296 069
Fee and commission expense	(111 360)	1 180	(110 180)
Net fee and commission income	**197 536**	**(11 647)**	**185 889**
Dividend income	26	-	26
Net trading income	75 798	-	75 798
Gains less losses from investment securities, investments in subsidiaries and associates	774	-	774
Other operating income	93 029	-	93 029
Net impairment losses on loans and advances	(27 654)	-	(27 654)
Overhead costs	(356 928)	-	(356 928)
Amortization and depreciation	(44 774)	-	(44 774)
Other operating expenses	(41 574)	-	(41 574)
Operating profit	**399 859**	**2 210**	**402 069**
Profit before income tax	**399 859**	**2 210**	**402 069**
Income tax expense	**(75 248)**	**(420)**	**(75 668)**
Net profit	**324 611**	**1 790**	**326 401**
Net profit attributable to:			
- Owners of mBank S.A.	323 946	1 790	325 736
- Non-controlling interests	665	-	665
Basic earnings per share (in PLN)	**7.69**		**7.73**
Diluted earnings per share (in PLN)	**7.68**		**7.72**

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

Adjustments in the mBank S.A. Group consolidated statement of comprehensive income.

	1 Quarter (previous year) period from 01.01.2013 to 31.03.2013 before restatement	Restatement	1 Quarter (previous year) period from 01.01.2013 to 31.03.2013 after restatement
Net profit	**324 611**	**1 790**	**326 401**
Other comprehensive income net of tax, including:	**(59 792)**	**-**	**(59 792)**
Items that may be reclassified subsequently to the income statement			
Exchange differences on translation of foreign operations (net)	(226)	-	(226)
Change in valuation of available for sale financial assets (net)	(59 566)	-	(59 566)
Items that will not be reclassified to the income statement			
Actuarial gains and losses relating to post-employment benefits	-	-	-
Total comprehensive income net of tax, total	**264 819**	**1 790**	**266 609**
Total comprehensive income (net), attributable to:			
- Owners of mBank S.A.	264 154	1 790	265 944
- Non-controlling interests	665	-	665

Adjustments in the mBank S.A. Group consolidated statement of cash flows.

	from 01.01.2013 to 31.03.2013 before restatement	Restatement	from 01.01.2013 to 31.03.2013 after restatement
A. Cash flows from operating activities	**(1 818 425)**	**-**	**(1 818 425)**
Profit before income tax	**399 859**	**2 210**	**402 069**
Adjustments:	***(2 218 284)***	***(2 210)***	***(2 220 494)***
Income taxes paid	(256 725)	-	(256 725)
Amortisation, including amortisation of fixed assets provided under operating lease	58 051	-	58 051
Foreign exchange (gains) losses related to financing activities	337 677	-	337 677
(Gains) losses on investing activities	(378)	-	(378)
Dividends received	(26)	-	(26)
Interest income (income statement)	(1 034 266)	(13 857)	(1 048 123)
Interest expense (income statement)	530 640	-	530 640
Interest received	1 087 148	11 647	1 098 795
Interest paid	(433 681)	-	(433 681)
Changes in loans and advances to banks	(398 514)	-	(398 514)
Changes in trading securities	62 181	-	62 181
Changes in assets and liabilities on derivative financial instruments	(107 931)	-	(107 931)
Changes in loans and advances to customers	354 802	-	354 802
Changes in investment securities	(3 577 764)	-	(3 577 764)
Changes in other assets	(61 078)	-	(61 078)
Changes in amounts due to other banks	500 180	-	500 180
Changes in amounts due to customers	655 081	-	655 081
Changes in debt securities in issue	132 021	-	132 021
Changes in provisions	(18 881)	-	(18 881)
Changes in other liabilities	(46 821)	-	(46 821)
Net cash generated from operating activities	**(1 818 425)**	**-**	**(1 818 425)**
B.Cash flows from investing activities	**(36 783)**	**-**	**(36 783)**
C. Cash flows from financing activities	**(668 004)**	**-**	**(668 004)**
Net increase / decrease in cash and cash equivalents (A+B+C)	**(2 523 212)**	**-**	**(2 523 212)**
Effects of exchange rate changes on cash and cash equivalents	5 592	-	5 592
Cash and cash equivalents at the beginning of the reporting period	7 578 317	-	7 578 317
Cash and cash equivalents at the end of the reporting period	**5 060 697**	**-**	**5 060 697**

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

Adjustments in the mBank S.A. statement of financial position.

ASSETS	31.03.2013 before restatement	Restatement	31.03.2013 after restatement
Loans and advances to customers	62 023 702	(110 214)	61 913 488
Deferred income tax assets	134 955	20 941	155 896
Other items of assets	37 125 014	-	37 125 014
Total assets	**99 283 671**	**(89 273)**	**99 194 398**

LIABILITIES AND EQUITY			
Liabilities			
Total liabilities	**89 889 076**	**-**	**89 889 076**
Equity			
Share capital	**3 502 233**	**-**	**3 502 233**
Retained earnings:	**5 464 553**	**(89 498)**	**5 375 055**
- Profit for the previous year	5 178 782	(91 288)	5 087 494
- Net profit for the current year	285 771	1 790	287 561
Other components of equity	**427 809**	**225**	**428 034**
Total equity	**9 394 595**	**(89 273)**	**9 305 322**
Total liabilities and equity	**99 283 671**	**(89 273)**	**99 194 398**

Adjustments in the mBank S.A. income statement.

	1 Quarter (previous year) period from 01.01.2013 to 31.03.2013 before restatement	Restatement	1 Quarter (previous year) period from 01.01.2013 to 31.03.2013 after restatement
Interest income	948 961	13 857	962 818
Interest expense	(495 804)	-	(495 804)
Net interest income	**453 157**	**13 857**	**467 014**
Fee and commission income	260 060	(12 827)	247 233
Fee and commission expense	(98 852)	1 180	(97 672)
Net fee and commission income	**161 208**	**(11 647)**	**149 561**
Dividend income	26	-	26
Net trading income	71 201	-	71 201
Gains less losses from investment securities, investments in subsidiaries and associates	771	-	771
Other operating income	26 387	-	26 387
Net impairment losses on loans and advances	(17 389)	-	(17 389)
Overhead costs	(295 382)	-	(295 382)
Amortization and depreciation	(38 381)	-	(38 381)
Other operating expenses	(9 186)	-	(9 186)
Operating profit	**352 412**	**2 210**	**354 622**
Profit before income tax	**352 412**	**2 210**	**354 622**
Income tax expense	**(66 641)**	**(420)**	**(67 061)**
Net profit	**285 771**	**1 790**	**287 561**
Basic earnings per share (in PLN)	**6.78**		**6.82**
Diluted earnings per share (in PLN)	**6.77**		**6.82**

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

Adjustments in the mBank S.A. statement of comprehensive income.

	1 Quarter (previous year) period from 01.01.2013 to 31.03.2013 before restatement	Restatement	1 Quarter (previous year) period from 01.01.2013 to 31.03.2013 after restatement
Net profit	**285 771**	**1 790**	**287 561**
Other comprehensive income net of tax, including:	**(58 531)**	-	**(58 531)**
Items that may be reclassified subsequently to the income statement			
Exchange differences on translation of foreign operations (net)	14	-	14
Change in valuation of available for sale financial assets (net)	(58 545)	-	(58 545)
Items that will not be reclassified to the income statement			
Actuarial gains and losses relating to post-employment benefits (net)	-	-	-
Total comprehensive income net of tax, total	**227 240**	**1 790**	**229 030**

Adjustments in mBank S.A. statement of cash flows.

