Management Board Report on the Performance of mBank S.A. in 2013

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1. History of mBank

1986	**Establishment of Bank Rozwoju Eksportu as a joint-stock company with aim to service the needs of Poland's expanding export-oriented companies**
1989	**Receipt of credit line facilities from the World Bank and International Finance Corporation; BRE Bank becomes a member of the international settlement system SWIFT**
1991	**Start of BRE Bank Group: BRE Brokers, the Group's first subsidiary is established**
1992	**Listing of BRE Bank on the Warsaw Stock Exchange**
1994	**Signing of a strategic partnership agreement with Commerzbank AG**
1996	**Poland's first Private Banking offer is launched**
1998	**Merger with Polski Bank Rozwoju SA**
2000	**Establishment of mBank – the first Internet-only bank in Poland – completed in just one hundred days**
2001	**Launch of MultiBank, the second retail arm of BRE Bank, targeting affluent customers**
2004	**Start of iBRE, a modern Internet banking system for companies**
2007	**Foreign expansion of retail operations, the first branches of mBank are set up in the Czech Republic and Slovakia**
2010	**Successful issue of new shares, in which the Bank raises nearly PLN 2 billion**
2011	**mBank's mobile transactional platform for iOS and Android is launched**
2012	**„One Bank" Strategy for 2012-2016 is announced**
2013	**Rebranding – Group brands are replaced with the strongest name: mBank** **New mBank transactional platform is launched**

Composition of mBank

The composition of mBank by business segments and areas according to 2013 reporting rules was as follows:

mBank

Segment	Corporates and Financial Markets		Retail Banking
	Corporates and Institutions	**Trading and Investment Activity**	
	■ Corporations (capital groups) ■ Large Companies ■ SMEs ■ Structured and Mezzanine Finance	■ Risk and Liquidity Management ■ Financial Markets ■ Financial Institutions ■ Brokerage House	■ Retail customers and microenterprises ■ Affluent retail customers ■ Private Banking

In H2 2013, changes aimed at strengthening of the integration of corporate and investment banking offering of the Bank were introduced, partially amending the activities of the two business lines. The scope of activities of Corporates and Institutions was extended to include investment banking services for corporates and its name was changed to Corporate and Investment Banking while Trading and Investment Activity segment was renamed to Financial Markets. Taking into consideration that the above changes took place during the year, the financial statements for 2013 present the previous organizational structure.

Authorities of mBank S.A.

Supervisory Board of mBank S.A.

As of December 31, 2013, the Supervisory Board was composed of the following persons:

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).

On April 11, 2013, the 26th Annual General Meeting of the Bank appointed Martin Blessing and Wiesław Thor as Members of the Supervisory Board as of April 12, 2013. The appointment of new Members of the Supervisory Board increased the number of members of this authority from 10 to 12.

On November 13, 2013, Ulrich Sieber resigned from his position as Member and Deputy Chairman of the Supervisory Board as of November 30, 2013. The resignation was linked to Mr Sieber's ending term of office on the Management Board of Commerzbank AG. Martin Zielke was appointed as new Member and Deputy Chairman of the Supervisory Board as of December 12, 2013, until the end of the current term of office of the Supervisory Board.

Management Board of mBank S.A.

As of December 31, 2013, the Management Board was composed of the following persons:

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

The composition of the Bank's Management Board was changed in the first half of 2013 as a result of the Management Board's term of office ending as of the Annual General Meeting in 2013 as well as the appointment of Wiesław Thor to the Supervisory Board of the Bank.

On April 11, 2013, Lidia Jabłonowska-Luba was appointed to the position of the Management Board Member. Until the time the Polish Financial Supervision Authority granted consent to the appointment of Lidia Jabłonowska-Luba as Deputy President of the Management Board in charge of risk management and Chief Risk Officer of the Bank, i.e. until September 17, 2013, the responsibilities were temporarily entrusted to Cezary Stypułkowski, President of the Management Board.

Detailed profiles of Members of the Supervisory Board and the Management Board of mBank are presented in the chapter entitled “Statement of mBank on application of Corporate Governance principles”.

2. 2013 – key highlights of mBank

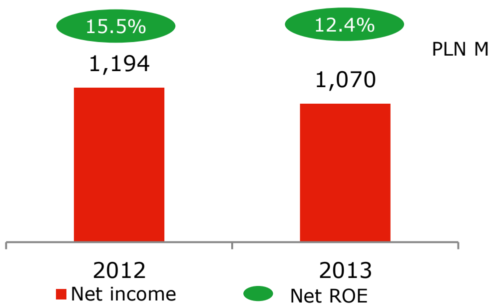
2013 was a breakthrough year for the Bank. The organisation that had so far provided its services to different groups of clients, ranging from young people, affluent client and micro-enterprises to largest corporations under various names, adopted one common brand, mBank, to represent its entire banking offering. On November 25, 2013, BRE Bank and MultiBank brands were merged into the existing mBank brand, which itself underwent a re-design and modernisation. The change marked a pivotal milestone for the Group's aim of consolidating its broad product and services offering around its clients.

2.1. 2013 in numbers

Key financial data

High profit allowing for dividend payment

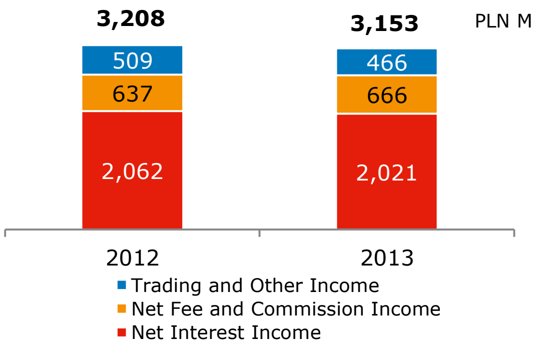
- mBank's profit before income tax of PLN 1,341 million in 2013 (-PLN 109 million or 7.5% year on year).
- Decrease of net profit attributable to mBank Shareholders by PLN 123 million or 10.3%.
- Net ROE of 12.4%.



Solid income and efficient cost management

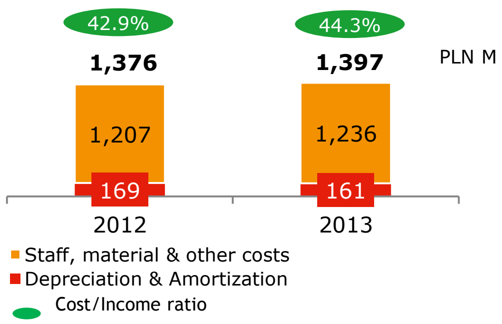
Resilient core revenues

- Increase of net fee and commission income by PLN 29 million or 4.5% year on year, despite a reduction of interchange fee.
- Slight decrease of net interest income by 2.0% year on year due to record low interest rates.
- Decrease of total income by PLN 56 million or 1.7%.



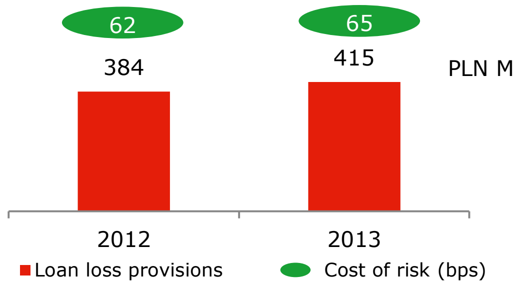
Maintaining cost discipline despite significant investments in the future growth

- Increase of cost to income ratio to 44.3% year on year.
- Increase of administrative costs (including amortisation and depreciation) by PLN 21 million or 1.6% year on year.



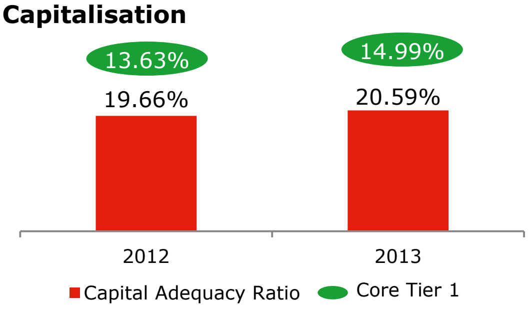
Prudent risk management

- Increase of loan loss provisions by PLN 31 million or 8.1% year on year, due to the economic slowdown partially offset by interest rates cuts.

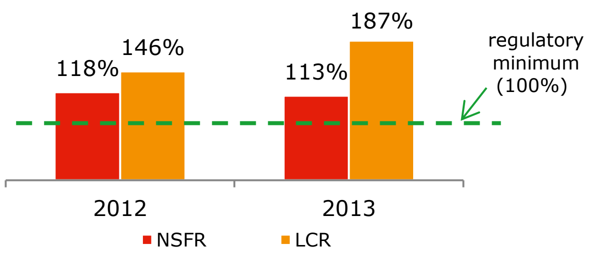


A balance sheet that significantly surpasses all regulatory requirements

Capitalisation



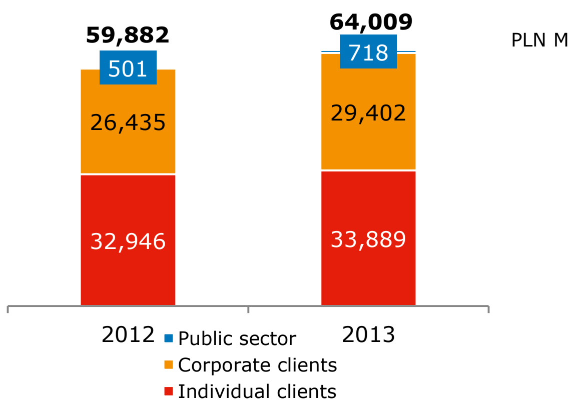
Full Compliance with Basel III liquidity



Development of deposits and loans

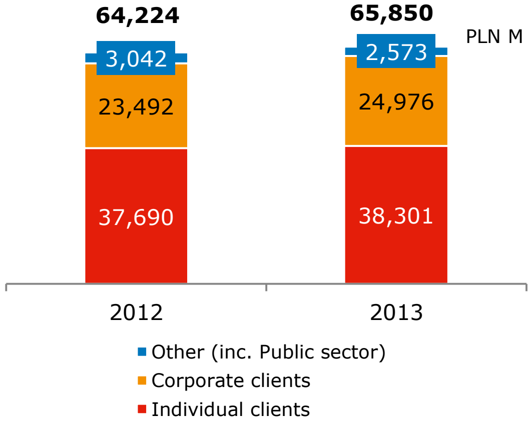
Development of deposits

- Increase of total deposits of PLN 4,127 million or 6.9%.
- Increase of retail deposits volume of PLN 943 million or 2.9%.
- Increase of corporate deposits volume of PLN 2,967 million or 11.2%.



Development of gross loans

- Increase in gross loan book value of PLN 1,625 million or 2.5%,
- Increase of lending to corporate clients of PLN 1,484 million or 6.3%.
- Increase of lending to retail clients of PLN 611 million or 1.6%.



2.2. Quarterly summary of 2013

Q1	■ Record high **client acquisitions** (93.5 thousand new retail clients and 201 new corporate clients added). ■ The Bank named the **Best Bank in Poland** in the annual "Best Emerging Market Banks in Central and Eastern Europe" contest organized by Global Finance magazine.	■ Launch of a new **online retail banking platform** on June 4. ■ Announcement of the commencement of **rebranding** proceedings of the Group in which BRE Bank and MultiBank brands were to be replaced with mBank brand.	**Q2**
Q3	■ New mBank named the **best online and mobile bank** in the world in a contest organized by Efma – a global banking organization. ■ Issue of another tranche of **eurobonds** with a nominal value of CHF 200 million under the EMTN Programme.	■ Replacement of BRE Bank and MultiBank brands with **mBank brand** on November 25. ■ Issue of subordinated bonds with a nominal value of PLN 500 million.	**Q4**

2.3. Key projects of mBank in 2013

Rebranding

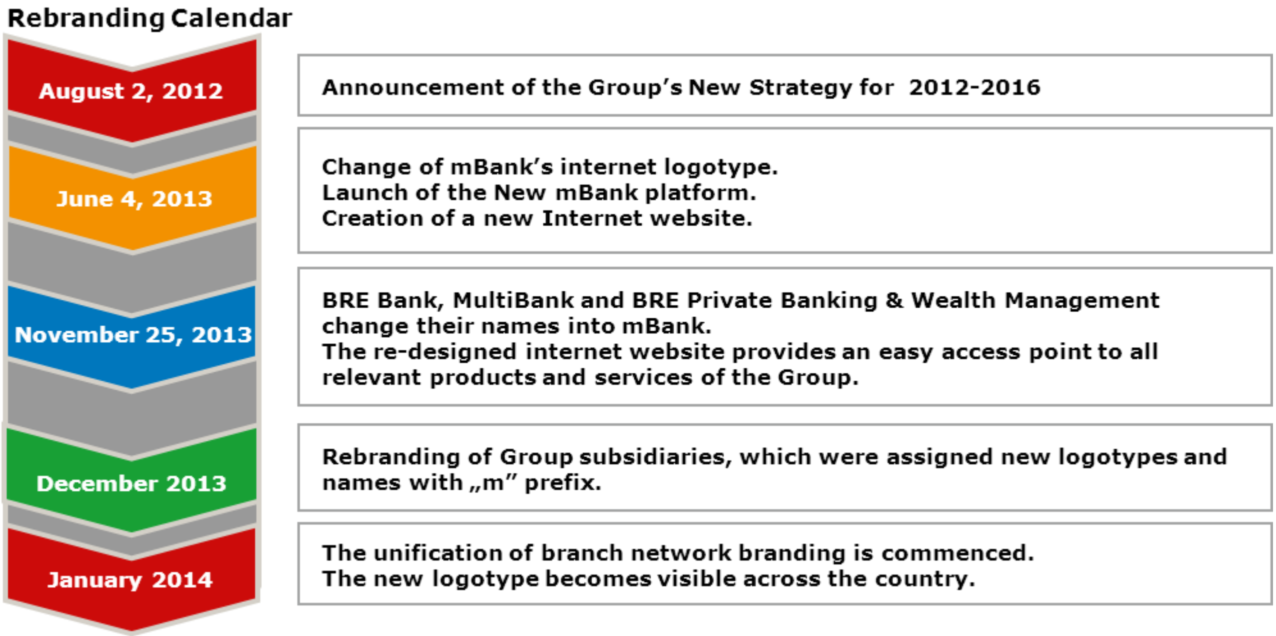
On June 4, 2013, the Bank announced the commencement of rebranding proceedings of the Group, which ultimately led to the replacement of BRE Bank and MultiBank brands with mBank brand. The decision of introducing a homogenous brand for the whole Group (including its subsidiaries) aims at full exploitation of the Group's potential. It is a response to the changing reality in which the market requires from the Bank greater flexibility, simplicity and adaptation. The creation of a single brand will enable the Bank to strengthen its position in the banking market with optimal use of marketing budgets.

The choice of mBank as the lead brand for the Group was predominantly driven by its popularity among customers as well as potential for further, dynamic development. Having operated on the Polish market for 14 years, and in the Czech Republic and Slovakia for 7 years, the mBank brand has become a synonym of friendly and innovative banking.

Already in June customers were able to notice the first changes. The logotype and the website were redesigned and a new Premium offer (for Affluent Clients) was launched and a new transactional platform was prepared as part of the New mBank project (further details in the subsequent section of this chapter).

The rebranding changes were concentrated mainly in the field of image adjustment, though their principal goal was to create coherent banking offer that unites the experience of BRE Bank together with retail brands: mBank and MultiBank, as well as Private Banking & Wealth Management. As a consequence of these changes, customers have gained access to the best products and financial services, heretofore offered under several signboards, in one place.

The new logo of the Group does not imply a change to the model of neither corporate nor retail customer service. Advisors in all branches across Poland will remain at customers' disposal.



As part of the rebranding process, the former internet websites of mBank, MultiBank and BRE Bank were replaced with one common website: www.mbank.pl.

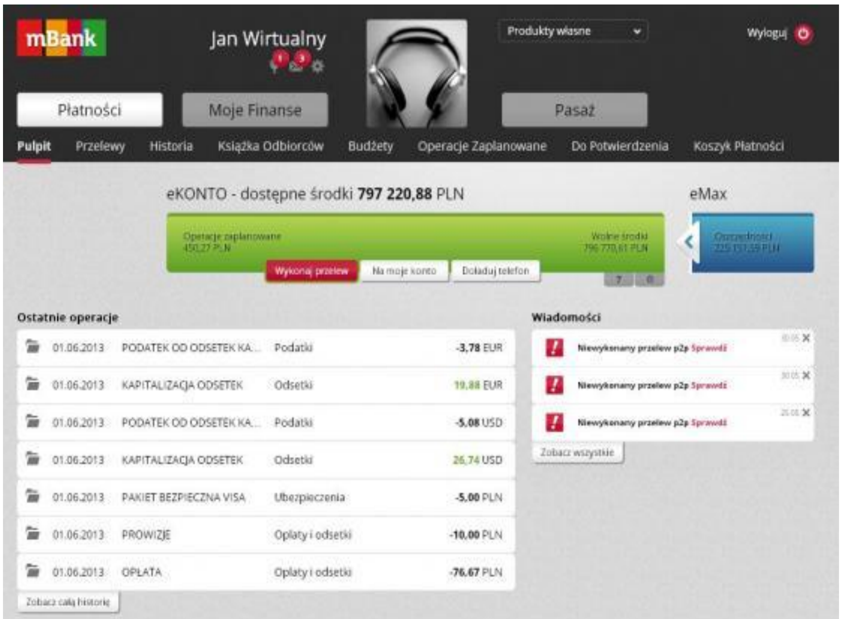
The process of rebranding did not require any customer involvement such as the need to sign new agreements or to contact the Bank in any way.

Ultimately, the rebranding will cover the whole network of the Group's branches. This process will be finished by the end of 2014 while until 2018 all retail and corporate branches will be unified and ready to serve all customers with its wide offer.

The process of rebranding involved an intensive informational campaign. The communication process was prepared by the employees from across the Bank with the support of customer assistants and telephone consultants.

New mBank

Work on mBank's new, innovative online retail banking platform were commenced in Q1 2012. As part of the project called "New mBank", a team of 200 employees designed a platform responding to the changing customers' needs and offering a wide range of functionalities, previously unavailable on a domestic and European market.



At the beginning of 2013, the design team of New mBank participated in a prestigious conference – Finovate Europe, during which the project was presented. The presentation itself was was appreciated by the experts in London and New mBank was named "Best of Show". It is worth to mention, that Finovate Europe is one of the most prestigious cyclical conferences dedicated to innovations in the financial services industry.

The service was launched on June 4, 2013. The core idea guiding the Bank during the platform design was to simplify it and make it more ergonomic and quicker in use. This was accomplished through minimizing the number of clicks and screens necessary to conclude a transfer, check the account's history or buy a banking product. The new platform seeks to encourage customers to make use of products and services more frequently.

The new platform is not only about the design but it also introduces over 200 new functionalities, among which include the popular discount programme mOKAZJE and the Personal Financial Management tool (PFM) which facilitates the management of the household budget.

Starting from July 1, 2013, every mBank client having active access to the new version of the transactional system may also receive 24-hour assistance offered by on-line experts via video, voice or text chat. The new virtual branches help clients in handling the majority of banking issues. From September 16, 2013, the services of on-line experts were also made available to potential mBank customers.

In the autumn edition of the Finovate conference in New York, mBank repeated its success from London and once again won a prestigious "Best of Show" award. Experts' attention was captured by the innovative solutions offered to mBank's clients in the new transactional service.

During the year, additional prizes and awards, such as "Distribution and Marketing Innovation Awards", organised by Efma and Accenture, were granted to New mBank highlighting the early positive reception of the new platform by recognized experts (more details in Distinctions and Awards section).

Finally, mBank's new transactional service has been recognised by Forrester Research, one of the world's most acknowledged business research firms, as a benchmark for other banks. It is the first such prestigious report on a Polish financial institution and the Polish online industry. The report offers a detailed analysis and presents recommendations for banks and technology companies aiming at implementing similar projects.

Euro Medium Term Note Programme

In 2012, the Management Board of the Bank informed that BRE Finance France SA as the issuer and the Bank as the issue underwriter signed an agreement for a Euro Medium Term Note Programme (EMTN) for a total amount of up to EUR 2 billion. Under the EMTN Programme, the issuer gained the right to issue debt securities in multiple tranches, various currencies and with diverse interest structure.

Fitch Ratings and Standard & Poor's Rating Services assigned respectively "A" and "BBB+" ratings to the Euro Medium Term Note Programme.

In 2012, BRE Finance France issued the first tranche of eurobonds with a nominal value of EUR 500 million, maturing in 2015. The interest on eurobonds was set as 2.75% per annum.

In 2013, two more tranches of eurobonds were issued:

- On September 25, 2013, BRE Finance France issued eurobonds with a nominal value of CHF 200 million, maturing in 2018. The interest on eurobonds is 2.50% per annum. Receipts from the issue of debt securities have been remitted by the issuer to the Bank as issue underwriter in the form of a cash deposit. The Bank will pay BRE Finance France, the provider of the cash deposit, fixed interest on an annual basis, and an additional repurchase premium amounting to CHF 1,033 thousand. On September 26, 2013, the newly issued tranche of eurobonds was assigned with ratings in accordance with those assigned to the EMTN Programme. The settlement of the issue took place on October 8, 2013.

- On November 22, 2013, BRE Finance France issued another tranche of eurobonds with a nominal value of CZK 500 million, maturing in 2018 (under the conditions of a "private placement"). The interest on the bonds was set at 2.32% per annum and the settlement of the issue took place on December 6, 2013.

2.4. Distinctions and awards

In 2013, mBank Group was appreciated for its business activities, technological solutions as well as investor relations and reporting. The most important awards and distinctions include:

The Bank and Corporate Banking:

- The Bank was named "Best Bank in Poland" in the annual contest „Best Emerging Market Banks in Central and Eastern Europe" organized by Global Finance Magazine. The international jury based their assessment on a research conducted via surveys, as well as analysts' and banking advisors' assessment. There were several factors taken into consideration, including: growth in assets, financial results, quality of customer service, and innovations.

- The Bank ranked sixth in the "Safest Emerging Market Banks in Central and Eastern Europe" contest organised by Global Finance magazine. The ranking was based on the evaluation of long-term credit ratings assigned to banks by Moody's, Standard & Poor's and Fitch Ratings.

- The Bank received the "Best Online Treasury Services" award from Global Finance magazine in the Best Corporate/Institutional Internet Banks category. mBank was the only Polish bank awarded in the World's Best Internet Bank 2013 contest. The winners were recognized for their effective strategies of acquiring and servicing of online clients, the growth in their number, the offer available online, the client benefits for actively using

Internet services as well as website design and functionality.

- For the second time, the currency exchange platform mBank CompanyNet FX was named the best solution of its kind in Poland and won in the "Best in On-line Treasury Services" category of a contest organized by Global Finance.

- The annual report of the Group won "The Best of the Best" award for the best annual report 2012 in the contest for listed companies organized by the Tax and Accounting Institute. Moreover, the on-line version of the annual report was awarded in the Best On-line Annual Report category.

- The Bank was recognized as one of the top employers for talented people in the Employer Branding Stars contest organized by HRstandard.pl and the Employer Branding Institute. The jury comprised of HR, internal communication, PR, media, employer branding, advertising, marketing and social media experts.

Retail Banking:

- In the twelfth edition of the prestigious "Newsweek's Friendly Bank" ranking in 2013, mBank was named, for the second time, the best institution offering mobile banking, while MultiBank, for the third consecutive time was ranked among the top traditional banks.

- New mBank as the only institution globally received two awards in a contest organized by Efma – a global banking organization. It was named the best online and mobile bank in the world and was awarded in „Most Disruptive Innovation" category for being the most innovative in the banking sector. The participants of the contest included the world's largest and most renowned financial institutions from all continents, which adds to the success of New mBank's platform.

- In the contest organized by the Banking-Magazine, mBank's information service was named the best website among all Polish banks' websites in the category of commercial banking. The jury assessed 33 websites of commercial banks and 371 of cooperative banks paying careful attention to the layout and, most importantly, usefulness, lucidity and clarity of information provided. Additional points were also granted for an appropriate graphic composition and other functionalities.

- MultiBank was granted an award for the Quality of Service, winning in the "area of finance" category for the fifth time. Users of the website jakoscobslugi.pl were the jury. The Polish Customer Satisfaction Index, which is based on the customers' assessment, amounted to 93.6% for MultiBank, while the overall index in the area of finance (banking, finance, insurance) stood at 69.0%. MultiBank's score was the highest among all classified financial institutions included in the research.

- Once more, MultiBank topped the ranking of "Jakość na bank TNS Polska (Quality you can bank on by TNS Poland)". The research which was conducted by TNS Polska, Deloitte and Puls Biznesu involved mysterious shoppers visiting the branches of 22 banks, assessing the standard of provided services (inter alia aesthetics of the branch, appearance of the employee, neatness of the workplace and, most importantly, the analysis of needs and presentation of the offer). MultiBank improved its last year's result by 1.5 p.p. to an all-time high level of 83.3%.

- mBank was appreciated with an Effie award for the advertising campaign of mSaver, which rewards are most effective advertising campaigns,.

3. The economy and the banking sector in 2013

3.1. From hell to heaven: the economy at a turning point

The Polish GDP growth slowed down further in 2013 from 1.9% in 2012 to 1.6% (the lowest GDP growth rate since 2002). The slow-down of GDP growth was accompanied by a rapidly falling inflation: the average annual CPI stood at 0.9% compared to 3.7% in 2012. However, it would be wrong to assume that the year was definitely worse for the markets: in 2013 the economy entered a path of acceleration while 2012 was a time of slow-down.

A series of negative developments early in the year (further slow-down of the Polish GDP rate, fast-falling inflation) prompted the Monetary Policy Council (MPC) to continue the monetary policy relaxation cycle but the strategy of small steps was disrupted: the interest rates were cut by 50 basis points in March and kept stable in April. As the monetary policy relaxation cycle was definitively ended in July, the main reference rate of the National Bank of Poland (NBP) was at a historical low of 2.50%. The monetary policy in the second half of the year was dominated by dovish rhetoric and experiments in communication (a pledge to keep the rates unchanged).

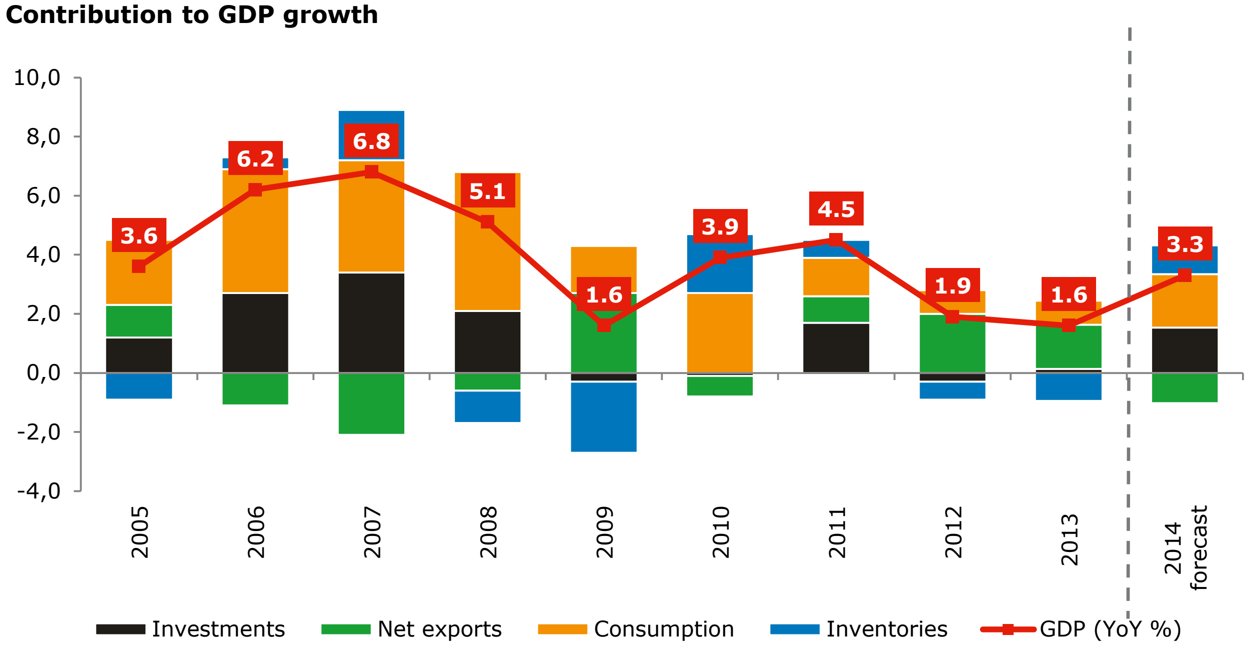
The beginning of the year was favourable for the Polish currency: opposing trends (inflow of portfolio capital into the Polish bond market which strengthened the zloty and the unprecedented relaxation of the monetary policy) kept the Polish zloty within a narrow volatility range. It was not until the sudden shift of expectations of the US Federal Reserve's (Fed) termination of its asset purchase programme that the situation on the currency market reversed: the zloty depreciated within a month to 4.37 against EUR and 3.38 against USD so that the NBP was forced to intervene in early June to curb market volatility and indirectly support the Polish debt market. Starting in July, bolstered by good foundations of the Polish economy, the Polish zloty began to appreciate and eventually recovered by the end of the year (4.15 to EUR and 3.00 to USD).

GDP growth and inflation

When the Polish economy closed 2012 at a GDP rate of c. 1% in Q4 (according to preliminary estimates, later revised to 0.7%), a recovery in 2013 was a hope shared by everyone. Nevertheless, the slow-down of the Polish GDP rate continued into all of Q1 (GDP grew by only 0.5% in Q1 2013) and the economy produced a number of negative surprises until May. It was not until the second half of the year that the economy picked up and the GDP grew by 1.6% in 2013. Looking at the chronology of events, the following factors were the drivers of the recovery:

- A positive stimulus came from Poland's main trade partners: first, stabilisation in the euro zone; next, an end to a nearly two-year-long recession and a transition into slow growth. Another factor was the continued expansion of Polish exporters into new markets (including former USSR countries).
- Consumer demand was boosted by low inflation (mainly food and fuel prices) and revived consumer credit (as a result of low interest rates and relaxation of Recommendation T by PFSA).
- The job market was very resilient to weak economic conditions; as a result, the extent of job cuts and additional unemployment was relatively small compared to the previous phases of the economic slow-down.
- The monetary policy was dramatically relaxed; in addition to the immediate effect of lower debt costs for households it also impacted the structure of household assets (migration of savings from bank accounts into investment funds or their spending), which bolstered consumer spending.

Contribution to GDP growth

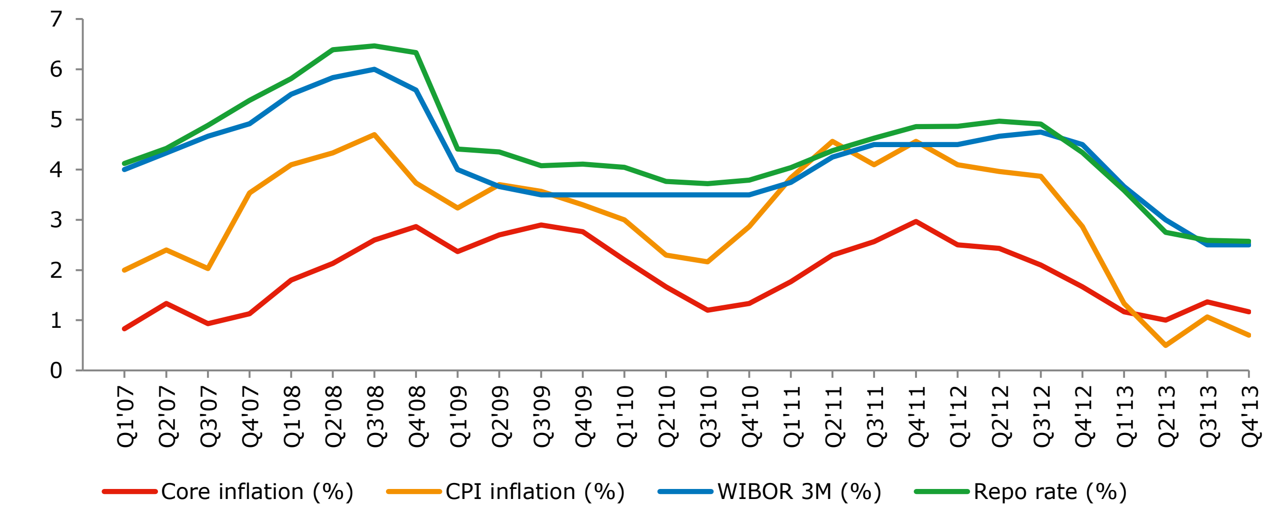


The sharp decrease of inflation continued in the first half of the year. Inflation remained within the NBP's acceptable variation band only in January 2013 (1.7%) and continued to fall in the months that followed. The annual CPI reached 0.2% in June. Although one-off factors (food prices and municipal waste fees) pushed the CPI up to 1.1%, the second half of the year was a time of low and stable inflation. The average annual CPI stood at 0.9% in 2013, the lowest since 2003.