	1 Quarter (previous year) period from 01.01.2013 to 31.03.2013 before restatement	Restatement	1 Quarter (previous year) period from 01.01.2013 to 31.03.2013 after restatement
A. Cash flows from operating activities	**(2 199 646)**	**-**	**(2 199 646)**
Profit before income tax	**352 412**	**2 210**	**354 622**
Adjustments:	***(2 552 058)***	***(2 210)***	***(2 554 268)***
Income taxes paid	(249 550)	-	(249 550)
Amortisation	38 381	-	38 381
Foreign exchange (gains) losses on financing activities	331 186	-	331 186
(Gains) losses on investing activities	(379)	-	(379)
Dividends received	(26)	-	(26)
Interest income (income statement)	(948 961)	(13 857)	(962 818)
Interest expenses (income statement)	495 804	-	495 804
Interest received	1 000 390	11 647	1 012 037
Interest paid	(396 900)	-	(396 900)
Changes in loans and advances to banks	(504 943)	-	(504 943)
Changes in trading securities	237 896	-	237 896
Changes in assets and liabilities on derivative financial instruments	(119 934)	-	(119 934)
Changes in loans and advances to customers	51 736	-	51 736
Changes in investment securities	(3 619 660)	-	(3 619 660)
Changes in other assets	(79 499)	-	(79 499)
Changes in amounts due to other banks	530 647	-	530 647
Changes in amounts due to customers	728 439	-	728 439
Changes in debt securities in issue	4 974	-	4 974
Changes in provisions	(18 481)	-	(18 481)
Changes in other liabilities	(33 178)	-	(33 178)
Net cash generated from operating activities	**(2 199 646)**	-	**(2 199 646)**
B.Cash flows from investing activities	**(28 174)**	**-**	**(28 174)**
C. Cash flows from financing activities	**(382 852)**	**-**	**(382 852)**
Net increase / decrease in cash and cash equivalents (A+B+C)	**(2 610 672)**	**-**	**(2 610 672)**
Effects of exchange rate changes on cash and cash equivalents	11 757	-	11 757
Cash and cash equivalents at the beginning of the reporting period	7 994 650	-	7 994 650
Cash and cash equivalents at the end of the reporting period	**5 395 735**	**-**	**5 395 735**

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

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

The Group applies estimates and adopts assumptions which impact the values of assets and liabilities presented in the subsequent period. Estimates and assumptions, which are continuously subject to assessment, rely on historical experience and other factors, including expectations concerning future events, which seem justified under the given circumstances. Last such verification was performed in November 2013 and it did not have material impact on the overall level of provisions for loans and advances, however it had an impact on the structure of these provisions as well as on the level of loans and advances for which impairment was recognized. The detailed description of the changes implemented as a result of this verification is included under Note 3.4.4.2 of the consolidated financial statements for the year 2013, published on 3 March 2014 and under Note 17 of these condensed consolidated financial statements.

Impairment of loans and advances

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

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

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

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

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

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

include transactional banking products and services including current account products, multi-functional internet banking, tailor-made cash management and trade finance services, term deposits, foreign exchange transactions, a comprehensive offer of short-term financing and investment loans, cross-border credit, project finance, structured and mezzanine finance services, investment banking products including foreign exchange options, forward contracts, interest rate derivatives and commodity swaps and options, structured deposit products with embedded options (interest on structured deposit products are directly linked to the performance of certain underlying financial instruments such as foreign exchange options, interest rate options and stock options), debt origination for corporate clients, treasury bills and bonds, non-government debt, medium-term bonds, buy sell back and sell buy back transactions and repo transactions, as well as leasing, factoring and brokerage services. The Corporate and Investment Banking sub-segment includes the results of the following subsidiaries: mFaktoring S.A., MLV 45 Sp. z o.o. spółka komandytowa (previously BRE Holding Sp. z o.o.), 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 attributed to business segments (including consolidation adjustments).

The primary basis used by the Group in the segment reporting is business line division. Additionally, the Group's activity is presented by geographical areas reporting broken down into Poland and foreign countries. Foreign countries segment include 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 mBank S.A. Group business segment reporting

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

	Corporates & Financial Markets		Retail Banking (including Private Banking)	Other	Eliminations	Total figure for the Group	Statement of financial position reconciliation/ income statement reconciliation
	Corporates and Investment Banking	Financial Markets					
Net interest income	**168 210**	**18 948**	**406 266**	**(2 410)**	**-**	**591 014**	**591 014**
- sales to external clients	157 340	133 329	300 767	(422)	-	591 014	
- sales to other segments	10 870	(114 381)	105 499	(1 988)	-	-	
Net fee and commission income	**95 243**	**(1 677)**	**144 330**	**(1 599)**	**5 109**	**241 406**	**241 406**
- sales to external clients	93 213	(428)	145 110	3 511	-	241 406	
- sales to other segments	2 030	(1 249)	(780)	(5 110)	5 109	-	
Trading income	**45 648**	**15 528**	**31 058**	**(116)**	**-**	**92 118**	**92 118**
Gains less losses from investment securities, investments in subsidiaries and associates	**8 048**	**1 797**	**-**	**-**	**-**	**9 845**	**9 845**
Other operating income	**15 634**	**216**	**26 177**	**37 996**	**(6 752)**	**73 271**	**73 271**
Net impairment losses on loans and advances	**(35 812)**	**(551)**	**(53 155)**	**31**	**-**	**(89 487)**	**(89 487)**
Overhead costs	**(139 540)**	**(20 581)**	**(216 985)**	**(9 322)**	**1 643**	**(384 785)**	**(384 785)**
Amortization and depreciation	**(16 599)**	**(2 071)**	**(26 396)**	**(766)**	**-**	**(45 832)**	**(45 832)**
Other operating expenses	**(9 068)**	**(39)**	**(9 948)**	**(31 979)**	**-**	**(51 034)**	**(51 034)**
Gross profit of the segment	**131 764**	**11 570**	**301 347**	**(8 165)**	**-**	**436 516**	**436 516**
Income tax						(97 767)	(97 767)
Net profit attributable to Owners of mBank S.A.						337 770	337 770
Net profit attributable to non-controlling interests						979	979
Assets of the segment	**25 748 299**	**36 740 252**	**43 755 827**	**898 879**	**-**	**107 143 257**	**107 143 257**
Liabilities of the segment	**21 842 062**	**34 628 404**	**39 047 617**	**1 758 970**	**-**	**97 277 053**	**97 277 053**
Other items of the segment							
Expenditures incurred on fixed assets and intangible assets	(23 896)	(191)	(7 705)	(52)	-	(31 844)	
Other costs/ income without cash outflows/ inflows*	859	19 967	9 494	-	-	30 320	
- other non-cash costs	(17)	(651 656)	-	-	-	*(651 673)*	
- other non-cash income	876	671 623	9 494	-	-	*681 993*	

* Other costs/income without cash outflows/inflows includes income and expenses arising from valuation of trading financial instruments and foreign exchange result as well as changes in technical-insurance provisions.

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	Eliminations	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**	**(3 807)**	**16 968**	**834 738**	**834 738**
- sales to external clients	328 875	(1 779)	494 480	13 162	-	834 738	
- sales to other segments	6 198	(2 558)	(3 639)	(16 969)	16 968	-	
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**	**161 573**	**(19 843)**	**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)**	**(31 537)**	**2 875**	**(1 490 153)**	**(1 490 153)**
Amortization and depreciation	**(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)	
Other costs/ income without cash outflows/ inflows*	2 704	14 819	8 074	-	-	25 597	
- other non-cash costs	(369)	(1 388 593)	730	-	-	*(1 388 232)*	
- other non-cash income	3 073	1 403 412	7 344	-	-	*1 413 829*	

* Other costs/income without cash outflows/inflows includes income and expenses arising from valuation of trading financial instruments and foreign exchange result as well as changes in technical-insurance provisions.

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

	Corporates & Financial Markets		Retail Banking (including Private Banking)	Other	Eliminations	Total figure for the Group	Statement of financial position reconciliation/ income statement reconciliation
	Corporates and Investment Banking	Financial Markets					
Net interest income	**180 618**	**1 236**	**338 519**	**(2 890)**	**-**	**517 483**	**517 483**
- sales to external clients	171 344	195 135	152 638	(1 634)	-	517 483	
- sales to other segments	9 274	(193 899)	185 881	(1 256)	-	-	
Net fee and commission income	**81 967**	**(1 819)**	**102 258**	**(1 803)**	**5 286**	**185 889**	**185 889**
- sales to external clients	80 187	(834)	103 051	3 485	-	185 889	
- sales to other segments	1 780	(985)	(793)	(5 288)	5 286	-	
Dividend income	**-**	**-**	**22**	**4**	**-**	**26**	**26**
Trading income	**48 698**	**(4 035)**	**31 092**	**43**	**-**	**75 798**	**75 798**
Gains less losses from investment securities, investments in subsidiaries and associates	**3**	**771**	**-**	**-**	**-**	**774**	**774**
Other operating income	**19 824**	**139**	**35 546**	**42 806**	**(5 286)**	**93 029**	**93 029**
Net impairment losses on loans and advances	**23 464**	**(9)**	**(51 106)**	**(3)**	**-**	**(27 654)**	**(27 654)**
Overhead costs	**(128 128)**	**(17 445)**	**(203 002)**	**(8 353)**	**-**	**(356 928)**	**(356 928)**
Amortization and depreciation	**(17 590)**	**(1 541)**	**(24 854)**	**(789)**	**-**	**(44 774)**	**(44 774)**
Other operating expenses	**(6 551)**	**(2)**	**(12 322)**	**(22 699)**	**-**	**(41 574)**	**(41 574)**
Gross profit of the segment	**202 305**	**(22 705)**	**216 153**	**6 316**	**-**	**402 069**	**402 069**
Income tax						(75 668)	(75 668)
Net profit attributable to Owners of mBank S.A.						325 736	325 736
Net profit attributable to non-controlling interests						665	665
Assets of the segment	**24 943 130**	**34 014 861**	**43 232 598**	**859 540**	**-**	**103 050 129**	**103 050 129**
Liabilities of the segment	**20 282 207**	**33 033 661**	**38 892 528**	**952 705**	**-**	**93 161 101**	**93 161 101**
Other items of the segment							
Expenditures incurred on fixed assets and intangible assets	(14 834)	(606)	(10 156)	(25)	-	(25 621)	
Other costs/ income without cash outflows/ inflows*	569	(121 881)	4 028	-	-	(117 284)	
- other non-cash costs	(316)	(595 686)	-	-	-	*(596 002)*	
- other non-cash income	885	473 805	4 028	-	-	*478 718*	

* Other costs/income without cash outflows/inflows includes income and expenses arising from valuation of trading financial instruments and foreign exchange result as well as changes in technical-insurance provisions.

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The mBank S.A. Group geographical areas reporting

Geographical areas reporting on the activities of mBank S.A. Group for the period	from 1 January to 31 March 2014			from 1 January to 31 December 2013			from 1 January to 31 March 2013		
	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total
Net interest income	562 267	28 747	**591 014**	2 124 260	101 551	**2 225 811**	497 651	19 832	**517 483**
Net fee and commission income	234 122	7 284	**241 406**	811 613	23 125	**834 738**	182 194	3 695	**185 889**
Dividend income	-	-	**-**	26 856	-	**26 856**	26	-	**26**
Trading income	90 694	1 424	**92 118**	337 150	5 828	**342 978**	74 801	997	**75 798**
Gains less losses from investment securities, investments in subsidiaries and associates	9 845	-	**9 845**	78 578	-	**78 578**	774	-	**774**
Other operating income	73 002	269	**73 271**	370 182	4 639	**374 821**	92 831	198	**93 029**
Net impairment losses on loans and advances	(80 568)	(8 919)	**(89 487)**	(467 468)	(10 310)	**(477 778)**	(24 738)	(2 916)	**(27 654)**
Overhead costs	(356 302)	(28 483)	**(384 785)**	(1 395 426)	(94 727)	**(1 490 153)**	(331 842)	(25 086)	**(356 928)**
Amortization and depreciation	(44 856)	(976)	**(45 832)**	(183 337)	(4 553)	**(187 890)**	(43 533)	(1 241)	**(44 774)**
Other operating expenses	(50 618)	(416)	**(51 034)**	(202 490)	(7 768)	**(210 258)**	(40 923)	(651)	**(41 574)**
Gross profit of the segment	437 586	(1 070)	**436 516**	1 499 918	17 785	**1 517 703**	407 241	(5 172)	**402 069**
Income tax			**(97 767)**			**(308 725)**			**(75 668)**
Net profit attributable to Owners of mBank S.A.			**337 770**			**1 206 375**			**325 736**
Net profit attributable to non-controlling interests			**979**			**2 603**			**665**
Assets of the segment, including:	104 375 256	2 768 001	**107 143 257**	101 649 833	2 632 928	**104 282 761**	100 608 551	2 441 578	**103 050 129**
- tangible assets	1 122 535	15 379	**1 137 914**	1 147 730	17 167	**1 164 897**	1 146 951	18 119	**1 165 070**
- deferred income tax assets	297 047	3 225	**300 272**	367 611	3 210	**370 821**	393 650	3 845	**397 495**
Liabilities of the segment	89 072 151	8 204 902	**97 277 053**	85 956 950	8 069 373	**94 026 323**	85 781 792	7 379 309	**93 161 101**

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5. Net interest income

the period	from 01.01.2014 to 31.03.2014	from 01.01.2013 to 31.03.2013
Interest income		
Loans and advances including the unwind of the impairment provision discount	681 740	749 308
Investment securities	214 504	228 931
Cash and short-term placements	16 371	26 111
Trading debt securities	12 135	12 166
Interest income on derivatives classified into banking book	29 378	28 327
Interest income on derivatives concluded under the hedge accounting	711	-
Other	2 903	3 280
Total interest income	**957 742**	**1 048 123**
Interest expense		
Arising from amounts due to banks	(53 011)	(66 252)
Arising from amounts due to customers	(207 234)	(390 617)
Arising from issue of debt securities	(45 532)	(53 960)
Other borrowed funds	(21 302)	(14 887)
Interest expense on derivatives concluded under the hedge accounting	-	(102)
Other	(39 649)	(4 822)
Total interest expense	**(366 728)**	**(530 640)**

Interest income related to impaired financial assets amounted to PLN 40 073 thousand (31 March 2013: PLN 47 652 thousand).