Interest rates

In view of the protracted slow-down and falling inflation, the MPC started the year with yet another, third consecutive interest rate cut by 25 bps. After another reduction in February, the Council started preparations to end the monetary policy relaxation cycle and announced the end of cuts in March (with a surprising 50 bps cut). When statistics clearly confirmed that the economy was not moving, the cycle was reopened. The last cut decided at the July meeting in the context of the first signs of economic recovery was accompanied by the definitive announcement of an end to that phase of the monetary policy. Within nine months, the Monetary Policy Council cut the rates by 225 bps and brought the main reference rate to its record low of 2.5%.

CPI inflation and NBP reference rate



The subsequent months were a quiet time for the monetary policy as the economy and inflation remained under close scrutiny. In its communications, however, the MPC remained dovish; in September, following in the footsteps of the Fed, the Bank of England and the European Central Bank, the Monetary Policy Council began to communicate the stability of the rates, initially until the year's end, and later until mid-2014.

3.2. The banking sector

The financial results of the Polish banking sector in 2013 were similar to those registered in 2012. The net profit of the sector was PLN 15.4 billion, compared to PLN 15.5 billion in 2012 (-0.3%). It should be noted that monthly results in 2013 were somewhat less stable than in 2012. Barring unforeseen circumstances in 2014, the net profit of the banking sector is most likely to remain stable.

The net profit of the banking sector decreased mainly due to lower income (-5.6%), which stood at PLN 55.5 billion in 2013 compared to PLN 58.8 billion in 2012. The decrease in income was driven by all income lines including net interest income which was impacted by the easing of the monetary policy by the NBP (down by PLN 1.3 billion i.e. -3.8% year on year) and other income (down by PLN 1.4 billion i.e. -17.9%).

The banks were able to maintain cost discipline in 2013. The operating costs of banks stood at PLN 27.6 billion in 2013 compared to PLN 27.8 billion in 2012, a decrease of 0.8%.

The quality of the banks' loan portfolios improved modestly in 2013, leading to a decrease of loan loss provisions by 9.7% year on year to PLN 7.5 billion in 2013.

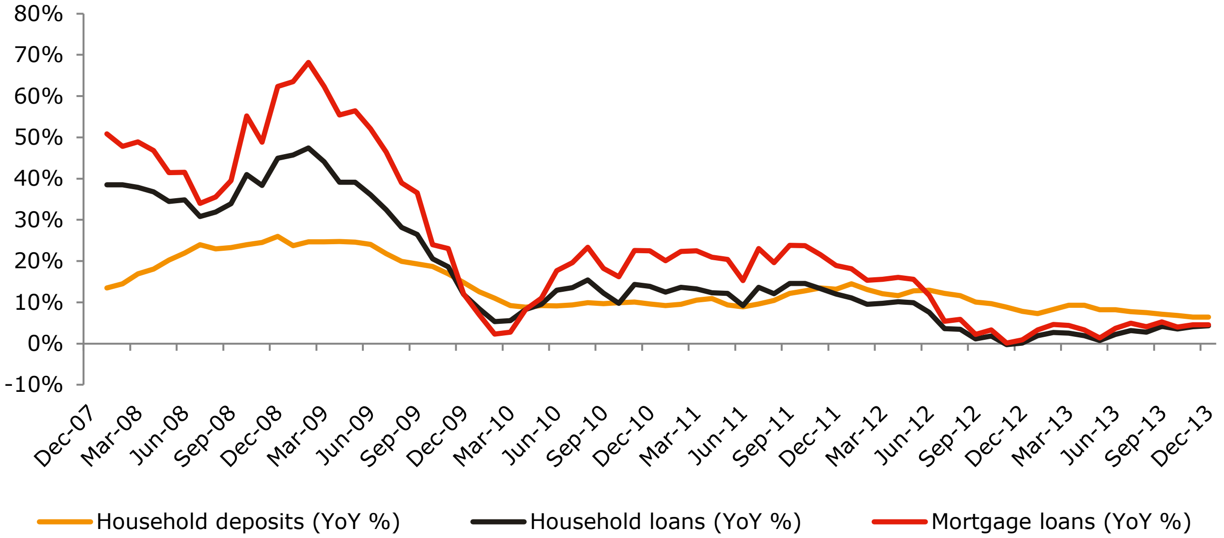
The sector's capital adequacy continued to improve in 2013. Similar to 2012, the capital adequacy ratio was on the rise and stood at 15.75% at the end of 2013 compared to 14.74% at the end of 2012. Likewise, the Core Tier 1 ratio increased from 13.13% at the end of 2012 to 14.21% at the end of 2013.

In terms of the product offer, the trends in Polish banking sector were as follows:

- Banks gradually relaxed their lending criteria and conditions, in particular for lending to small and medium-sized enterprises.
- The quality of the loan portfolio improved across all market segments. The improvement was particularly visible in respect of retail consumer loans as well as SME loans.
- Interest rates on loans and deposits decreased as a result of the NBP rate cuts.
- Credit margins in consumer and corporate banking decreased with improving credit risk while margins on housing loans remained broadly stable.
- Mobile banking and cashless payments continued to expand.
- Bank Gospodarstwa Krajowego (BGK) opened a de minimis loan guarantee scheme in co-operation with commercial banks. De minimis guarantee is granted under the government programme supporting entrepreneurship which dedicates funds to guaranteeing the repayment of working capital loans given to micro, small and medium-sized enterprises. The guarantees granted in 2013 stood at c. PLN 7 billion.

The total assets of the Polish banking sector increased by 4.2% year on year and crossed the mark of PLN 1.4 trillion in 2013. As for liabilities and equity, equity grew more dynamically (+5.0%) than liabilities (+4.1%).

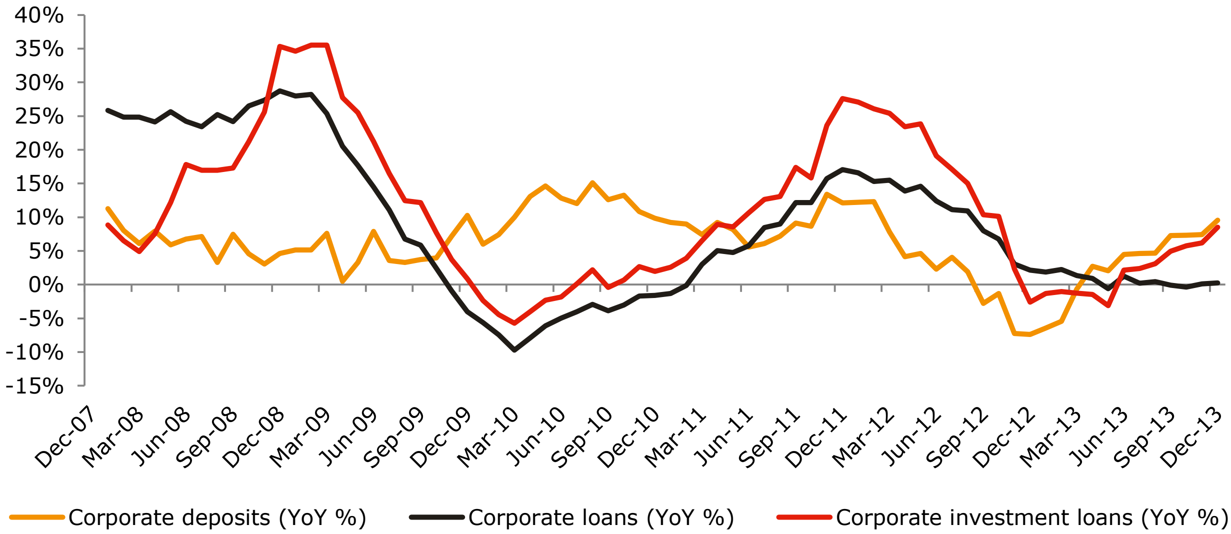
Household loans and deposits



The trajectories of loans and deposits were convergent in 2012 (on the decrease across all segments) but parted in 2013: lending for households accelerated while corporates began to place more of their excess in form of bank deposits. On the other hand, corporate loans remained stable compared to 2012 while household deposit growth slowed down month after month. In more details, the developments were as follows:

- The volume of household deposits in 2013 grew by PLN 32.2 billion, i.e. 6.2% to PLN 548.2 billion in 2013 (the lowest increment since 2004).
- The volume of household loans increased in 2013 by PLN 22.3 billion from PLN 533.2 billion at the end of 2012 to PLN 555.5 billion. The growth was clearly stronger than in 2012 but still far below the historical benchmark. With a relatively weak zloty (which depreciated only modestly against EUR and did not budge in relation to CHF compared to 2012), the growth in housing loans was driven not so much by the FX effect as by actual new lending. The recovery of consumer loans should also be noted: consumer credit increased by PLN 3.2 billion, the most since 2009.

Corporate loans and deposits



- Corporate deposit levels in 2013 were driven by macroeconomic conditions and the resultant financial standing of companies. The improved profits in the corporate sector (owed both to a better cost discipline and growing income, especially in H2 2013) boosted the expansion of companies' bank deposits from PLN 191.3 billion at the end of 2012 to PLN 209.7 billion at the end of 2013 (i.e. up by 9.7%).

- Corporate loans granted during the year slightly increased by 2.1% year on year and stood at PLN 278.0 million at the end of 2013. Although the low growth rate of corporate loans in 2013 was similar to that of 2012, the structure of new loans shifted from working capital loans to investment loans in 2013. The latter increased by 6.5% in 2013, much more than in the same phase of the previous credit cycle in 2009-2010.

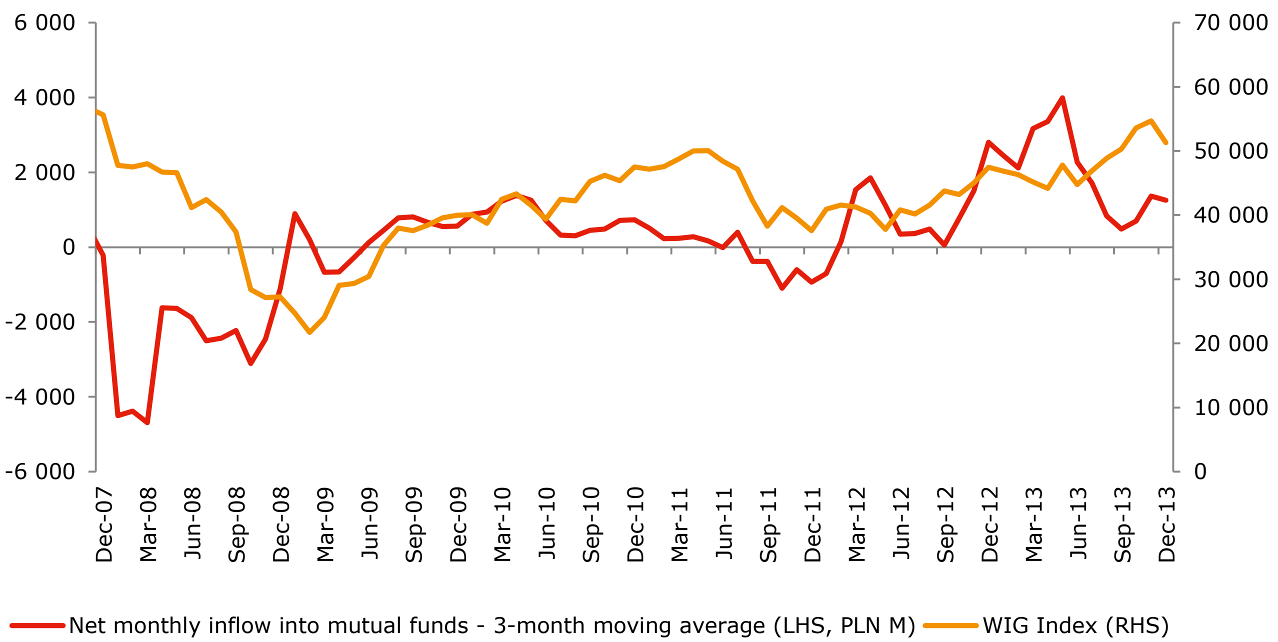
Similarly to previous years, the banking sector continued the consolidation trend through 2013 with mergers and acquisitions involving institutions among the top ten banks. As a result, the number of commercial banks in Poland decreased once again, from 45 at the end of 2012 to 41 at the end of 2013. The trend led to a higher concentration in the Polish banking sector: the share of the top five banks in the total assets of the sector increased from 45% to 50% at the end of 2013.

3.3. Situation on the capital markets

2013 was relatively favourable for stock exchange investors. After a difficult first half of the year, shareholders of public companies recovered some ground as the WIG index rose in the summer and autumn to levels unseen since 2011. However, the uptrend on the broad market was mainly driven by small and medium-sized stocks while the blue-chip index WIG20 did not breach the peak set in January 2013. The outlook for the capital market in 2013 stood in the shadow of the pension system reform. While the initial reaction to the planned transfer of assets from open-ended pension funds was strongly negative, the sentiment turned positive in the autumn with optimistic estimates of pension fund investments on the capital market after the reform.

The Warsaw Stock Exchange (WSE) was once again in the negative territory at the end of the year (due to a weaker sentiment on the emerging markets' stock exchanges and turbulences around the pension system reform); eventually, WIG closed the year with 8.1% increase while WIG20 dropped by the same proportion. Even more than in 2012, the main driver of rising stock prices on the Warsaw Stock Exchange was the growing interest of retail clients as demonstrated by record-high cash flows into investment funds.

Mutual funds inflows and WIG Index



It was also another year of dynamic growth of the Polish capital market. There were 23 IPOs on the WSE's main market in 2013 (including 7 transfers from New Connect), which was more than the 19 IPOs in 2012.

3.4. Situation on the Treasury bond market

Despite the downtrend which prevailed until May, 2013 was not successful for Polish Treasury bonds. As the market suffered losses in H2 2013, the weighted average return rate on the bond portfolio was only 1.6%. This was mainly driven by global factors: with an improving outlook of the US economy, yields on the main markets continued to rise triggered by the announcement of reduced quantitative easing in the US. In Poland, an emotional though short-lived sell-out of Polish bonds followed the announcement of an open-ended pension fund system reform in September involving the planned transfer of Treasury bonds from the portfolios of open-ended pension funds to the Social Security Institution (SSI) for cancellation. For a while, the yields of 10-year bonds approached 5%.

The transfer of bond portfolios from open-ended pension funds to the Social Security Institution and the cancellation of the bonds (i.e. converting liabilities towards open-ended pension funds into future government debt owed directly to pensioners) took place on February 4, 2014, and reduced public debt by PLN 134 billion (9% of GDP). Government debt under EU methodology decreased from 57.3% to c. 49% of GDP. The share of foreign investors in the PLN debt market automatically increased from 33% to 43%.

The elimination of local investors with a longer investment horizon and the increase of the share of foreign investors in financing government debt is likely to boost the sensitivity of Polish bonds to the sentiment on the main markets.

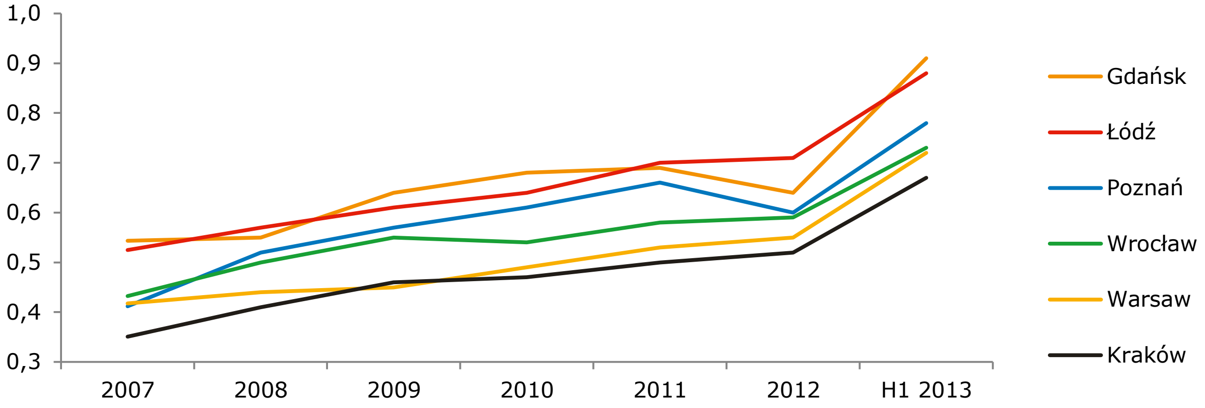
In H1 2014, the attractiveness of Polish bonds may still be driven by low inflation and relatively high real rates. Although the Monetary Policy Council (MPC) closed the door to further rate cuts, it may play out the expectations of monetary tightening in the coming months. However, in view of their significant weight in the global emerging market bond indices, Polish bonds may not be completely resilient to the liquidation of positions, for instance by Exchange Traded Funds (ETF). Yet, the scale of the price drops should be incomparably lower than that on unbalanced emerging markets. Poland as well as other CEE countries (Hungary, Romania) have eliminated many imbalances and are substantially perceived as euro zone satellites (they respond to euro zone growth impulses).