6. Net fee and commission income

the period	from 01.01.2014 to 31.03.2014	from 01.01.2013 to 31.03.2013
Fee and commission income		
Payment cards-related fees	109 728	90 828
Credit-related fees and commissions	61 541	53 928
Commissions from insurance activity	27 041	22 656
Fees from brokerage activity	24 409	19 434
Commissions from bank accounts	41 805	39 217
Commissions from money transfers	22 246	20 844
Commissions due to guarantees granted and trade finance commissions	10 365	8 975
Commissions for agency service regarding sale of products of external financial entities	20 845	16 447
Commissions on trust and fiduciary activities	5 420	4 745
Fees from portfolio management services and other management-related fees	3 570	2 530
Other	26 805	16 465
Total fee and commission income	**353 775**	**296 069**
Fee and commission expense		
Payment cards-related fees	(46 969)	(48 925)
Commissions paid to external entities for sale of the Bank's products	(15 593)	(16 546)
Insurance activity-related fees	(1 332)	(2 135)
Discharged brokerage fees	(6 964)	(7 372)
Other discharged fees	(41 511)	(35 202)
Total fee and commission expense	**(112 369)**	**(110 180)**

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

the period	from 01.01.2014 to 31.03.2014	from 01.01.2013 to 31.03.2013
Fee and commission income from insurance activity		
- Income from insurance intermediation	22 586	17 673
- Income from insurance policies administration	4 455	4 983
Total fee and commission income from insurance activity	**27 041**	**22 656**

7. Dividend income

the period	from 01.01.2014 to 31.03.2014	from 01.01.2013 to 31.03.2013
Trading securities	-	-
Securities available for sale	-	26
Total dividend income	**-**	**26**

8. Net trading income

the period	from 01.01.2014 to 31.03.2014	from 01.01.2013 to 31.03.2013
Foreign exchange result	**65 151**	**68 978**
Net exchange differences on translation	78 197	163 386
Net transaction gains/(losses)	(13 046)	(94 408)
Other net trading income and result on hedge accounting	**26 967**	**6 820**
Interest-bearing instruments	18 158	6 096
Equity instruments	1 598	(1 351)
Market risk instruments	977	420
Result on hedge accounting, including:	6 234	1 655
- Net profit on hedged items	(8 688)	6 623
- Net profit on hedging instruments	14 922	(4 968)
Total net trading income	**92 118**	**75 798**

'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.

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.

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

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

the period	from 01.01.2014 to 31.03.2014	from 01.01.2013 to 31.03.2013
Sale/redemption of financial assets available for sale, investments in subsidiaries and associates	9 845	774
Total gains and losses from investment securities	**9 845**	**774**

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10. Other operating income

the period	from 01.01.2014 to 31.03.2014	from 01.01.2013 to 31.03.2013
Income from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories	35 664	35 231
Income from insurance activity net	22 199	17 738
Income from services provided	6 817	7 728
Net income from operating lease	3 062	4 049
Income due to release of provisions for future commitments	1 827	13 993
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	122	165
Income from compensations, penalties and fines received	80	11
Other	3 500	14 114
Total other operating income	**73 271**	**93 029**

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

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

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

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

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

the period	from 01.01.2014 to 31.03.2014	from 01.01.2013 to 31.03.2013
Income from premiums		
- Premiums attributable	46 032	42 339
- Change in provision for premiums	685	2 421
Premiums earned	**46 717**	**44 760**
Reinsurer's shares		
- Gross premiums written	(17 000)	(17 925)
- Change in unearned premiums reserve	(527)	(579)
Reinsurer's share in premiums earned	**(17 527)**	**(18 504)**
Net premiums earned	**29 190**	**26 256**
Claims and benefits		
- Claims and benefits paid out in the current year including costs of liquidation before tax	(15 801)	(21 439)
- Change in provision for claims and benefits paid out in the current year including costs of liquidation before tax	(4 191)	(5 190)
- Reinsurer's share in claims and benefits paid out in the current year including costs of liquidation	11 931	15 224
- Change in provision for reinsurer's share of claims and benefits paid out in the current year including costs of liquidation	1 873	3 937
Claims and benefits net	**(6 188)**	**(7 468)**
- Other costs net of reinsurance	(757)	(988)
- Other operating income	3	2
- Costs of expertise and certificates concerning underwriting risk	(49)	(64)
Total net income from insurance activity	**22 199**	**17 738**

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

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the period	from 01.01.2014 to 31.03.2014	from 01.01.2013 to 31.03.2013
Net income from operating lease, including:		
- Income from operating lease	15 655	17 326
- Depreciation cost of fixed assets provided under operating lease	(12 593)	(13 277)
Total net income from operating lease	**3 062**	**4 049**

11. Net impairment losses on loans and advances

the period	from 01.01.2014 to 31.03.2014	from 01.01.2013 to 31.03.2013
Net impairment losses on amounts due from other banks	(3 994)	88
Net impairment losses on loans and advances to customers	(93 747)	(35 794)
Net impairment losses on off-balance sheet contingent liabilities due to customers	8 254	8 052
Total net impairment losses on loans and advances	**(89 487)**	**(27 654)**

12. Overhead costs

the period	from 01.01.2014 to 31.03.2014	from 01.01.2013 to 31.03.2013
Staff-related expenses	(208 439)	(198 912)
Material costs	(146 840)	(132 052)
Taxes and fees	(10 060)	(10 703)
Contributions and transfers to the Bank Guarantee Fund	(17 696)	(13 413)
Contributions to the Social Benefits Fund	(1 717)	(1 723)
Other	(33)	(125)
Total overhead costs	**(384 785)**	**(356 928)**

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

the period	from 01.01.2014 to 31.03.2014	from 01.01.2013 to 31.03.2013
Wages and salaries	(166 585)	(160 463)
Social security expenses	(29 987)	(29 104)
Remuneration concerning share-based payments, including:	(5 115)	(3 489)
- share-based payments settled in mBank S.A. shares	(3 815)	(3 489)
- cash-settled share-based payments	(1 300)	-
Other staff expenses	(6 752)	(5 856)
Staff-related expenses, total	**(208 439)**	**(198 912)**

13. Other operating expenses

the period	from 01.01.2014 to 31.03.2014	from 01.01.2013 to 31.03.2013
Costs arising from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories	(25 098)	(25 662)
Provisions for future commitments	(11 956)	(702)
Donations made	(2 545)	(63)
Compensation, penalties and fines paid	(791)	(128)
Costs arising from provisions created for other receivables (excluding loans and advances)	(451)	(242)
Costs of sale of services	(424)	(816)
Costs arising from receivables and liabilities recognised as prescribed, remitted and uncollectible	(2)	(1)
Other operating costs	(9 767)	(13 960)
Total other operating expenses	**(51 034)**	**(41 574)**

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

Costs of services provided concern non-banking services.

14. Earnings per share

Earnings per share for 3 months – mBank S.A. Group consolidated data

the period	from 01.01.2014 to 31.03.2014	from 01.01.2013 to 31.03.2013
Basic:		
Net profit attributable to Owners of mBank S.A.	337 770	325 736
Weighted average number of ordinary shares	42 175 344	42 140 918
Net basic profit per share (in PLN per share)	**8.01**	**7.73**
Diluted:		
Net profit attributable to Owners of mBank S.A., applied for calculation of diluted earnings per share	337 770	325 736
Weighted average number of ordinary shares	42 175 344	42 140 918
Adjustments for:		
- share options	50 607	40 273
Weighted average number of ordinary shares for calculation of diluted earnings per share	42 225 951	42 181 191
Diluted earnings per share (in PLN per share)	**8.00**	**7.72**

Earnings per share for 3 months – mBank S.A. stand-alone data

the period	from 01.01.2014 to 31.03.2014	from 01.01.2013 to 31.03.2013
Basic:		
Net profit	302 630	287 561
Weighted average number of ordinary shares	42 175 344	42 140 918
Net basic profit per share (in PLN per share)	**7.18**	**6.82**
Diluted:		
Net profit applied for calculation of diluted earnings per share	302 630	287 561
Weighted average number of ordinary shares	42 175 344	42 140 918
Adjustments for:		
- share options	50 607	40 273
Weighted average number of ordinary shares for calculation of diluted earnings per share	42 225 951	42 181 191
Diluted earnings per share (in PLN per share)	**7.17**	**6.82**