In H2 2014, in addition to global factors (the end of quantitative easing in the EU, continued economic recovery in the USA and higher yields on US Treasuries), Polish bonds may be influenced by the normalisation of NBP interest rates.

3.5. Situation on the housing market

The situation on the Polish housing market in 2013 was largely driven by the prevailing economic slowdown, the weak condition of construction sector companies, and less active bank lending for the purchase of real estate. These factors resulted in a reduction of prices on the real estate market in H1 2013 and a stabilisation in the subsequent months.

Afordability index in major Polish cities*

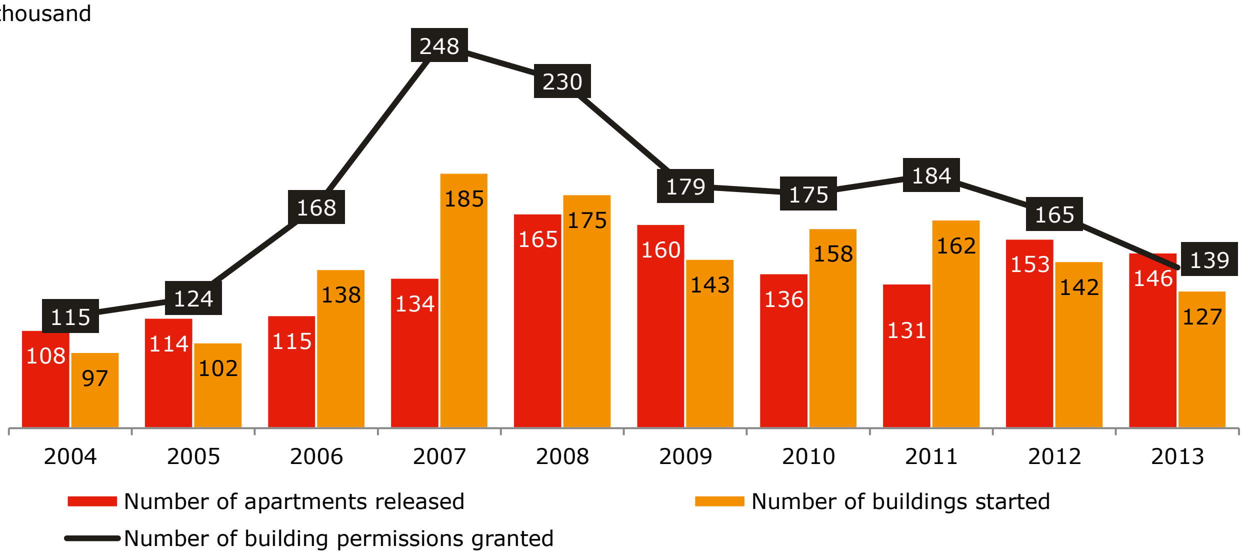


* Afordability of 1 square metre for an average gross income

As for demand, an important development affecting the purchase decisions of buyers in the popular segment was the anticipated launch of the scheme "Mieszkanie dla Młodych" (Flats for Youth) which started in January 2014. The reduction of real estate prices combined with interest rate cuts and steady growth of income improved the sales performance in the segment of cash buyers who deferred the decision to buy an apartment until a reduction of prices on offer. In addition, the growth of sales was largely driven by the activity of clients willing to borrow 100% of real estate value. According to the new Recommendation S of the Polish Financial Supervision Authority, prospective borrowers will be unable to get a loan without own equity contribution.

Residential real estate market in Poland

thousand



Maintenance of low interest rates should favour purchase decisions in 2014 owing to a lower cost of credit. Demand on the real estate market in 2013 was largely driven by a negative sentiment in the construction industry and the impact of the 2012 Real Estate Developer Law. The position of real estate developers should improve with a gradual decrease of supply in the coming years as the Home for Rent Fund opens while the number of granted construction permits and the number of new construction projects drop.

On the commercial property market, the volume of transactions in 2013 remained stable year on year (at c. EUR 2.8 billion). The key cities with the highest sales of commercial properties were still Warsaw, Kraków, Wrocław, Poznań and Gdańsk; however, demand of outsourcing centres for office space in Poland drives growth in smaller cities such as Olsztyn and Bydgoszcz. The office space market remains the tenant's market while the retail space market shows symptoms of saturation in the segment of large-format properties.

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

Legal act / Recommendation	Effective date	Summary of new requirements	Impact on main areas of the Bank (YES – the regulation has relevant impact on an area; NO – the regulation has no or limited impact on an area)	
2013				
Recommendation T	**31.07.2013**	The Recommendation covers all retail loans other than mortgage-secured loans and loans for the acquisition of securities. According to the guidelines, the borrowers' debt to income ratio (DtI) should be set by the bank's Management Board and defined in the Risk Management Strategy approved by the bank's Supervisory Board. The Recommendation includes specific guidelines on the scope and mode of application of simplified credit rating rules including amount thresholds, lack of income estimates, and a required scope of data.	**Capital base** **IT and HR** **Financial results (net of IT/HR cost)** **Clients and offer**	NO YES NO YES
Recommendation M	**31.07.2013**	The amendment of Recommendation M concerns operations within an organisation (IT system failures, procedure gaps, etc.). Banks are required among others to develop risk maps, to draft procedures mitigating operational risk, and to run tests and simulations.	**Capital base** **IT and HR** **Financial results (net of IT/HR cost)** **Clients and offer**	NO YES NO NO
Recommendation J	**01.10.2013**	The Recommendation covers best practice for credit risk management for mortgage-secured credit exposures and exposures for which mortgages are the target collateral. It concerns banks' collection and processing of data on the real estate market included in proprietary and interbank databases. The new provisions apply to all banks whose share of mortgage-secured exposures is more than 10% of the loan portfolio.	**Capital base** **IT and HR** **Financial results (net of IT/HR cost)** **Clients and offer**	NO YES NO YES

	2014			
Capital Requirement Regulation (CRR)	**01.01.2014**	CRR raises capital requirements including stricter requirements for the calculation of core and supplementary capital, stricter Core Tier 1 limit, capital leverage, new capital requirement CVA and new liquidity requirements LCR and NFSR. CRR imposes stricter reporting requirements.	▪ **Capital base** ▪ **IT and HR** ▪ **Financial results (net of IT/HR cost)** ▪ **Clients and offer**	YES YES YES NO
Foreign Account Compliance Act (FATCA)	**01.07.2014**	FATCA imposes the implementation of identification and monitoring of bank client status and the reporting of details of assets and investments held by US tax residents at non-US banks. Non-compliance with FATCA results in a 30% tax rate charged at the source on all financial transfers from the USA to a foreign financial institution which is not a party to FATCA.	▪ **Capital base** ▪ **IT and HR** ▪ **Financial results (net of IT/HR cost)** ▪ **Clients and offer**	NO YES YES YES
Payment Services Act	**01.07.2014**	The Act changes the interchange fee to 0.5%. The amendment increases banks' responsibility for unauthorised payment transactions and other transactions above EUR 150.	▪ **Capital base** ▪ **IT and HR** ▪ **Financial results (net of IT/HR cost)** ▪ **Clients and offer**	NO YES YES YES
Recommendation U	**01.11.2014**	The Recommendation aims at eliminating conflicts of interest where a bank represents borrowers as a party to an insurance contract and charges fees from insurance companies as an intermediary. The Recommendation aims at improving the quality of relations between banks and insurers with regard to insurance products offered to clients.	▪ **Capital base** ▪ **IT and HR** ▪ **Financial results (net of IT/HR cost)** ▪ **Clients and offer**	NO YES YES YES

Recommendation D	**31.12.2014**	The amended Recommendation improves the quality of IT management and IT security in banks combined with improved supervision in these areas. The amendment covers mainly management of data and its quality, relations between business and IT units, the management information system in the area of IT and information security as well as cloud computing.	▪ **Capital base** ▪ **IT and HR** ▪ **Financial results (net of IT/HR cost)** ▪ **Clients and offer**	NO YES NO NO
European Market Infrastructure Regulation (EMIR)	**2013-2015**	EMIR imposes the obligation of clearing trades through central counterparties and reporting trades to trade repositories. EMIR imposes new risk management requirements.	▪ **Capital base** ▪ **IT and HR** ▪ **Financial results (net of IT/HR cost)** ▪ **Clients and offer**	NO YES NO YES
Recommendation S	**2014**	The amendments include restrictions on FX lending and maximum tenors of loans. Restrictions are imposed on debt to income ratio (DtI) and loan to value ratio (LtV), as well as the minimum contribution of clients and on clients earning irregular or unstable income.	▪ **Capital base** ▪ **IT and HR** ▪ **Financial results (net of IT/HR cost)** ▪ **Clients and offer**	NO NO YES YES
Act on the Banking Guarantee Fund	**2014**	The Act imposes a precautionary contribution to a stability fund. The contribution is equal to a rate, not higher than 0.2%, times the basis of the annual fee (risk weighted assets).	▪ **Capital base** ▪ **IT and HR** ▪ **Financial results (net of IT/HR cost)** ▪ **Clients and offer**	NO YES YES NO

The position of the Polish Financial Supervision Authority (PFSA) concerning dividend policy of financial institutions

On December 10, 2013, the Polish Financial Supervision Authority announced its position concerning the dividend policy of financial institutions (banks, insurance and reinsurance corporations, mutual funds and brokerage houses).

According to the PFSA recommendations, banks entitled to payout 100% of the profit are obliged to have to fulfil all of the following requirements:

- The bank is not subject to a recovery programme.

- Capital Adequacy Ratio exceeds 12%.

- Core Tier 1 Ratio exceeds 9%.

- The simulation of Capital Adequacy Ratio and Core Tier 1 Ratio for the end of 2014 in the referential stress test exceeds 12% and 9% respectively.

- The BION assessment (performed by the PFSA), both in the category of capital and its total score, is not worse than 2.5.

3.7. Expected trends in the economy in 2014 and their impact on the banking sector

According to mBank's Chief Economist, 2014 will see a further acceleration of GDP growth (up to c. 4% in Q4) while the average annual GDP rate should reach 3.5%. This year, the growth will be mainly driven by domestic demand (private consumption, private and public investments) supported by a strong and dynamic labour market (the rise of salaries will be a visible trend in 2014 with a large positive potential that is often underestimated).

Inflation, which will remain under the influence of the comparative base effect for most the year, should cross the mark of 1.5% in mid-year, back within the NBP's acceptable range of variation from the inflation target. However, the dovish stance of the Monetary Policy Council will not change until inflation clearly steps up in late 2014 due to demand factors and mounting salary and price pressures. According to mBank's Chief Economist, 2014 will bring two interest rate hikes, which in the longer term will trigger a classic monetary policy tightening cycle (at least 100 bps in aggregate).

Continued economic growth will reflect on monetary aggregates. As a consequence, the environment of the banking business in 2014 is expected to experience the following trends:

- The accumulation of corporate deposits will continue in 2014, reflecting the improving financial performance of companies. However, the comparative base effect will curb the scale of potential improvement of the growth dynamics: the Bank expects corporate deposits to rise by more than 10% in 2014.

- Corporate loan volumes, in turn, should grow dynamically owing to the comparative base effect but also due to an improved economic environment and the resultant constraints on the ability to finance business with own funds. The Bank expects corporate loans to grow by c. 8% in 2014.

- mBank expects the growth in retail deposits to accelerate from the cyclical low in 2013 to c. 8-9% at the year's end. The accumulation of household deposits will be bolstered mainly by continued improvement on the job market and a growing nominal income base of households (owing to rising salaries). As interest rates on deposits are not expected to rise significantly, savings and "build-up of a liquidity buffer" are unlikely to be the key to clients' decisions.

- Finally, retail loan volumes should expand materially in 2014. In mortgage lending, the negative impact of Recommendation S (minimum contribution requirement) should be more than offset by the impact of improving consumer sentiment. Consumer loan volumes are also expected to grow although the comparative base effect will curb the consumer loan growth rate in H2 2014.

4. mBank Group Strategy for 2012-2016

The Supervisory Board of the Bank approved the 2012-2016 Strategy of the Bank and the Group in 2012. The main concept underlying the adopted Strategy is One Bank: a more integrated and client-centric organisation. The One Bank concept is based on the following foundations:

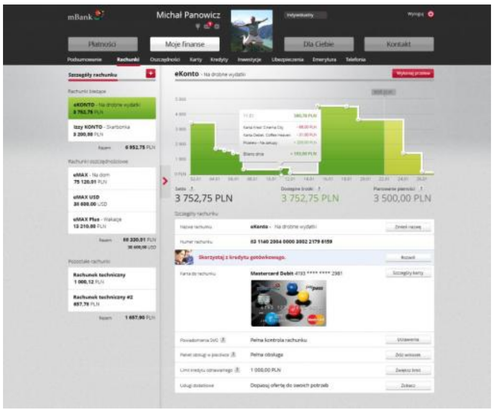
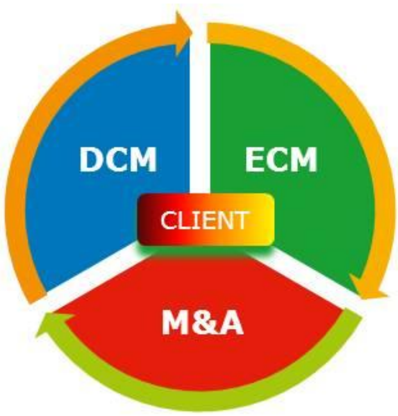
- One Team – employees focused on the attainment of common strategic objectives.

- One Brand – uniform image of the Group replacing the three main brands of the Group with the strongest brand in the portfolio: mBank.

- One Network – universal profile of mBank branches integrating sales and post-sale activities for all retail and corporate banking clients.

- One Group – closer co-operation and business integration within the Group aimed at strengthening the long-term competitive advantage in building lasting client relationships.

A number of steps initiated or completed in 2013 derived from the goals of the One Bank Strategy are summarised below:

2013	
Milestone	**Summary**
Rebranding	■ Merger of the entities of the former BRE Bank Group under the mBank brand on November 25. ■ The Bank's new identity based on the market success and the unique strength of the mBank brand supports recognition across all client segments.
Launch of New mBank 	■ Launch of a new transactional platform for retail clients on June 4 (coinciding with the presentation of mBank's new logo). ■ The main goal of the new platform was to make the online service even simpler and faster. ■ The New mBank includes more than 200 new functionalities and improvements. ■ Launch of the New mBank platform for clients of the Czech and Slovak branches in February 2014. *(for more information please refer to section 2.3. Key projects of mBank in 2013).*
Reorganisation  	■ Introduction of a range of modifications to the Bank's organisational structure, mainly in the corporate and investment banking areas. The scope of activities of Corporates and Institutions was extended to include investment banking for corporates, i.e. the raising of capital through the issue of shares (ECM), issue of corporate bonds (DCM) and M&A advisory. ■ The new organisation should support mBank's competitive advantage in the corporate banking in Poland in the future. *(for more information please refer to section 9. Corporates and Financial Markets Segment).*

Balance sheet management

- Optimizing the Bank's balance sheet from both the profitability and the structural perspective, through increasing the share of customer deposit funding, further diversification of the funding base, as well as increasing the share of higher yielding assets.

- The second edition of the development programme "Our People Make the Difference" which awards those employees who inspire others.
- Candidates were nominated by mBank employees and the winners were awarded in seven different categories, among others related to innovative thinking (of every employee), effective co-operation and mutual support between areas.

(for more information please refer to section 12.2. Training and development).

Strategic financial targets

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

Strategy 2012-2016	
Financial Target	**As of December 31, 2013**
Loan to deposit ratio at c. 115% by 2016	110.6%
Net stable funding ratio (NFSR): minimum 110%	113%
Core Tier 1 ratio: c. 11% *	14.2%*
Cost/income ratio (C/I): maximum 48%	45.7%
RoE pre-tax: minimum 15%	16.5%
RoA net: minimum 1.4%	1.1%

** Core Tier 1 under AIRB.*

Plans and Strategy implementation in 2014

In 2013, the Bank prepared a project of reorganizing the network of mBank outlets. The new model aims to create a unified and integrated network of branches for retail and corporate clients of the Bank and the Group focusing on:

- Adjusting the new network model to changing behaviours of the Bank's clients from different segments and to alternative access channels used by clients.
- Increasing the network availability to all the Bank's clients.
- Offering products of the entire Group in universal branches.
- Cutting costs while maintaining the current level of service as well as boosting the effectiveness.

The first branch in the new format will be opened in Szczecin in H1 2014. More outlets will start operating according to the timeline of expiry of existing lease contracts and based on the experience gained in the first implementations of the new model.

In 2014, an important challenge for the Bank will be to refine and implement a strategy for improving the position of mBank in the segment of micro, small and medium-sized enterprises. In order to achieve the ambitious goal of increasing income in this competitive segment, the Bank is implementing a project of introducing innovative changes in its product offer, sales model and key banking processes based on the expertise of the Bank's business lines and the best solutions adopted in the Polish and foreign banking sector. As a result, already in 2014 corporate clients using the New mBank platform will be offered with new products and functionalities streamlining the daily management of the company's finances. mBank also plans to significantly accelerate and optimize key processes such as the credit process and selected acquisition processes.

In 2014, mBank as the first bank in Poland plans to start issuing covered bonds secured with housing loans acquired by Retail Banking in order to further diversify its funding profile and to extend the maturities of its funding base.

The launch of the New mBank platform for the customers of the foreign branches in the Czech Republic and Slovakia will continue. In the next step, the new transactional platform will be available to the clients of the former MultiBank.

Furthermore, the Bank is planning to strengthen the sales and marketing functions of mBank's foreign operations aimed at dynamic growth of the revenue in the Czech Republic and Slovakia. Taking into account the current market position of the foreign branches and the record-high increase of income in 2013, the growth potential in both countries in 2014 is greater than in Poland.

5. Ratings of mBank

5.1. Fitch rating

On May 20, 2013, Fitch Ratings affirmed its current credit ratings for mBank with a stable outlook for long-term rating.

Fitch Ratings Ltd. – ratings of mBank	
Long–term Issuer Default Rating (IDR)	A (outlook stable)
Short-term IDR	F1
Viability rating	bbb-
Support rating	1
Rating of senior unsecured debt issued under the Euro Medium Term Note Programme (EMTN)	A; F1
Issue of EUR 500 million bonds (October 2012) and CHF 200 million bonds (October 2013) by BRE Finance France	A

According to the rating agency, the stand-alone viability rating reflects the Bank's good liquidity situation, high internal capacity to generate capital and relatively conservative risk management rules. Other factors determining the viability rating include a substantial FX loans portfolio, high share of Commerzbank in the long-term funding structure and economic downturn in Poland in 2013.

The long-term rating is also influenced by a very high probability of parental support from Commerzbankif needed.

5.2. Standard & Poor's rating

In 2013, Standard & Poor's Rating Services (S&P's) assigned a solicited rating to mBank for the first time. On June 6, 2013, S&P's assigned the long-term rating of the Bank at "BBB+" and the short-term rating at "A-2". The long-term rating carries a negative outlook due to a negative outlook of the Commerzbank AG's rating. Until June 6, 2013, the Bank was rated at "BBBpi" based solely on publicly available information.

In its rationale for mBank's rating, S&P's emphasized that it reflects the "bbb-" reference rating applied to all commercial banks in Poland and the agency's opinion concerning "adequate" business position of the Bank, "adequate" capital position and profitability, "adequate" risk assessment and liquidity. S&P's determined the stand-alone credit profile of mBank at "bbb-". S&P's emphasized that potential support provided by Commerzbank to mBank as its "strategically important" subsidiary has a positive influence on its long-term rating.

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

5.3. Moody's rating based on publicly available information

On March 28, 2013, the Bank terminated the rating agreement with Moody's Investors Service. Since then the Bank has been excluded from the rating process and received the "non-participating issuer" status. Moody's ratings are based solely on publicly available information.

The ratings of mBank are as follows:

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

* *The last downgrade from Baa2 occurred on April 29, 2013, and was driven by the downgrade of Commerzbank's rating from "A3" to "Baa1".*

On September 11, 2013, Moody's withdrew the rating for the Bank's Euro Medium Term Note Programme.

5.4. Ratings of Poland, mBank and Commerzbank - comparison

The table below compares the long-term ratings (in FX) of Poland, mBank and Commerzbank as of December 31, 2013.

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

Rating outlook in brackets: stab. – stable, neg. – negative

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

6. mBank shareholders and share price on WSE

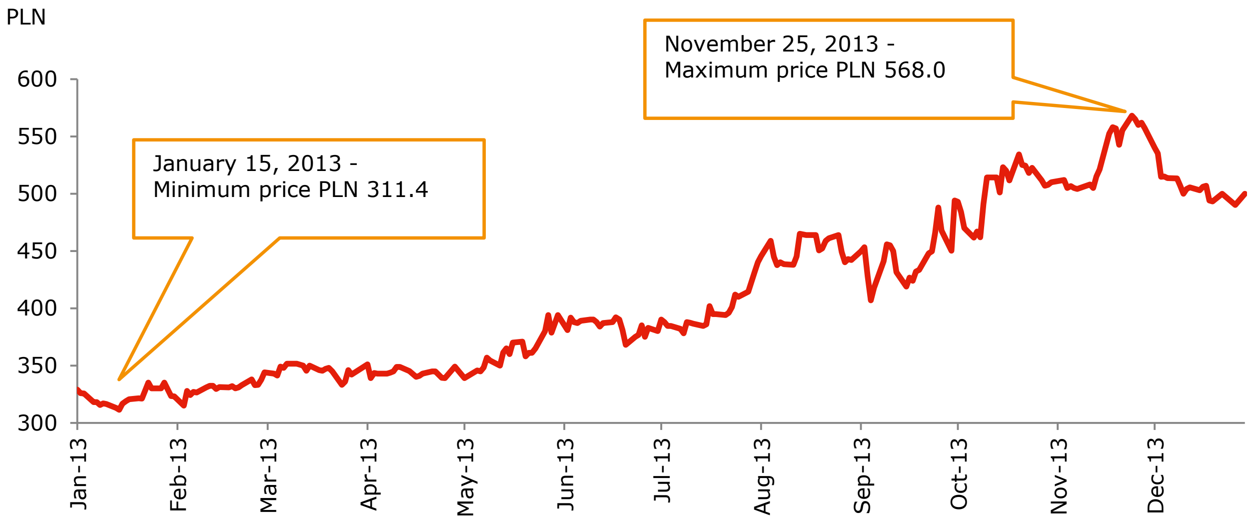
6.1. mBank shares

As of December 31, 2013, the Bank's share capital had the following key characteristics:

- Total number of mBank shares: 42,171,013 ordinary and bearer shares.
- No preferred shares, each share represents one vote at the General Meeting.
- Nominal value per share: PLN 4.00.
- Registered share capital: PLN 168,696 thousand, fully paid up.
- Listing on the Warsaw Stock Exchange (WSE) since 1992.
- Membership in the following WSE indices: WIG, WIG-Poland, WIG20, WIG30 and WIG-Banks; the shares participate also in the derivative indices based on WIG20 and WIG30.

In 2013, the total number of shares increased by 35,037 shares issued as part of an incentive programme for mBank key employees. Consequently, the registered share capital increased by PLN 140 thousand.

mBank's share price performance during 2013



In 2013, the domestic stock market was influenced positively by a gradual improvement in the economic situation in Poland and worldwide. This factor was counterweighted by investors' concerns about the effects of limiting of the Fed's bond purchase programme, the intended Polish pension system reform and its anticipated negative consequences for pension funds and the stock exchange.

In 2013, the broad market index on the WSE increased by 8.1%, a figure much lower compared to the developed markets including Wall Street (S&P500 +29.6%; Dow Jones +26.5%), Frankfurt (DAX +25.5%), Paris (CAC40 +18.0%), London (FTSE100 +14.4%), Zürich (Swiss Market Index: +20.2%) or Tokyo (Nikkei 225 +56.7%). The largest companies were the worst performing stocks. WIG20 decrease of 7.0% was driven predominantly by falling prices of commodity, energy and fuel companies. However, bank shares increased supported by better-than-expected results in a low interest rate environment. WIG-Banks increased by 20.5% in 2013. Small and medium-sized companies reported strong results supporting the mWIG40 gain of 31.1%.

mBank shares outperformed the market and the banking industry index for a third year in a row. The closing price for mBank shares at the last session in 2013 (December 30) stood at PLN 500.0, which represents an increase of 53.4% compared to the price reported at the last session in 2012, and an increase by 57.8% compared to the dividend-adjusted price at the end of 2012. The lowest price of mBank shares was reported on January 15, 2013 (PLN 311.4), while the highest price was reached on November 25, 2013 (PLN 568.0). mBank’s market capitalisation amounted to PLN 21.1 billion (EUR 5.1 billion) at the end of 2013 compared to PLN 13.7 billion (EUR 3.4 billion) at the end of 2012.

In 2013, the daily average trading volume in mBank shares stood at PLN 11.9 million (PLN 7.6 million in 2012). The rise in mBank's trading volume was in line with the general trend observed in 2013 on the Warsaw Stock Exchange.

At the end of 2013, the trading multiples for the Bank’s shares were as follows:

- P/BV (price/book value) ratio stood at 2.1 compared to 1.4 a year earlier.
- P/E (price/earnings) ratio stood at 17.5 compared to 11.4 a year earlier.

6.2. mBank shareholders

Commerzbank AG is mBank’s strategic shareholder.The stake of Commerzbank has been increasing gradually, from 21.0% in 1995 through 50.0% in 2000, to the level of 72.2% in 2003. Starting from 2005, Commerzbank’s stake has declined slightly due to the implementation of the managerial options programme in the Bank.

As at the end of 2013, Commerzbank AG held 69.6% of shares and votes at the General Meeting.

30.4% of mBank shares in free float are held mostly by financial investors. At the end of 2013, the major investor was ING Otwarty Fundusz Emerytalny, which held 5.76% shares and votes at the General Meeting. AVIVA Otwarty Fundusz Emerytalny Aviva BZ WBK was the second largest non-strategic shareholder of mBank, which on December 31, 2013, held 5.11% of shares.

The remaining shareholders (individual and institutional investors, in particular Polish pension funds, and Polish and foreign investment funds) do not exceed the 5.0% threshold of votes at the General Meeting.

Areas of cooperation with Commerzbank

Under a strategic agreement signed in 1994, mBank has received several capital injections from Commerzbank, the last of which in 2010 totalled approximately PLN 1.4 billion as Commerzbank acquired approximately 70.0% of new issue of shares during mBank’s capital increase. In addition, mBank has received subordinated loans in CHF totalling CHF 950 million. These were equivalent to approximately PLN 3.3 billion at the end of 2013 compared to PLN 3.2 billion at the end of 2012. Moreover, the Bank received funding from Commerzbank in form of credit lines (excluding subordinated loans), which stood at PLN 14.4 billion at the end of 2013 compared to PLN 17.2 billion at the end of 2012.

A technical co-operation agreement with Commerzbank gives mBank access to the network of Commerzbank and its correspondent banks around the world. In addition, Commerzbank offers its know-how to mBank under separate agreements, enabling co-operation in many areas including the servicing of international clients (including Commerzbank clients), compliance and money laundering prevention and shared reporting systems in accounting and controlling. In the key area of Risk control the co-operation concerns especially the exchange of experiences regarding the implementation of new European regulations.

Within the basic agreement on methodologies between mBank and Commerzbank, mBank is fully responsible and ensures decision independence in all Risk Management areas, especially in credit operation.

Finally, mBank participates in the Commerzbank Group multi-year business and financial planning system.

6.3. Investor relations (IR) at mBank

mBank has traditionally paid close attention to ensuring effective communication with its investors and analysts. In 2013, the Investor Relations representatives participated in meetings with more than 260 investors and stock analysts. Furthermore, analysts and investors of mBank are kept informed on important events related to mBank Group via monthly newsletters and e-mails.

Four direct and on-line conferences for analysts and investors were held in 2013 to discuss the Bank's quarterly results. For viewers' convenience, the conferences were broadcast on-line in Polish and English, and are available for replay on the official website of the Bank. In addition, after the publication of the Group's quarterly results, institutional investors were invited to participate in individual and group meetings with the President of the Management Board to discuss issues related to the Group and its financial performance. In 2013, 65 pension and investment fund managers took part in more than 20 meetings.

In 2013 foreign roadshows were an important element of the Investor Relations activities focussed on communicating changes in the Group. The Bank took part in five roadshows (in the United States, Canada, United Kingdom and Continental Europe) tailored to its specific needs.

Furthermore, the representatives of mBank took part in two foreign investor conferences (in Prague and New York) and two domestic events.

In line with the practice of the past years, two specialist due-diligence sessions were organised as part of regular meetings with the Bank's rating agencies.

The Internet site of the Bank's investor relations (http://www.mbank.pl/en/investor-relations/) is a source of information on mBank Group, including the shareholding structure of mBank, Annual Meetings, ratings, performance of the Bank shares on the WSE, and gives access to periodic and current reports, and details on research analyst consensus estimates for the Group.

mBank Group and its performance are monitored by analysts representing banks and brokers. At the end of 2013, mBank was covered by 18 analysts representing both domestic and foreign institutions.

7. Financial results of mBank in 2013

7.1. Change in the approach toward recognition of income and expenses from selling insurance products attached to loans

In 2013 the Bank introduced a change to its accounting policies regarding the recognition of income and expenses related to sales of insurance products attached to loans.

As the Bank does not compel its clients to utilize its bancassurance offers and the purchase of insurance products has a voluntary character, it has thus for reported the income from sale of insurance products on a stand-alone basis and not according to the reporting requirements for bundled products. Given the evolving trends in the banking industry in Poland and beyond for bancassurance products, the Bank amended its accounting policies in that respect already during 2013 which led to:

- Creation of provisions to reflect for premium claw back risk due to early termination of insurance contract
- A more conservative reflection of the intermediation costs associated with sale of insurance products
- Starting from July 2013, implementation of stage of completion analysis for recognition of income on sale of insurance products which resulted in reporting c. 1/3 of this income upfront after taking into account the claw back provisions.

The Bank assumed this accounting approach to be compliant with the respective International Financial Reporting Standards concepts and rules as well as appropriate with regards to the economic behaviour of both the clients and the Bank.

In December 2013 the Bank received (together with all other banks in Poland) a detailed guidance from the Polish Financial Supervision Authority on how to account for bancassurance business, which in particular defined a wider, more restrictive definition of bundled products. The Bank implemented the recommended definition of bundled products and consequently adjusted its accounting approach towards its bancassurance business conducted in 2013 as well as in prior years.

The retrospective implementation of the changes in accounting policy led to the restatement of the Bank's opening balance as of January 1, 2012 and consequently as of January 1, 2013, as well as the financial results reported for 2012 and for the three quarters of 2013.

The amended accounting policy leads in case of insurance policies bundled with loans to upfront recognition of 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.

Given the sales pattern of bancassurance products as well as the adjustments made to the accounting approach in 2013, the newly implemented bancassurance accounting policy led to the decrease of the stand-alone equity of the Bank as of December 31, 2013, by PLN 88.8 million compared to the accounting approach applied until Q3 2013.

The description of the accounting policy concerning bancassurance products is included in note 2.27. Comparative Data to mBank S.A. Financial Statements for 2013, in accordance with the International Financial Reporting Standards.