15. Trading securities

	31.03.2014			31.12.2013			31.03.2013		
	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:	**667 096**	**480 138**	**1 147 234**	**482 343**	**252 278**	**734 621**	**605 004**	**788 996**	**1 394 000**
Issued by government	285 302	480 138	765 440	135 981	252 278	388 259	389 875	788 996	1 178 871
- government bonds	285 302	480 138	765 440	135 981	252 278	388 259	388 812	788 996	1 177 808
- treasury bills	-	-	-	-	-	-	1 063	-	1 063
Other debt securities	381 794	-	381 794	346 362	-	346 362	215 129	-	215 129
- bank's bonds	327 748	-	327 748	264 922	-	264 922	47 141	-	47 141
- deposit certificates	-	-	-	37 787	-	37 787	94 042	-	94 042
- corporate bonds	54 046	-	54 046	43 653	-	43 653	73 946	-	73 946
Equity securities:	**32 837**	**-**	**32 837**	**28 443**	**-**	**28 443**	**35 069**	**-**	**35 069**
- listed	11 105	-	11 105	6 893	-	6 893	2 437	-	2 437
- unlisted	21 732	-	21 732	21 550	-	21 550	32 632	-	32 632
Total debt and equity securities:	**699 933**	**480 138**	**1 180 071**	**510 786**	**252 278**	**763 064**	**640 073**	**788 996**	**1 429 069**

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16. Derivative financial instruments

	31.03.2014		31.12.2013		31.03.2013	
	assets	liabilities	assets	liabilities	assets	liabilities
Held for trading derivative financial instruments classified into banking book	132 345	34 295	137 092	40 303	33 290	53 704
Held for trading derivative financial instruments classified into trading book	2 057 143	2 085 473	2 212 493	2 411 656	2 687 233	3 235 675
Derivative financial instruments held for hedging	27 142	1 124	-	7 756	5 996	2 285
Total derivative financial instruments assets/liabilities	**2 216 630**	**2 120 892**	**2 349 585**	**2 459 715**	**2 726 519**	**3 291 664**

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.

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

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

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

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

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17. Loans and advances to customers

	31.03.2014	31.12.2013	31.03.2013
Loans and advances to individuals:	**38 972 546**	**38 307 915**	**38 120 654**
- current accounts	5 147 638	4 978 854	4 755 303
- term loans, including:	33 824 908	33 329 061	33 365 351
housing and mortgage loans	29 025 752	28 692 896	29 293 033
Loans and advances to corporate entities:	**31 884 169**	**29 475 274**	**27 921 566**
- current accounts	3 977 337	3 597 377	4 179 044
- term loans:	21 471 176	21 076 873	20 661 472
corporate & institutional enterprises	5 156 682	5 115 320	5 591 343
medium & small enterprises	16 314 494	15 961 553	15 070 129
- reverse repo / buy-sell-back transactions	4 927 498	3 287 066	1 765 649
- other	1 508 158	1 513 958	1 315 401
Loans and advances to public sector	**2 022 301**	**2 177 976**	**2 574 540**
Other receivables	**510 551**	**620 627**	**443 015**
Total (gross) loans and advances to customers	**73 389 567**	**70 581 792**	**69 059 775**
Provisions for loans and advances to customers (negative amount)	(2 466 537)	(2 371 407)	(2 486 427)
Total (net) loans and advances to customers	**70 923 030**	**68 210 385**	**66 573 348**
Short-term (up to 1 year)	26 775 391	24 596 330	22 333 010
Long-term (over 1 year)	44 147 639	43 614 055	44 240 338

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

Loans to micro enterprises in the presented reporting periods amounted to respectively: 31 March 2014 – PLN 4 270 935 thousand, 31 December 2013 – PLN 4 041 584 thousand, 31 March 2013 – PLN 3 761 704 thousand.

Provisions for loans and advances

	31.03.2014	31.12.2013	31.03.2013
Incurred but not identified losses			
Gross balance sheet exposure	68 877 611	66 158 075	65 419 248
Impairment provisions for exposures analysed according to portfolio approach	(265 336)	(256 556)	(200 113)
Net balance sheet exposure	**68 612 275**	**65 901 519**	**65 219 135**
Receivables with impairment			
Gross balance sheet exposure	4 511 956	4 423 717	3 640 527
Provisions for receivables with impairment	(2 201 201)	(2 114 851)	(2 286 314)
Net balance sheet exposure	**2 310 755**	**2 308 866**	**1 354 213**

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

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

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

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

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

The table below presents the structure of concentration of mBank S.A. Group's exposures in particular sectors.

No.	Sectors	Principal exposure (in PLN thousand)	%	Principal exposure (in PLN thousand)	%	Principal exposure (in PLN thousand)	%
		31.03.2014		31.12.2013		31.03.2013	
1.	Household customers	38 972 546	53.10	38 307 915	54.27	38 120 654	55.20
2.	Real estate management	5 465 757	7.45	5 401 342	7.65	4 047 605	5.86
3.	Transport and travel agencies	2 001 907	2.73	2 102 952	2.98	1 714 799	2.48
4.	Building industry	1 737 401	2.37	1 761 635	2.50	2 195 334	3.18
5.	Public Administration	1 669 096	2.27	1 781 251	2.52	2 124 547	3.08
6.	Power industry and heat engineering	1 614 041	2.20	1 680 154	2.38	642 150	0.93
7.	Metals	1 260 481	1.72	1 183 575	1.68	1 152 274	1.67
8.	Motorization	1 221 668	1.66	1 192 851	1.69	877 173	1.27
9.	Chemistry and plastic processing	1 051 288	1.43	957 713	1.36	704 909	1.02
10.	Groceries	991 228	1.35	906 962	1.28	633 023	0.92
11.	Liquid fuels and natural gas	946 478	1.29	882 918	1.25	1 990 049	2.88
12.	Building materials	872 937	1.19	834 755	1.18	702 653	1.02
13.	Other retail trade	826 457	1.13	739 214	1.05	582 850	0.84
14.	Wood and furniture	756 052	1.03	754 178	1.07	692 647	1.00
15.	Other wholesale trade	729 156	0.99	662 973	0.94	1 068 638	1.55
16.	Meat processing industry	626 333	0.85	613 667	0.87	539 806	0.78
17.	Pharmaceuticals and health care	613 192	0.84	594 231	0.84	773 880	1.12
18.	Telecommunication	476 922	0.65	500 479	0.71	576 847	0.84
19.	Hotels and restaurants	425 385	0.58	422 679	0.60	327 185	0.47
20.	Stimulants	411 429	0.56	506 154	0.72	308 206	0.45
21.	Management, consulting, advertising	402 244	0.55	373 151	0.53	970 712	1.41
22.	Leasing and renting	279 519	0.38	273 930	0.39	745 352	1.08

As at 31 March 2014, the total exposure of the Group in the above sectors (excluding household customers) amounted to 33.22% of the credit portfolio (31 December 2013 – 34.19%; 31 March 2013 – 33.85%).