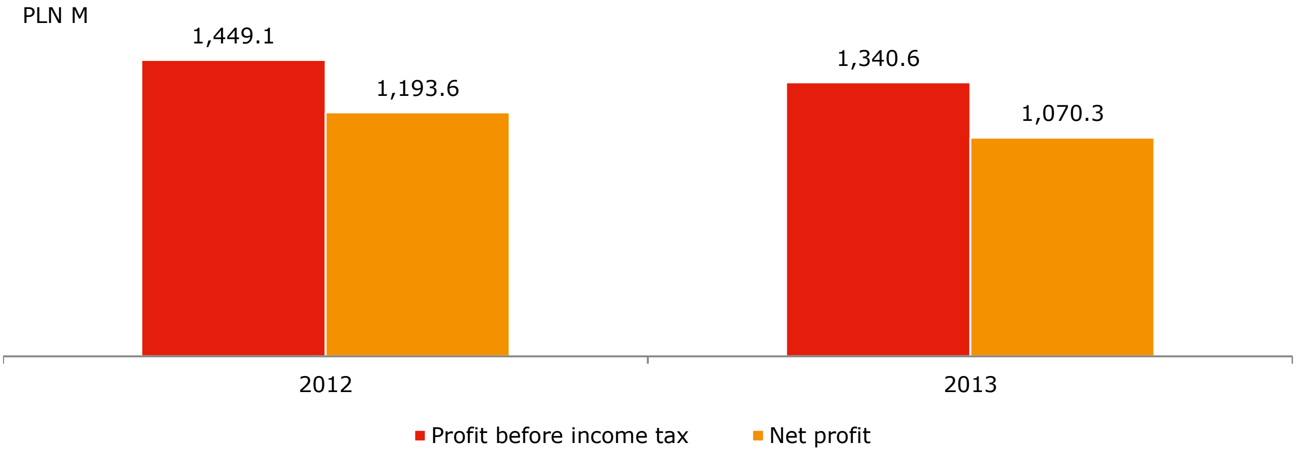
The tables illustrating the restated results for 2012 and 2013 are presented below.

PLN thou.	**2012**	**2013**
Interest income	4,135,914	3,631,968
Interest expenses	(2,073,966)	(1,610,638)
Net interest income	**2,061,948**	**2,021,330**
Fee & commission income	1,011,765	1,084,180
Fee & commission expenses	(374,689)	(418,565)
Net fee & commission income	**637,076**	**665,615**
Dividend income	35,663	61,861
Net trading income, including	344,897	326,358
Foreign exchange result	*316,404*	*274,978*
Other trading income and hedge accounting result	*28,493*	*51,380*
Gains less losses from investment securities	149,850	78,754
Other operating income	75,029	80,483
Net impairment losses on loans and advances	(383,735)	(414,816)
Overhead costs	(1,206,882)	(1,235,572)
Amortization and depreciation	(168,589)	(161,513)
Other operating expenses	(96,205)	(81,855)
Operating profit	**1,449,052**	**1,340,645**
Profit before income tax	**1,449,052**	**1,340,645**
Income tax expense	(255,477)	(270,339)
Net profit (loss)	**1,193,575**	**1,070,306**

7.2. Profit and Loss Account of mBank

In 2013, mBank reported a profit before tax of PLN 1,340.6 million, compared to PLN 1,449.1 million in 2012 (-PLN 108.5 million or -7.5%). The net profit reached PLN 1,070.3 million, compared to PLN 1,193.6 million in 2012 (-PLN 123.3 million or -10.3%).

mBank's profit



The main drivers of mBank's financial results in 2013 included:

- **Decrease of total income** to PLN 3,152.5 million. The Bank reported a decrease of net interest income and lower gains less losses on investment securities. Net fee and commission income and income from dividends have improved.

- **Increase of operating expenses** (including depreciation and amortisation) to PLN 1,397.1 million year on year.

- **Decrease of effectiveness** measured by the cost to income ratio which stood at 44.3% at the end of 2013 compared to 42.9% in 2012.

- **Increase of net impairment losses of loans and advances** amounting to PLN 414.8 million in 2013.

- **Continued organic growth and business expansion** as demonstrated by:
    - Growing retail customer base which reached 4,368 thousand (+235 thousand customers in 2013);
    - Growing number of corporate customers, which reached the historically highest number of 16,333 clients (+1,238 in 2013).

Net loans and advances increased by 2.9% in 2013 while customer deposits increased by 6.9%. Consequently, the loans to deposits ratio decreased from 103.5% in 2012 to 99.6%.

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

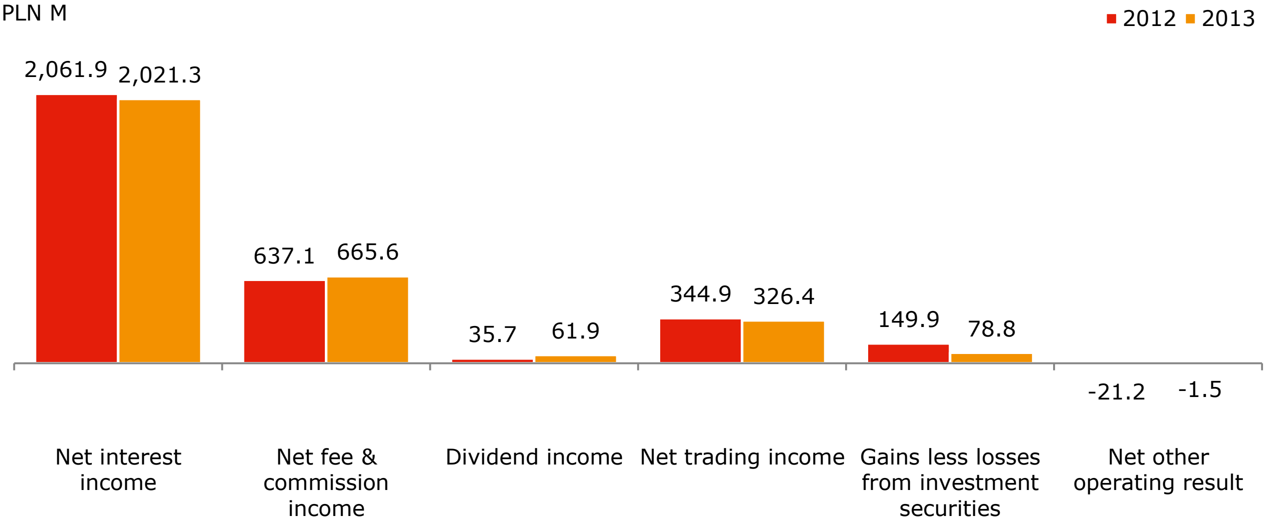
- Gross ROE of 15.5% (18.9% at the end of 2012);
- Net ROE of 12.4% (15.5% at the end of 2012).

The Bank's capital ratios remained high. The capital adequacy ratio stood at 20.59% at the end of December 2013, compared to 19.66% in 2012. The Core Tier 1 ratio reached 14.99% compared to 13.63% at the end of 2012. The improvement of the capital ratios was mainly driven by the addition of the part of the Bank's profit not earmarked for the dividend payout to equity.

Income of mBank

In 2013, total income generated by mBank amounted to PLN 3,152.5 million compared to PLN 3,208.3 million in 2012, a decrease of PLN 55.8 million or 1.7%. The change was predominantly driven by the decrease of net interest income and lower gains less losses on investment securities. Net fee and commission income improved in 2013.

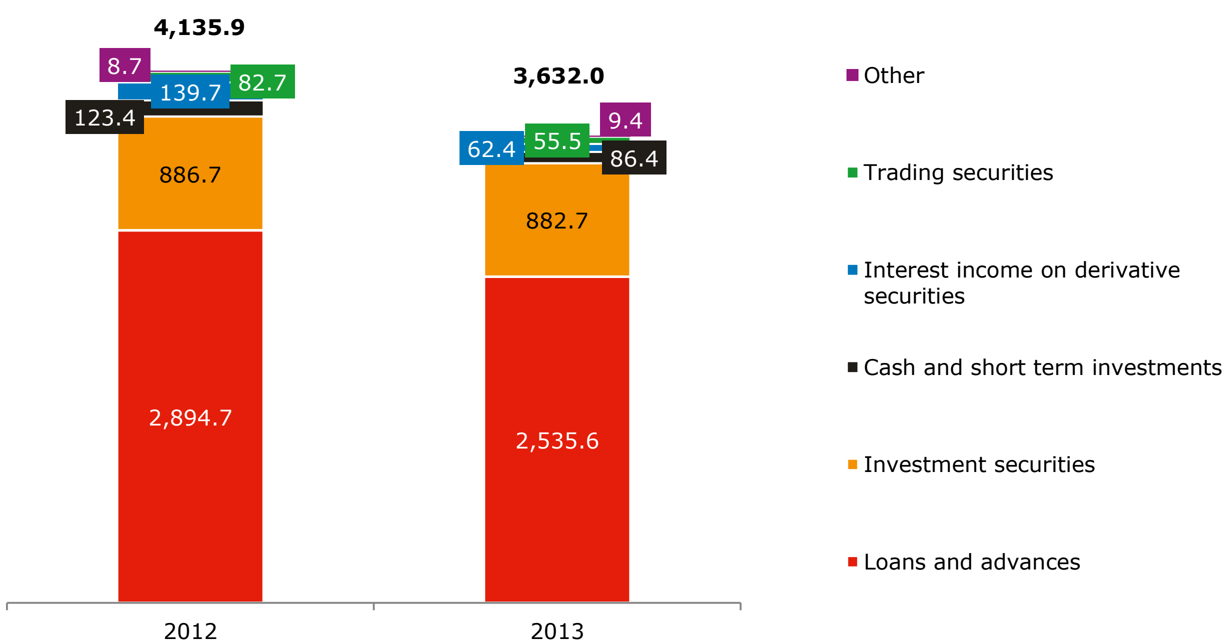
mBank's income
PLN M



Net interest income was mBank's largest revenue source in 2013. It reached PLN 2,021.3 million compared to PLN 2,061.9 million in 2012 (-2.0%). The change was due to lower interest income, which decreased by 12.2%. The lower interest income was driven by market interest rate cuts, which were partly offset by higher loan volumes. Interest cost in 2013 decreased by 22.3% year on year, mainly driven by reduced interest rates on customer deposits.

The lower net interest income reduced mBank's net interest margin. The margin, calculated as net interest income to average interest-earning assets, stood at 2.1% in 2013 compared to 2.3% at the end of 2012.

Interest income structure
PLN M



The average interest rate of mBank's deposits and loans is presented in the table below:

Average interest rate (mBank)							
		Retail Banking (in Poland and foreign operations)		Corporates & Institutions		Total mBank	
		2012	2013	2012	2013	2012	2013
Deposits	PLN	3.6%	2.5%	4.1%	2.4%	3.8%	2.5%
	FX	0.9%	0.9%	0.3%	0.2%	0.6%	0.6%
Total loans	PLN	9.8%	8.8%	6.1%	4.5%	7.5%	6.3%
	FX	2.1%	2.0%	2.3%	2.3%	2.2%	2.1%
Mortgage loans	PLN	6.1%	4.6%				
	FX	2.1%	2.0%				

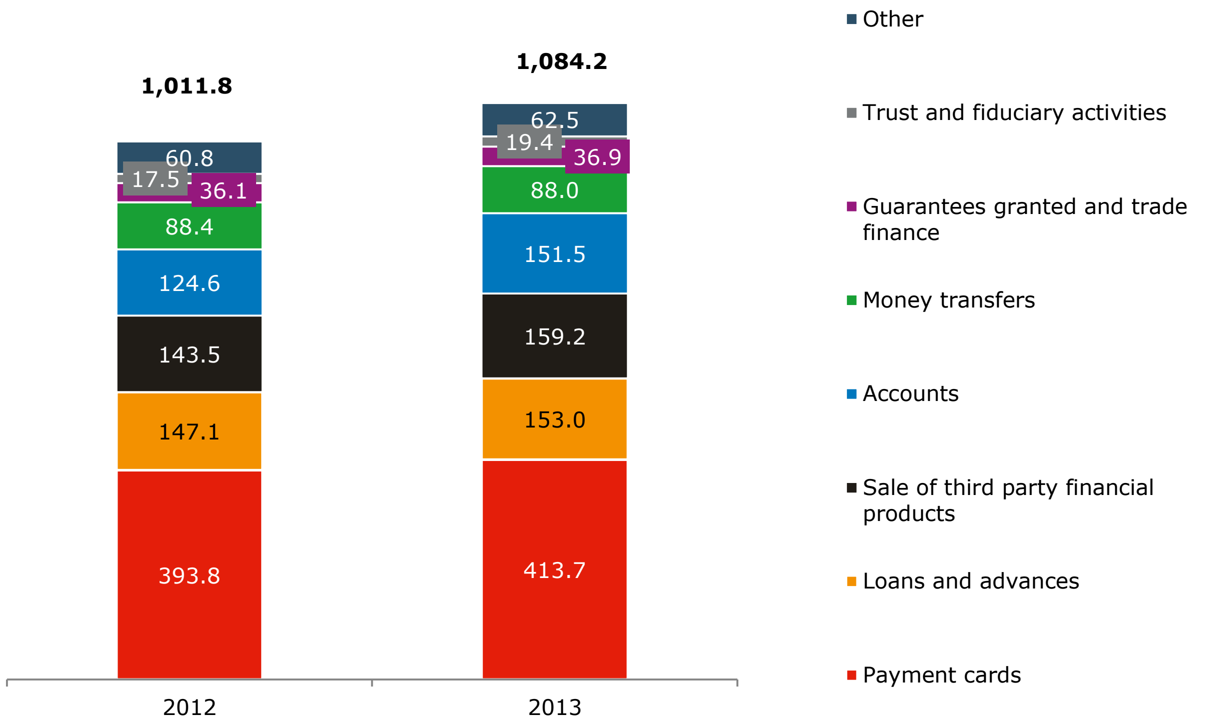
Loans and advances to customers remained the main source of interest income (69.8%). With falling market interest rates, interest income from loans and advances decreased by PLN 359.1 million or 12.4%. Interest income from investment securities remained stable in 2013 (a decrease of PLN 4.0 million or 0.5%). Income from cash and short term deposits decreased by PLN 37.0 million or 30.0% in 2013. Income from debt securities held for trading also decreased by PLN 27.2 million or 32.9% driven by a lower volume of such instruments.

The year-on-year decrease of interest expenses was mainly driven by lower costs in respect of client deposits (a decrease of PLN 433.4 million or 26.5%) due to reduced market interest rates in 2013. Interest expenses paid to banks decreased by PLN 54.0 million or 18.2% following the repayment of some loans to the Commerzbank Group. Interest expenses on issued debt securities decreased by PLN 21.5 million or 48.2% in 2013.

Net fee and commission income, accounting for 21.1% of mBank's income, increased year on year. In 2013, net fee and commission income amounted to PLN 665.6 million, an increase by PLN 28.5 million or 4.5%.

Fee and commission income structure

PLN M



Commission income increased by PLN 72.4 million or 7.2% year on year. Commissions for payment card services increased by 5.1%. The reduction of interchanges fees was offset by a higher volume of non-cash transactions with debit and credit cards. Commissions for maintenance of accounts increased by 21.6%, with growth of the customer base. Commissions for intermediation in sales of third-party financial products increased by 10.9% in 2013, as did commissions on lending (+4.0%) due to higher sales of non-mortgage loans.

Dividend income amounted to PLN 61.9 million in 2013, with an increase of PLN 26.2 million compared to 2012. The increase was attributed to higher dividend payments received from PZU S.A. and mBank's subsidiaries.

Net trading income amounted to PLN 326.4 million in 2013 and was lower by PLN 18.5 million or 5.4% compared to 2012. The decrease in income was driven by the FX result, which decreased by PLN 41.4 million or 13.1%, mainly due to change of the structure of the FX swap portfolio. In turn, other trading income increased by PLN 22.9 million or 80.4%, owing to greater transactional activity of corporate clients with respect to IRS.

Gains less losses on investment securities amounted to PLN 78.8 million in 2013 compared to PLN 149.9 million in 2012. The decrease was mainly driven by the base effect. In 2012, the mBank Group's investment in PZU S.A. shares was restructured, resulting in recognition of gains at PLN 116.4 million. In 2013, mBank sold its stake in Mastercard and VISA and recognised a gain on the transactions at PLN 13.4 million in aggregate.

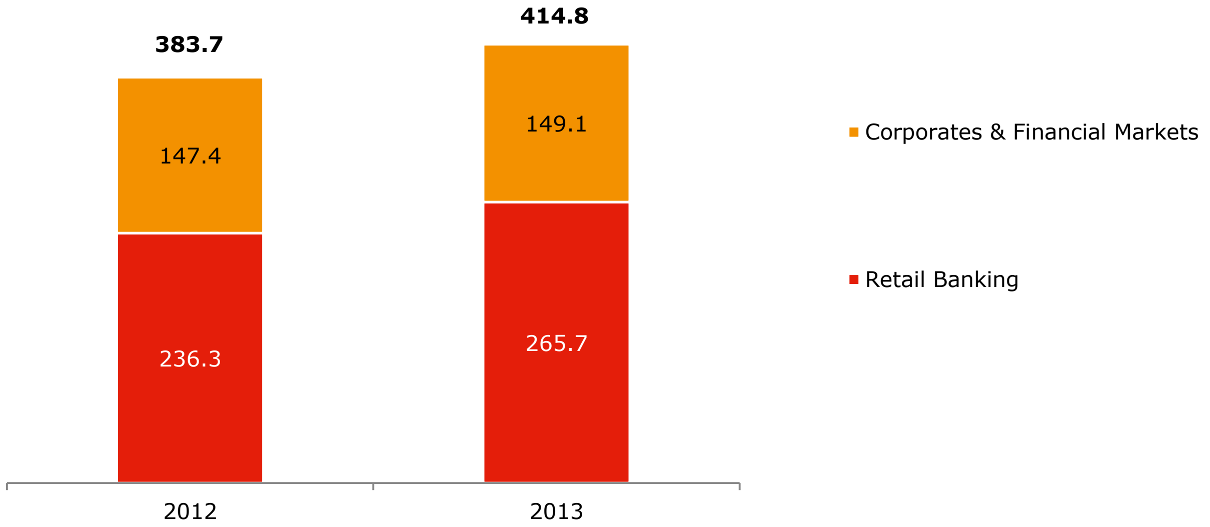
Net other operating income (other operating income net of other operating expenses) amounted to -PLN 1.4 million in 2013, compared to a negative net balance of PLN 21.2 million in 2012. Some provisions against future liabilities were released in 2013.

Net impairment losses on loans and advances

Net impairment losses on loans and advances in mBank amounted to PLN 414.8 million in 2013 compared to PLN 383.7 million in 2012, with an increase of PLN 31.1 million or 8.1%. The economic slow-down observed mainly in H1 2013 affected the financial standing of the Bank's clients, which was partly offset by a market interest rate cut cycle.

The gradual change of the structure of loans in favour of consumer loans led to an increase of the cost of risk in Retail Banking in Poland by PLN 29.4 million or 12.4%.

Net impairment losses on loans and advances
PLN M

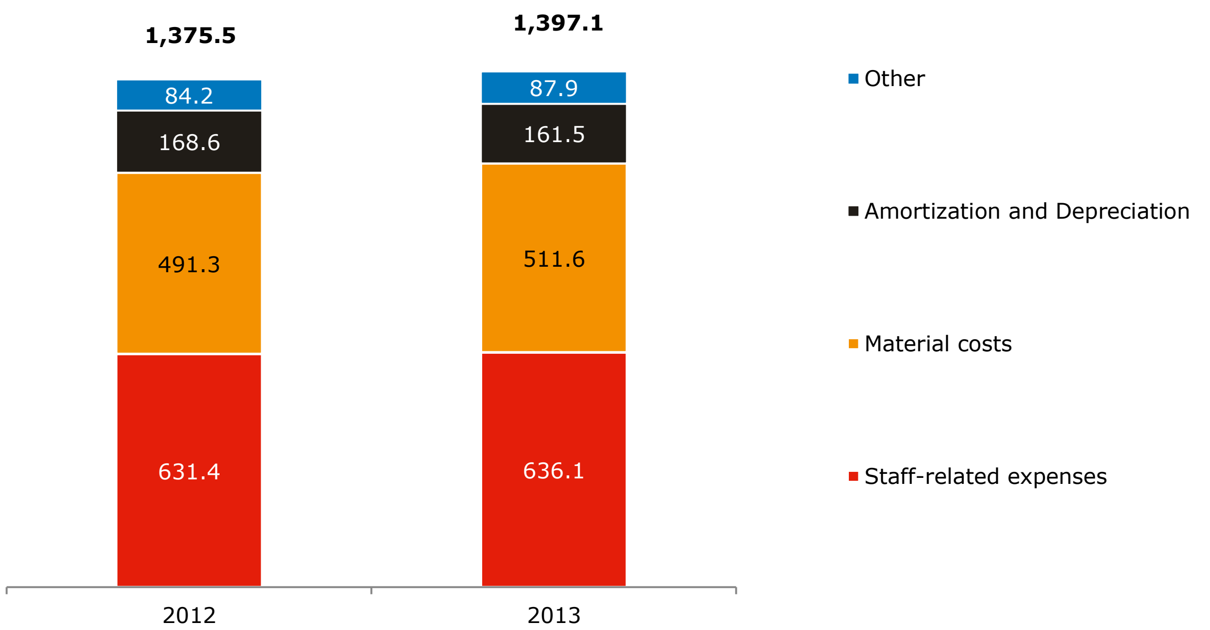


Net provisions against credit risk in Corporates and Financial Markets amounted to PLN 149.1 million in 2013 compared to PLN 147.4 million in 2012. Despite the economic slow-down observed in that period, the net provisions were stable owing to the significant diversification of the loan portfolio and the precautionary credit policy pursued in the past years.

Costs of mBank

Total overhead costs of mBank (including depreciation and amortisation) reached PLN 1,397.1 million, an increase of 1.6% compared to 2012.

Overhead costs and Amortization/Depreciation
PLN M



Personnel costs remained stable in 2013 and stood at PLN 636.1 million. The number of mBank's FTEs decreased from 4,728 at the end of 2012 to 4,696 FTEs at the end of 2013.

Material costs increased by PLN 20.3 million or 4.1% in 2013. mBank reported higher IT costs in 2013 among others, due to the IT development of a new transactional platform for retail clients. HR costs, which include the cost of business travel, recruitment and training, also increased in 2013.

Depreciation and amortisation charges decreased in 2013 due to lower amortisation of intangible assets.

Effective cost management allowed the Bank to maintain a high efficiency measured by the cost/income ratio which stood at 44.3% at the end of 2013 compared to 42.9% in 2012.

7.3. Changes in the Statement of Financial Position

Changes in assets of mBank

In 2013, the assets of the Bank increased by PLN 2,174.2 million or 2.2% to PLN 100,232.1 million as of December 31, 2013.

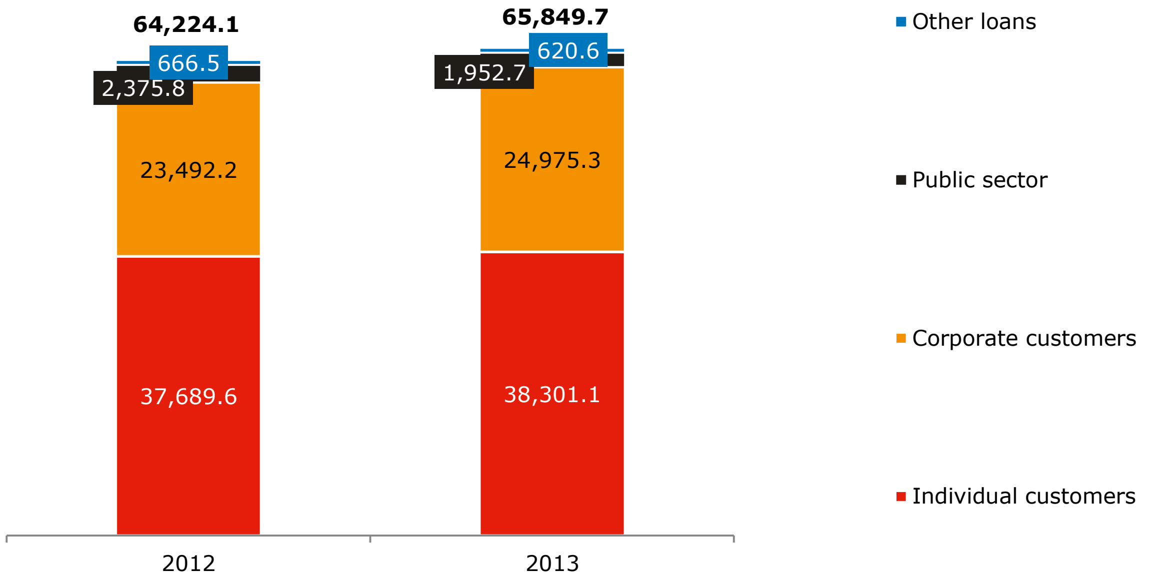
Loans and advances to customers retained the largest share in the balance sheet at the end of 2013: they represented 63.6% of total assets compared to 63.2% at the end of 2012.

Assets	31.12.2012		31.12.2013		Δ in PLN M	YoY change
	PLN M	in %	PLN M	in %		
Cash and balances with Central Bank	4,816.1	4.9%	1,643.1	1.6%	(3,173.0)	(65.9%)
Loans and advances to banks	5,052.6	5.2%	4,488.9	4.5%	(563.7)	(11.2%)
Trading securities	1,529.0	1.6%	903.9	0.9%	(625.1)	(40.9%)
Derivative financial instruments	2,796.5	2.9%	2,349.5	2.3%	(447.0)	(16.0%)
Loans and advances to customers	**61,987.9**	**63.2%**	**63,756.7**	**63.6%**	**1,768.8**	**2.9%**
Investment securities	**19,740.9**	**20.1%**	**25,081.3**	**25.0%**	**5,340.4**	**27.1%**
Intangible assets	389.3	0.4%	408.8	0.4%	19.5	5.0%
Tangible fixed assets	480.6	0.5%	442.7	0.4%	(37.9)	(7.9%)
Other	1,265.0	1.2%	1,157.2	1.3%	(107.8)	(8.5%)
Total assets	**98,057.9**	**100.0%**	**100 232.1**	**100.0%**	**2,174.2**	**2.2%**

The net volume of loans and advances to customers increased by PLN 1,768.8 million or 2.9% compared to the end of 2012.

Gross loans and advances to retail customers increased by PLN 611.5 million or 1.6%. The volume of mortgage and housing loans decreased by PLN 398.8 million or 1.4% year on year mainly due to the decreasing portfolio of CHF mortgage loans. In 2013, mBank sold PLN 2,079.0 million of mortgage loans, which implies an increase in the volume of sales by 2.9% compared to 2012. The Bank also granted PLN 3,731.1 million of retail non-mortgage loans, an increase in sales by 9.9%.

Loans and advances to customers (gross)
PLN M



At the same time, gross loans and advances to corporate customers increased by PLN 1,483.1 million or 6.3%, mainly due to an increase in reverse repo/buy sell back transactions. Gross loans and advances to the public sector decreased by PLN 423.1 million or 17.8%.

Investment securities constituted mBank's second largest asset category (25.0% of total assets). In 2013, their value increased by PLN 5,340.4 million or 27.1%. The government bonds portfolio increased by 62.0% year on year while the portfolio of debt instruments issued by the central bank decreased by 22.7%.

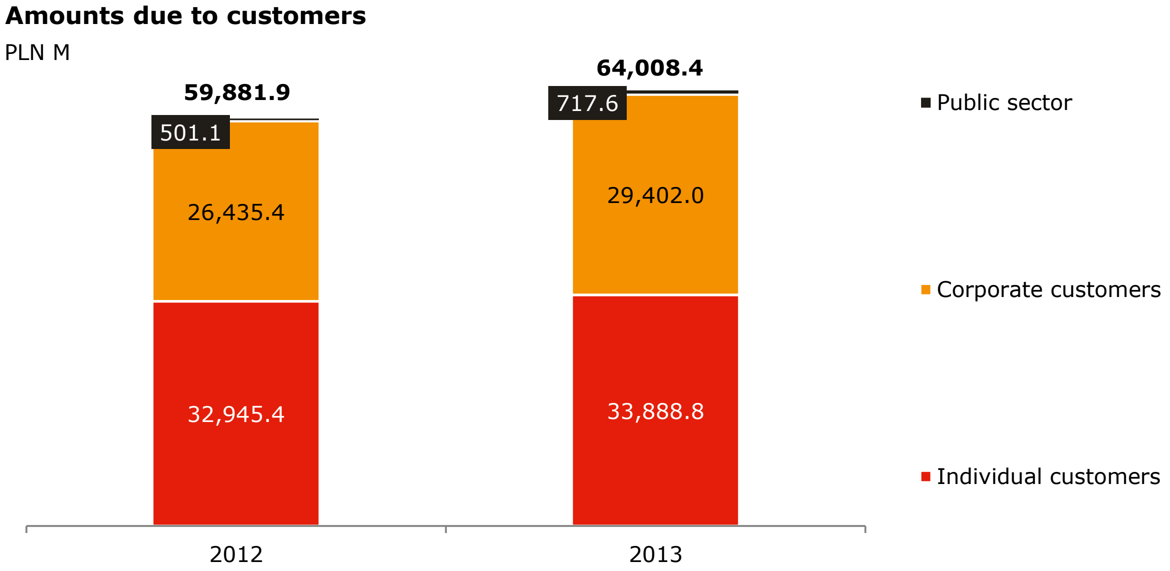
The other asset lines on mBank's balance sheet represented 11.4% of total assets in aggregate.

Changes in the liabilities of mBank

The table below presents changes in the liabilities and equity of mBank in 2013:

Liabilities and Equity	31.12.2012		31.12.2013		Δ in PLN M	YoY change
	PLN M	in %	PLN M	in %		
Amounts due to other banks	20,241.5	20.6%	18,863.9	18.8%	(1,377.6)	(6.8%)
Derivative financial instruments	3,481.3	3.6%	2,472.4	2.5%	(1,008.9)	(29.0%)
Amounts due to customers	**59,881.9**	**61.1%**	**64,008.4**	**63.9%**	**4,126.5**	**6.9%**
Debt securities in issue	659.0	0.7%	451.9	0.5%	(207.1)	(31.4%)
Subordinated liabilities	3,222.3	3.3%	3,762.8	3.8%	540.5	16.8%
Other liabilities	1,499.1	1.4%	1,099.5	0.9%	(399.6)	(26.7%)
Total liabilities	**88,985.1**	**90.7%**	**90,658.9**	**90.4%**	**1,673.8**	**1.9%**
Total equity	**9,072.8**	**9.3%**	**9,573.2**	**9.6%**	**500.4**	**5.5%**
Total liabilities and equity	**98,057.9**	**100.0%**	**100,232.1**	**100.0%**	**2,174.2**	**2.2%**

Amounts due to customers, which accounted for 63.9% of equity and liabilities as at the end of 2013 compared to 61.1% in 2012, remained the dominant funding source of mBank.



Amounts due to customers increased by PLN 4,126.5 million or 6.9% and reached PLN 64,008.4 million in 2013.

The increase was observed mainly in amounts due to corporate clients (an increase of PLN 2,966.6 million or 11.2%) and was driven by an increase in repo transactions. Amounts due to retail customers increased by PLN 943.4 million or 2.9%. Current accounts increased by 15.3%. Term deposits of retail customers decreased by 18.4% year on year. In an environment of low interest rates, some of the customers' expiring term deposits were transferred to investment funds available at the mBank Investment Fund Supermarket.

Amounts due to other banks decreased by PLN 1,377.6 million or 6.8% year on year and reached PLN 18,863.9 million at the end of 2013. The change was mainly driven by the repayment of loans at CHF 830 million and USD 100 million granted by the Commerzbank Group.

Debt securities in issue decreased by PLN 207.1 million or 31.4% year on year. Subordinated liabilities increased by PLN 540.5 million or 16.8% following an issue of PLN 500 million of 10Y subordinated bonds.

The share of equity in liabilities and equity of mBank was 9.6% at the end of 2013 compared to 9.3% at the end of 2012 due to the retention of part of the net profit for 2012.

7.4. Performance indicators

The key performance indicators of mBank are presented in the table below:

	31.12.2012	31.12.2013
Net ROA	1.3%	1.1%
Gross ROE	18.9%	15.5%
Net ROE	15.5%	12.4%
Cost/Income ratio	42.9%	44.3%
Net interest margin	2.3%	2.1%
Core Tier 1 ratio	13.63%	14.99%
Capital adequacy ratio	19.66%	20.59%

Net ROA = net profit (including minority shareholders) / average assets;

Gross ROE = pre-tax profit / average equity (including minority shareholders, excluding current year's profit);

Net ROE = net profit (including minority shareholders) / average equity (including minority shareholders, excluding current year's profit);

C/I = overhead costs + depreciation and amortisation / net income (including net other operating income/expenses);

Net interest margin = net interest income / average interest-earning assets;

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

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

8. mBank in the financial services market in 2013

At the end of 2013, mBank was among the largest Polish banks across all relevant market segments.