18. Investment securities

	31.03.2014			31.12.2013			31.03.2013		
	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	**18 094 635**	**8 276 524**	**26 371 159**	**19 303 219**	**5 766 038**	**25 069 257**	**20 357 833**	**2 924 266**	**23 282 099**
Issued by government	12 166 915	8 200 046	20 366 961	12 839 094	5 744 542	18 583 636	11 470 674	2 923 166	14 393 840
- government bonds	12 166 915	8 200 046	20 366 961	12 839 094	5 744 542	18 583 636	10 527 400	2 923 166	13 450 566
- treasury bills	-	-	-	-	-	-	943 274	-	943 274
Issued by central bank	5 734 772	76 478	5 811 250	6 292 700	21 496	6 314 196	8 706 415	1 100	8 707 515
Other debt securities	192 948	-	192 948	171 425	-	171 425	180 744	-	180 744
- bank's bonds	25 443	-	25 443	25 136	-	25 136	93 748	-	93 748
- corporate bonds	128 617	-	128 617	107 906	-	107 906	48 648	-	48 648
- communal bonds	38 888	-	38 888	38 383	-	38 383	38 348	-	38 348
Equity securities:	**234 076**	**-**	**234 076**	**272 506**	**-**	**272 506**	**262 102**	**-**	**262 102**
Listed	207 166	-	207 166	229 617	-	229 617	210 081	-	210 081
Unlisted	26 910	-	26 910	42 889	-	42 889	52 021	-	52 021
Total debt and equity securities:	**18 328 711**	**8 276 524**	**26 605 235**	**19 575 725**	**5 766 038**	**25 341 763**	**20 619 935**	**2 924 266**	**23 544 201**
Short-term (up to 1 year)	7 094 276	241 031	7 335 307	6 706 581	23 494	6 730 075	10 073 719	137 051	10 210 770
Long-term (over 1 year)	11 234 435	8 035 493	19 269 928	12 869 144	5 742 544	18 611 688	10 546 216	2 787 215	13 333 431

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.

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

As at 31 March 2014, listed equity securities include fair value of PZU shares in amount of PLN 203 227 thousand, (31 December 2013 – PLN 212 430 thousand, 31 March 2013 – PLN 191 161 thousand).

19. Intangible assets

	31.03.2014	31.12.2013	31.03.2013
Development costs	4	382	462
Goodwill	4 728	4 728	4 728
Patents, licences and similar assets, including:	333 801	343 802	270 917
- computer software	271 393	289 606	216 643
Other intangible assets	7 041	7 067	7 789
Intangible assets under development	86 385	99 366	135 118
Total intangible assets	**431 959**	**455 345**	**419 014**

20. Tangible assets

	31.03.2014	31.12.2013	31.03.2013
Tangible fixed assets, including:	663 980	672 519	708 257
- land	1 267	1 267	1 242
- buildings and structures	213 333	215 061	218 043
- equipment	141 455	147 926	157 519
- vehicles	197 725	190 017	201 625
- other fixed assets	110 200	118 248	129 828
Fixed assets under construction	41 975	37 033	37 799
Total tangible fixed assets	**705 955**	**709 552**	**746 056**

21. Amounts due to customers

	31.03.2014	31.12.2013	31.03.2013
Individual customers:	**34 784 283**	**34 203 119**	**35 090 765**
Current accounts	24 995 943	24 260 502	22 878 231
Term deposits	9 732 818	9 889 000	12 149 559
Other liabilities:	55 522	53 617	62 975
- liabilities in respect of cash collaterals	18 039	24 566	29 640
- other	37 483	29 051	33 335
Corporate customers:	**28 068 588**	**26 752 869**	**22 647 349**
Current accounts	11 710 037	12 849 839	10 322 978
Term deposits	8 695 443	6 434 108	8 291 636
Loans and advances received	2 733 652	2 100 331	1 504 876
Repo transactions	4 351 624	4 629 955	1 989 379
Other liabilities:	577 832	738 636	538 480
- liabilities in respect of cash collaterals	474 656	433 438	393 626
- other	103 176	305 198	144 854
Public sector customers:	**743 568**	**717 539**	**793 839**
Current accounts	508 914	579 319	421 284
Term deposits	232 243	129 981	339 459
Other liabilities:	2 411	8 239	33 096
- liabilities in respect of cash collaterals	-	137	979
- other	2 411	8 102	32 117
Total amounts due to customers	**63 596 439**	**61 673 527**	**58 531 953**

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Short-term (up to 1 year)	59 082 364	57 590 020	56 903 792
Long-term (over 1 year)	4 514 075	4 083 507	1 628 161

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 March 2014 – PLN 2 621 568 thousand, 31 December 2013 – PLN 2 784 616 thousand, 31 March 2013 – PLN 2 183 842 thousand).

22. Provisions

	31.03.2014	31.12.2013	31.03.2013
For off-balance sheet granted contingent liabilities *	47 857	56 068	38 625
For legal proceedings	68 024	56 275	38 099
Technical-insurance provisions	88 981	87 168	83 923
Other	28 167	28 717	33 799
Total provisions	**233 029**	**228 228**	**194 446**

* includes valuation of financial guarantees

Movements in the provisions

	31.03.2014	31.12.2013	31.03.2013
As at the beginning of the period (by type)	**228 228**	**213 327**	**213 327**
For off-balance sheet granted contingent liabilities	56 068	46 462	46 462
For legal proceedings	56 275	47 204	47 204
Technical-insurance provisions	87 168	84 512	84 512
Other	28 717	35 149	35 149
Change in the period (due to)	**4 801**	**14 901**	**(18 881)**
- increase of provisions	41 467	151 373	19 835
- release of provisions	(36 118)	(115 307)	(28 472)
- write-offs	(595)	(20 942)	(10 397)
- utilization	-	(150)	-
- foreign exchange differences	47	(73)	153
As at the end of the period (by type)	**233 029**	**228 228**	**194 446**
For off-balance sheet granted contingent liabilities	47 857	56 068	38 625
For legal proceedings	68 024	56 275	38 099
Technical-insurance provisions	88 981	87 168	83 923
Other	28 167	28 717	33 799

23. Assets and provisions for deferred income tax

Deferred income tax assets	31.03.2014	31.12.2013	31.03.2013
As at the beginning of the period	**614 352**	**737 353**	**737 353**
Changes recognized in the income statement	(42 205)	(122 461)	4 554
Changes recognized in other comprehensive income	21	166	503
Other changes	75	(706)	(289)
As at the end of the period	**572 243**	**614 352**	**742 121**

Provisions for deferred income tax	31.03.2014	31.12.2013	31.03.2013
As at the beginning of the period	**(246 485)**	**(347 833)**	**(347 833)**
Changes recognized in the income statement	(40 644)	56 775	(12 027)
Changes recognized in other comprehensive income	11 834	44 482	13 531
Other changes	416	91	-
As at the end of the period	**(274 879)**	**(246 485)**	**(346 329)**

24. Total capital ratio

Total capital ratios of mBank S.A. and mBank S.A. Group as of 31 March 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, relevant for the process of total capital ratio calculation (so called "national discretions"), will be taken and published in member states by public authorities or bodies empowered to supervise credit institutions and investment firms. National discretions were not determined and published by the respective Polish public authority or body till the date of issuing of these financial statements. Additionally, the Bank delivered to the European Banking Authority, an entity authorised to interpret CRR Resolution, questions concerning interpretation of some of CRR Resolution provisions, for which answers have not been received so far. The total capital ratios of mBank S.A. and mBank S.A. Group presented as of 31 March 2014 were calculated on a best effort basis and preserving consistency of the information disclosed by the Bank. However, had the national discretions for Poland been determined and published and had the Bank received the aforementioned European Banking Authority interpretations, it cannot be ruled out that the total capital ratios of mBank S.A. and mBank S.A. Group as of 31 March 2014 would have differed from those actually published in these financial statements.

Selected explanatory information

1. Compliance with international financial reporting standards

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

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 first quarter of 2014. The accounting policies were applied consistently over all periods presented in the 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 changes in the methodology of measuring impairment of loans and advances for the structure of provisions for loans and advances portfolio and the level of receivables with impairment is described under Note 17. Besides the above described, in the first 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

On 31 March 2014, Bank purchased 650 bonds with a nominal value of PLN 65 000 thousand issued by mBank S.A. in November 2012 as part of the Bonds and Bank Securities Issue Programme.

On 24 March 2014, the bonds with undefined maturity date, issued on 24 June 2008 in the amount of CHF 90 000 thousand CHF (equivalent of PLN 310 032 thousand at the rate from 24 March 2014), was prepaid by mBank S.A. The consent for the prepayment was obtained from Polish Financial Supervision Authority (KNF). As at 31 December 2013, amount acquired from the issue according to the decision of KNF, was included in Tier2 of Bank' own funds. The prepayment of the issue did not have significant impact on the calculation of mBank S.A. and mBank S.A. Group total capital ratio under the regulations effective from 1 January 2014 (rules based on "Basel III").

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

In the first quarter of 2014, mBank Hipoteczny S.A. (mBH S.A.) issued bonds in amount of PLN 150 000 thousand and mortgage bonds in amount of EUR 30 500 thousand. In the same time, mBH S.A. redeemed bonds in amount of PLN 190 000.

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

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

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

Events as indicated above did not occur in the Group.

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

As a result of the reorganisation within the mBank Group, on 25 February 2014, the share capital of AWL I Sp. z o.o. has been increased by PLN 72 876 thousand. All shares in the increased capital were taken up by the existing shareholder BRE TUiR S.A. in exchange for a contribution in kind of 100% shares of BRE Ubezpieczenia sp. z o.o and 100% shares of BRE Agent Ubezpieczeniowy sp. z o.o.

10. Changes in contingent liabilities and commitments

In Q1 2014, there were no changes in contingent liabilities and commitments of credit nature, i.e., guarantees, letters of credit or unutilised loan amounts, other than resulting from current operating activities of the Group. There was no single case of granting of guarantees or any other contingent liability of any material value for the Group.

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

Events as indicated above did not occur in the Group.

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

Events as indicated above did not occur in the Group.

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

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

14. Reversals of provisions against restructuring costs

Events as indicated above did not occur in the Group.

15. Acquisitions and disposals of tangible fixed asset items

In the first 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.

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

Events as indicated above did not occur in the Group.

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

In the first 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

Events as indicated above did not occur in the Group.

19. Corrections of errors from previous reporting periods

In the first 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 March 2014 was 42 175 558 shares (31 March 2013: 42 141 346) at PLN 4 nominal value each (31 March 2013: PLN 4). All issued shares were fully paid up.

REGISTERED SHARE CAPITAL (THE STRUCTURE) AS AT 31 MARCH 2014						
Share type	**Type of privilege**	**Type of limitation**	**Number of shares**	**Series / face value of issue in PLN**	**Paid up**	**Registered on**
ordinary bearer*	-	-	9 982 500	39 930 000	fully paid in cash	1986
ordinary registered*	-	-	17 500	70 000	fully paid in cash	1986
ordinary bearer	-	-	2 500 000	10 000 000	fully paid in cash	1994
ordinary bearer	-	-	2 000 000	8 000 000	fully paid in cash	1995
ordinary bearer	-	-	4 500 000	18 000 000	fully paid in cash	1997
ordinary bearer	-	-	3 800 000	15 200 000	fully paid in cash	1998
ordinary bearer	-	-	170 500	682 000	fully paid in cash	2000
ordinary bearer	-	-	5 742 625	22 970 500	fully paid in cash	2004
ordinary bearer	-	-	270 847	1 083 388	fully paid in cash	2005
ordinary bearer	-	-	532 063	2 128 252	fully paid in cash	2006
ordinary bearer	-	-	144 633	578 532	fully paid in cash	2007
ordinary bearer	-	-	30 214	120 856	fully paid in cash	2008
ordinary bearer	-	-	12 395 792	49 583 168	fully paid in cash	2010
ordinary bearer	-	-	16 072	64 288	fully paid in cash	2011
ordinary bearer	-	-	36 230	144 920	fully paid in cash	2012
ordinary bearer	-	-	35 037	140 148	fully paid in cash	2013
ordinary bearer	-	-	1 545	6 180	fully paid in cash	2014
Total number of shares			**42 175 558**			
Total registered share capital				**168 702 232**		
Nominal value per share (PLN)		**4**				

* As at the end of the reporting period

23. Material share packages

In the first quarter of 2014, there were no changes in the holding of material share packages of the Bank.

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Commerzbank AG is a shareholder holding over 5% of the share capital and votes at the General Meeting and as at 31 March 2014 it held 69.60% of the share capital and votes at the General Meeting of mBank S.A.

Pursuant to a notice sent to mBank S.A. on 8 July 2011, the Bank informed in the current report No.46/2011, that ING Powszechny Fundusz Emerytalny (Fundusz) became the owner of mBank S.A. shares representing more than 5% of the votes at the General Meeting of mBank S.A.

Prior to this acquisition of shares, Fundusz held 2 085 431 shares of mBank S.A., which constituted 4.96% of mBank S.A. share capital and entitled it to exercise 2 085 431 votes at the General Meeting of mBank S.A., which represented 4.96% of the total number of votes at the General Meeting of mBank S.A.

On 8 July 2011, there were 2 290 882 shares of mBank S.A. at the Fund's securities account. It constitutes 5.44% of the Bank's share capital which entitles to exercise 2 290 882 votes at the General Meeting of mBank S.A., representing 5.44% of the total number of votes at the General Meeting of mBank S.A.

On 2 August 2013, mBank S.A. received from AVIVA Otwarty Fundusz Emerytalny Aviva BZ WBK ("Aviva OFE") notification of exceeding 5% of the total number of votes at the General Meeting of mBank S.A. Prior to the acquisition of shares Aviva OFE held 2 070 319 shares of mBank S.A., representing 4.91% of the share capital (issued shares) of the Bank and carrying 2 070 319 votes at the General Meeting of mBank S.A., which represented 4.91% of total votes.

Following the acquisition, as at 31 July 2013, Aviva OFE held 21 140 284 shares of mBank S.A., representing 5.08% of the share capital of the Bank and carrying 2 140 284 votes at the General Meeting of mBank S.A., which were representing 5.08% of the total number of votes.

In the first quarter of 2014, the National Depository of Securities (KDPW) has registered 1 545 shares of mBank S.A., which were issued as part of the conditional increase in the share capital of the Bank by issuance of shares with no subscription rights for the existing shareholders in order to enable beneficiaries of the incentive programmes to take up shares in mBank S.A. As a result of the above registration, in the first quarter of 2014 the Bank's share capital increased by PLN 6 180.

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 Q4 2013	Number of shares acquired from the date of publishing the report for Q4 2013 to the date of publishing the report for Q1 2014	Number of shares sold from the date of publishing the report for Q4 2013 to the date of publishing the report for Q1 2014	Number of shares held as at the date of publishing the report for Q1 2014
Management Board				
1. Cezary Stypułkowski	-	-	-	-
2. Lidia Jabłonowska-Luba	-	-	-	-
3. Przemysław Gdański	1 000	-	-	1 000
4. Joerg Hessenmueller	-	-	-	-
5. Hans-Dieter Kemler	-	-	-	-
6. Cezary Kocik	-	-	-	-
7. Jarosław Mastalerz	-	-	-	-

As at the date of publishing the report for the fourth quarter of 2013 and as at the date of publishing the report for the first quarter of 2014, the Members of the Management Board had no Bank rights to shares and they have no Bank rights to shares.

As at the date of publishing the report for the fourth quarter of 2013 and as the date of publishing the report for the first quarter of 2014, Mr. Wiesław Thor, Member of the Supervisory Board of mBank S.A., had 6 463 shares of mBank S.A. As at the date of publishing the report for the fourth quarter of 2013 and as at the date of publishing the report for the first quarter of 2014, the other Members of the Supervisory Board of mBank S.A. had neither Bank shares nor Bank rights to shares.

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

As at 31 March 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 March 2014 was also not higher than 10% of the Bank's equity.

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

Report on major proceedings brought against the Bank

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

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

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

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

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

3. Claims of clients of Interbrok

   170 entities who were clients of Interbrok Investment E. Dróżdż i Spółka Spółka jawna (hereinafter referred to as Interbrok) called the Bank for amicable settlement in the total amount of PLN 385 520 thousand and via the District Court in Warsaw. In addition, 9 legal compensation suits have been delivered to the Bank. Eight of the nine suits where placed by former clients of Interbrok for the total amount of PLN 800 thousand with the reservation that the claims may be extended up to the total amount of PLN 5 950 thousand. Plaintiffs allege that the Bank aided in Interbrok's illegal activities, which caused damage to plaintiffs. The District Court in Warsaw settled 8 of the aforementioned court cases and dismissed actions in all cases. As a consequence of the Court of Appeal verdict on 4 March 2010, one of the judgments becomes final and valid. On 22 June 2011, the Supreme Court dismissed the plaintiff's cassation appeal in the said case. As far as the remaining cases are concerned, on 21 December 2010 and 17 January 2012, the Court of Appeals revoked the judgments of the District Court and remanded the cases to the District Court in Warsaw for re-examination. On 23 May 2013, the District Court in Warsaw upon re-examination of the case of 6 former clients of Interbrok dismissed actions for a total of PLN 600 thousand. The court case was in whole appealed against by all plaintiffs, whereas in relations to one plaintiff the appeal was rejected. 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, 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 made an appeal against the judgement. The verdict of the first instance court does not significantly influence the Bank's perception of the legal risk in this case.

As at 31 March 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 March 2014 was also not higher than 10% of the Bank's equity.

Taxes

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.

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26. Off-balance sheet liabilities

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

mBank S.A. Group consolidated data

	31.03.2014	31.12.2013	31.03.2013
1. Contingent liabilities granted and received	**25 228 065**	**23 128 865**	**19 001 399**
Commitments granted	**21 834 285**	**21 729 866**	**18 026 710**
- financing	18 496 122	18 532 287	15 093 680
- guarantees and other financial facilities	3 337 831	3 188 247	2 856 983
- other commitments	332	9 332	76 047
Commitments received	**3 393 780**	**1 398 999**	**974 689**
- financial commitments	2 105 374	210 735	206 372
- guarantees	1 288 406	1 188 264	768 317
2. Derivative financial instruments (nominal value of contracts)	**634 445 481**	**602 679 318**	**729 794 036**
Interest rate derivatives	570 625 936	558 866 816	682 059 578
Currency derivatives	61 512 541	42 339 260	46 443 824
Market risk derivatives	2 307 004	1 473 242	1 290 634
Total off-balance sheet items	**659 673 546**	**625 808 183**	**748 795 435**

mBank S.A. stand-alone data

	31.03.2014	31.12.2013	31.03.2013
1. Contingent liabilities granted and received	**26 586 736**	**24 394 472**	**20 217 323**
Commitments granted	**23 195 332**	**22 997 849**	**19 244 376**
- financing	16 891 580	16 875 724	14 181 792
- guarantees and other financial facilities	6 303 752	6 113 125	4 986 771
- other commitments	-	9 000	75 813
Commitments received	**3 391 404**	**1 396 623**	**972 947**
- financial commitments received	2 105 374	210 735	206 372
- guarantees received	1 286 030	1 185 888	766 575
2. Derivative financial instruments (nominal value of contracts)	**637 339 550**	**604 655 028**	**729 786 293**
Interest rate derivatives	572 085 224	559 530 365	682 982 868
Currency derivatives	62 947 322	43 651 657	45 513 220
Market risk derivatives	2 307 004	1 473 006	1 290 205
Total off-balance sheet items	**663 926 286**	**629 049 500**	**750 003 616**

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 March 2014, 31 December 2013, and 31 March 2013 were as follows.

PLN (000's)	mBank S.A. subsidiaries not consolidated by acquisition method			Commerzbank AG Group		
As at the end of the period	**31.03.2014**	**31.12.2013**	**31.03.2013**	**31.03.2014**	**31.12.2013**	**31.03.2013**
Statement of Financial Position						
Assets	60 711	59 358	64 269	375 341	948 518	808 674
Liabilities	1 721	1 541	788	16 305 013	18 245 291	21 486 576
Income Statement						
Interest income	1 007	3 822	907	28 326	113 713	31 706
Interest expense	(7)	(34)	(7)	(79 444)	(345 291)	(85 108)
Fee and commission income	10	35	19	-	-	-
Fee and commission expense	-	-	-	-	-	-
Other operating income	26	3	1	212	320	132
Overhead costs, amortisation and other operating expenses	-	(70)	(25)	(3 257)	(9 022)	(2 080)
Contingent liabilities granted and received						
Liabilities granted	857	857	1 507	1 255 465	1 278 880	686 300
Liabilities received	-	-	-	769 089	717 528	629 697

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

As at 31 March 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. 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 in 2019. In this case, the guarantee was granted on 24 March 2014 for the duration of the Programme, i.e. to 1 April 2019.

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

On 31 March 2014, the XXVII Ordinary General Meeting of mBank S.A. appointed the 12-member Supervisory Board of mBank S.A. for a joint term of three years, with the following members:

1. Maciej Leśny – Chairman of the Supervisory Board, Chairman of the Executive Committee, Member of the Audit Committee, Member of the Risk Committee, Member of the Remuneration Committee,
2. Martin Zielke – Deputy Chairman of the Supervisory Board, Member of the Remuneration Committee,
3. Dr Andre Carls – Member of the Supervisory Board, Chairman of the Remuneration Committee, Member of the Audit Committee, Member of the Executive Committee,
4. Stephan Engels – Member of the Supervisory Board, Chairman of the Audit Committee,
5. Dr Stefan Schmittmann – Member of the Supervisory Board, Chairmen of the Risk Committee,
6. Martin Blessing – Member of the Supervisory Board, Member of the Executive Committee,
7. Thorsten Kanzler – Member of the Supervisory Board, Member of the Risk Committee,
8. Teresa Mokrysz – Member of the Supervisory Board, Member of the Risk Committee,
9. Waldemar Stawski – Member of the Supervisory Board, Member of the Audit Committee,
10. Dr Jan Szomburg – Member of the Supervisory Board, Member of the Executive Committee,
11. Prof. Marek Wierzbowski – Member of the Supervisory Board, Member of the Remuneration Committee,
12. Wiesław Thor – Member of the Supervisory Board.

30. Factors affecting the results in the coming quarter

Starting from 1 January 2014, IFRIC 21 Interpretation: Levies, entered into force, however, as at the date of publication of these financial statements, it has not been approved by the European Union, therefore, the Group has not been applying this Interpretation from the beginning of 2014.

The Group believes that, the approval of this Interpretation by the European Union and its application will not have an impact on the total level of recognised costs of fees within the financial year, however, it may have an impact on the level of these costs recognised in particular quarters of the financial year, including Q2 2014.