The table below presents the market share and the position of mBank at the end of 2013 compared to 2012:

Business category	Market position in 2013*	Market Share	
		2013	**2012**
Corporate Banking			
Corporate loans		5.9%	6.3%
Corporate deposits		8.3%	8.7%
Retail Banking in Poland			
Total loans		6.2%	6.5%
Of which mortgage loans		7.4%	7.9%
Non-mortgage loans		4.4%	4.2%
Deposits		5.0%	5.3%
Retail Banking in the Czech Republic			
Total loans		1.0%	0.8%
Of which mortgage loans		1.3%	1.1%
Non-mortgage loans		0.3%	0.3%
Deposits		1.1%	1.0%
Retail Banking in Slovakia			
Total loans		0.5%	0.4%
Of which mortgage loans		0.6%	0.4%
Non-mortgage loans		0.2%	0.2%

Deposits		1.6%	1.3%
Investment Banking			
Financial markets			
Treasury bills and bonds		10.9%	8.9%
IRS/FRA		25.2%	24.5%
FX spot and forward		10.7%	7.8%
Non-Treasury securities			
Short-term debt securities	3	15.1%	12.0%
Corporate bonds	1	13.7%	16.3%
Bank debt securities**	1	31.7%	29.8%
Brokerage			
Equities trading	9	4.1%	4.9%
Futures	2	17.5%	15.5%
Options	1	20.3%	16.8%

Source: Own calculations based on data form mBank, NBP, WSE, CNB, NBS, Fitch Polska, press reports

** where determinable*

*** excluding "road bond"' issued by Bank Gospodarstwa Krajowego (BGK)*

9. Corporates and Financial Markets Segment

The Corporates and Financial Markets segment of mBank offers its corporate banking and institutional customers a broad range of products and services, including current accounts, internet banking based cash management services, term deposits, foreign exchange transactions, short-term financing and investment loans, cross-border credit, project finance and trade finance solutions, structured and mezzanine finance services, and investment banking services and products. The Bank distributes its products and services through a fully dedicated network of corporate branches and offices, as well as through its innovative corporate banking internet platform – mBank CompanyNet.

Historically, the Corporates and Financial Markets segment included two business lines: Corporates and Institutions, which covered the key area of customer relations, and Trading and Investment Activity connected with managing liquidity, market risk and relations with financial institutions.

In the second half of 2013, the scope of operations and the names of both business lines were changed to reflect the re-organization of these activities.

The scope of activities of Corporates and Institutions was extended to include investment banking services for corporates, i.e. equity and debt capital market transactions as well as M&A advisory and therefore its name was changed to Corporate and Investment Banking.

Moreover, to allow a clear identification of the scope of operations connected with financial market operations, Trading and Investment Activity was renamed to Financial Markets.

Taking into consideration that the above changes took place during the year, the financial statements for 2013 present the previous organizational structure. The relevant changes will be introduced to the Group's reporting starting from Q1 2014.

9.1. Corporates and Institutions

2013 was a challenging year for Corporate Banking. Banks operated in a period of low interest rates and economic slowdown, which contributed to lower corporate activity and reduced investment demand. The weaker investment demand negatively impacted the volume of loans to corporate customers, which after excluding reverse repo/buy sell back transactions and FX fluctuations, decreased by approximately 0.9% compared to 2012. Record low market interest rates have additionally put significant pressure on the Bank's product margins. The market for loans to enterprises increased by 1.8% year on year compared to 0.7% increase in 2012, while the corporate deposits market increased by 9.6% compared to negative dynamics (-6.6%) in 2012.

Throughout 2013 the Bank intensified its sales efforts, which resulted in record-high acquisition of corporate clients. In 2013, mBank acquired 2,997 new clients thus increasing its corporate client base to 16,333 entities.

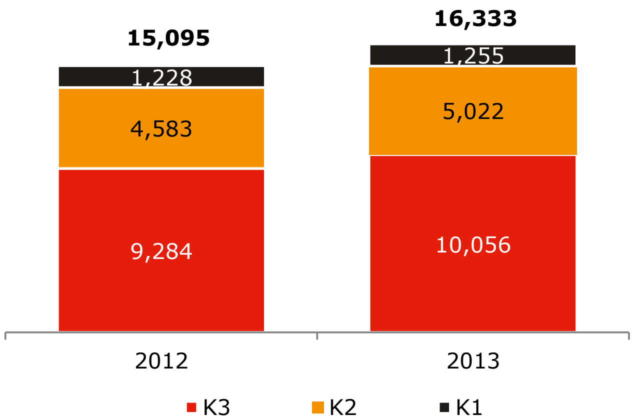
The acquisition of new clients positively impacted the value of funds deposited on current accounts which increased by 22.4% compared to the end of 2012 and stood at the historically highest level of PLN 5,890 million. A high volume of current deposits underpins continuous development of transactional banking, which is of vital importance for the Bank due to its growth potential and strengthened cooperation with clients.

9.1.1. Corporate clients

During 2013, mBank acquired 2,997 new corporate clients, of which 71.5% were K3 clients and 24.3% were K2 clients. The total number of clients reached 16,333 companies at the end of December 2013 (+1,238 year on year).

K1 represents the segment of largest corporations with annual sales of over PLN 500 million; K2 is the segment of medium-sized corporations with annual sales between PLN 30 and 500 million and K3 is the segment of small and medium-sized companies with annual sales up to PLN 30 million.

Clients



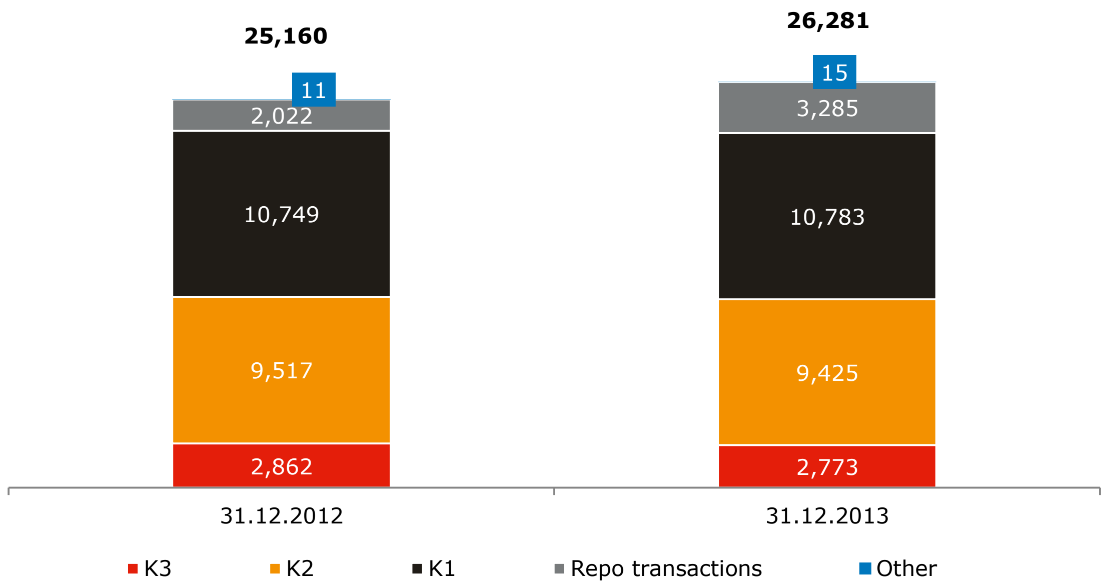
9.1.2. Product and service offer

Loans

The value of loans of mBank's corporate clients amounted to PLN 26,281 million at the end of December 2013, compared to PLN 25,160 million a year earlier (+4.5% year on year).

Loans granted to enterprises amounted to PLN 15,765 million at the end of December 2013, compared to PLN 16,541 million a year earlier (-4.7% year on year). At the same time, the market for loans to enterprises was up by 1.8%. The market share of mBank's lending to enterprises stood at 5.9% at the end of December 2013, compared to 6.3% a year earlier. At the end of 2013, the loan to deposit ratio for enterprises in the Bank stood at 87.7% and was considerably lower compared to the market average of 123.4%.

Loans
PLN M

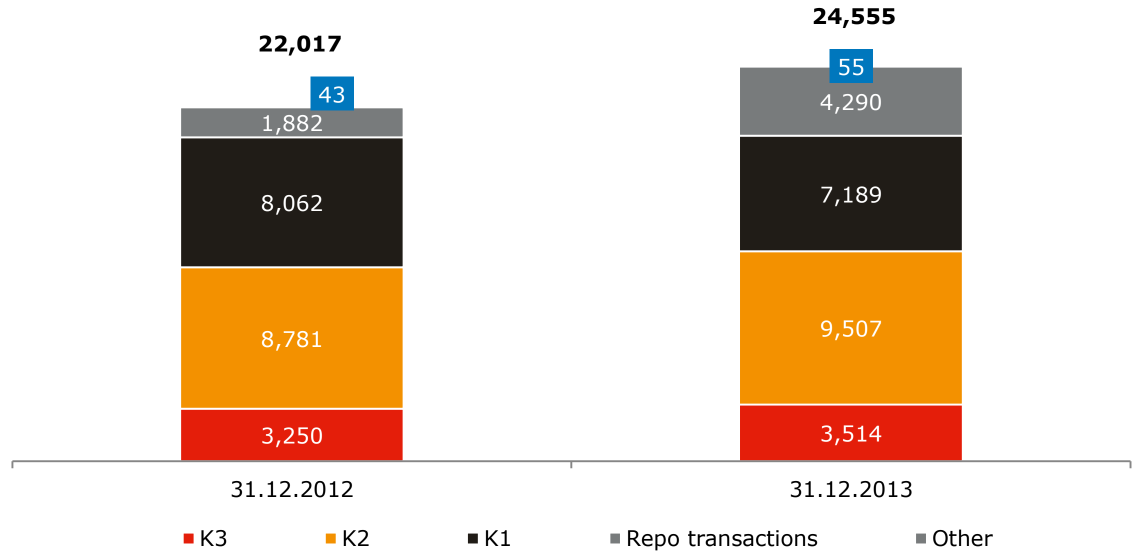


Loans granted to local governments amounted to PLN 1,469 million at the end of December 2013, compared to PLN 1,830 million a year earlier (-19.7% year on year).

Deposits

The value of deposits of the Bank's corporate clients stood at PLN 24,555 million at the end of December 2013, compared to PLN 22,017 million a year earlier (+11.5% year on year).

Deposits
PLN M



Deposits on current accounts made by mBank's corporate clients increased to PLN 5,890 million at the end of December 2013, which represents a growth of 22.4% year on year

Corporate deposits reached PLN 17,972 million at the end of 2013, compared to PLN 17,175 million a year earlier (+4.6% year on year). At the same time, the market of corporate deposits increased by 9.6%. The share of mBank in corporate deposits market fell to 8.3% at the end of December 2013, compared to 8.7% a year earlier.

Deposits of local governments amounted to PLN 179.4 million at the end of December 2013, compared to PLN 113.2 million a year earlier (+58.4% year on year).

Structured finance, project finance and syndicated loans

The Structured Finance area in Corporate Banking includes M&A finance, project finance, mezzanine and syndicated finance. Throughout 2013, the Bank remained a major player on the market and participated in 43 syndicated and bilateral loan transactions. The total exposure of the Bank in respect of syndicated and bilateral loans stood at PLN 1,796 million.

European Funding Programmes

On February 22, 2013, the Bank signed a credit line facility agreement, worth EUR 100 million with the European Investment Bank (EIB) providing the financing of long-term investment projects in agriculture, industry and services rendered by small and medium-sized enterprises (companies employing up to 250 people) as well as mid-caps (companies employing from 250 to 3 thousand people).

Due to the use of the entire credit line, on November 20, 2013, mBank signed another agreement with EIB worth EUR 100 million.

Guarantee Line de minimis

On March 4, 2013, a cooperation agreement was signed with Bank Gospodarstwa Krajowego (BGK) concerning the Portfolio Guarantee Line de minimis. The agreement was signed within the framework of the government programme entitled "Support for Entrepreneurship using BGK sureties and guarantees", which provides financing guarantees for the repayment of loans granted micro-enterprises as well as small and medium-sized enterprises. The limit of guarantees assigned to mBank by BGK amounts to PLN 900 million, which allows the Bank to grant about PLN 1.5 billion of working capital loans backed by guarantees. The first BGK credit guarantees were offered to mBank clients at the beginning of April 2013.

As of December 31, 2013, the value of working capital loans backed by de minimis guarantees stood at PLN 464.3 million (including retail loans for microenterprises in the amount of PLN 38.1 million).

Development of transactional banking

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

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

- The number of domestic transfers made by corporate clients in 2013 increased by 16.3% year on year.
- The number of foreign transfers made by corporate customers increased by 13.3% in 2013; the most dynamic growth was observed in the case of SEPA transfers, which increased by 46.3% year on year.
- The total number of corporate cards issued in 2013 grew by 114.6% compared to the end of 2012; the most dynamic growth was observed in prepaid cards (+118.8% year on year).
- Over 833 thousand cards were issued as Electronic Money Instrument (the number of cards issued at the end of 2013).
- The number of mBank CompanyNet clients increased by 14.8% year on year. Currently, there are 70,147 active authorisations allowing the entitled employees of mBank's clients to cooperate with the Bank.

Development of the Corporate Banking offer

The Corporate Banking area of mBank continued its efforts to expand the product offer, to streamline processes and to implement solutions aimed at increasing the satisfaction of the Bank's corporate clients. The area's major projects in 2013 included:

- Launch of the **SCORE Service**. The Bank launched a new service based on SWIFT For Corporates. SCORE allows the Bank to satisfy the requirements of cross-border capital groups or large corporations which use a centralised model for managing cash held by their subsidiaries located worldwide. SWIFT messages delivered directly to the client via SCORE provide access to information on executed instructions and balances of accounts kept with the Bank.

- Introduction of **Private label cards.** Private label cards bear no logo of any payment organisation and allow the issuer to restrict their acceptance, e.g. to a specific retail chain or a single retailer. With no additional financial cost, companies may issue cards accepted only in their outlets, thus ensuring that funds will ultimately return to the company.

- **Visa Money Currency Prepaid Card**. This bearer card is issued as electronic money instrument, either in a the standard design or in a design selected individually by the client. Since it may be settled in one of the following currencies: the US dollar, euro or British pound, the currency card is dedicated especially to payments made abroad.

- **BlueCash Instant Transfer** – this new service offered by the Bank allows for instant execution of domestic credit transfers in the Polish zloty within a group of 25 banks. The new solution is available via mBank's CompanyNet electronic banking system to the Bank's clients authorised to submit domestic transfers. Under the BlueCash Instant Transfer service the beneficiary's bank account is credited within 15 minutes after authorisation of the payment order in the mBank CompanyNet system.

- The Bank became first on the market to launch mobile banking functionalities for corporate clients - **mBank CompanyMobile**. It offers a comprehensive solution ensuring full control over the company's finance with the use of a smartphone or tablet. mBank CompanyMobile is available on 4 operating systems (Android, IOS, Windows phone, BlackBerry). The new solution ensures swift authorisation of orders and access to key information necessary to manage the company's finance.

- **Escrow Account integrated with Cash Pool service.** The solution combines the best features of both products, the Bank verifies the terms and conditions for withdrawals from the Escrow account, and allows optimizing liquidity management (cash pool).

- **Cards without an account agreement** - cards offered to clients who did not sign an Integrated Bank Account Agreement but are willing to use products offered by mBank. Within this project, the Bank offers 7 types of prepaid cards issued as Electronic Money Instrument, settled in zlotys and in foreign currency (with standard or personalized graphics).

- **Comprehensive cashless service during the Harley Davidson Super Rally** in Poland. The payment process was based on prepaid cards issued by the Bank, featuring the logo of the Harley Davidson Club. The cards were the only means of payment used by Harley Davidson enthusiasts during the rally. The Bank was the only bank in Poland to organise a cashless payment system during a mass event, and to provide the participants, sub-contractors and organisers with uniform payment rules as well as secure and fast cash payments.

9.1.3. Corporate Banking network

The Bank serves its corporate customers through a network of 29 branches and 18 corporate bureaus.

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

9.2. Trading and Investment Activity

The Trading and Investment Activity in 2013 comprised:

- Management of mBank's liquidity as well as its assets and liabilities (including deposit and loan portfolio interest risk management). In order to manage the Bank's liquidity a number of transactions are executed, including money market transactions, currency swaps, interest rate derivative transactions, T-bond, T-bill and NBP bill purchase transactions, as well as repo transactions.

- Management of mBank's interest rates and currency risk, trading in FX interbank instruments (spot transactions and derivatives), trading in interest rate instruments (T-bonds and T-bills, interest rate derivatives), commodity derivatives, shares, equity and stock index derivatives; trading in non-Treasury securities.

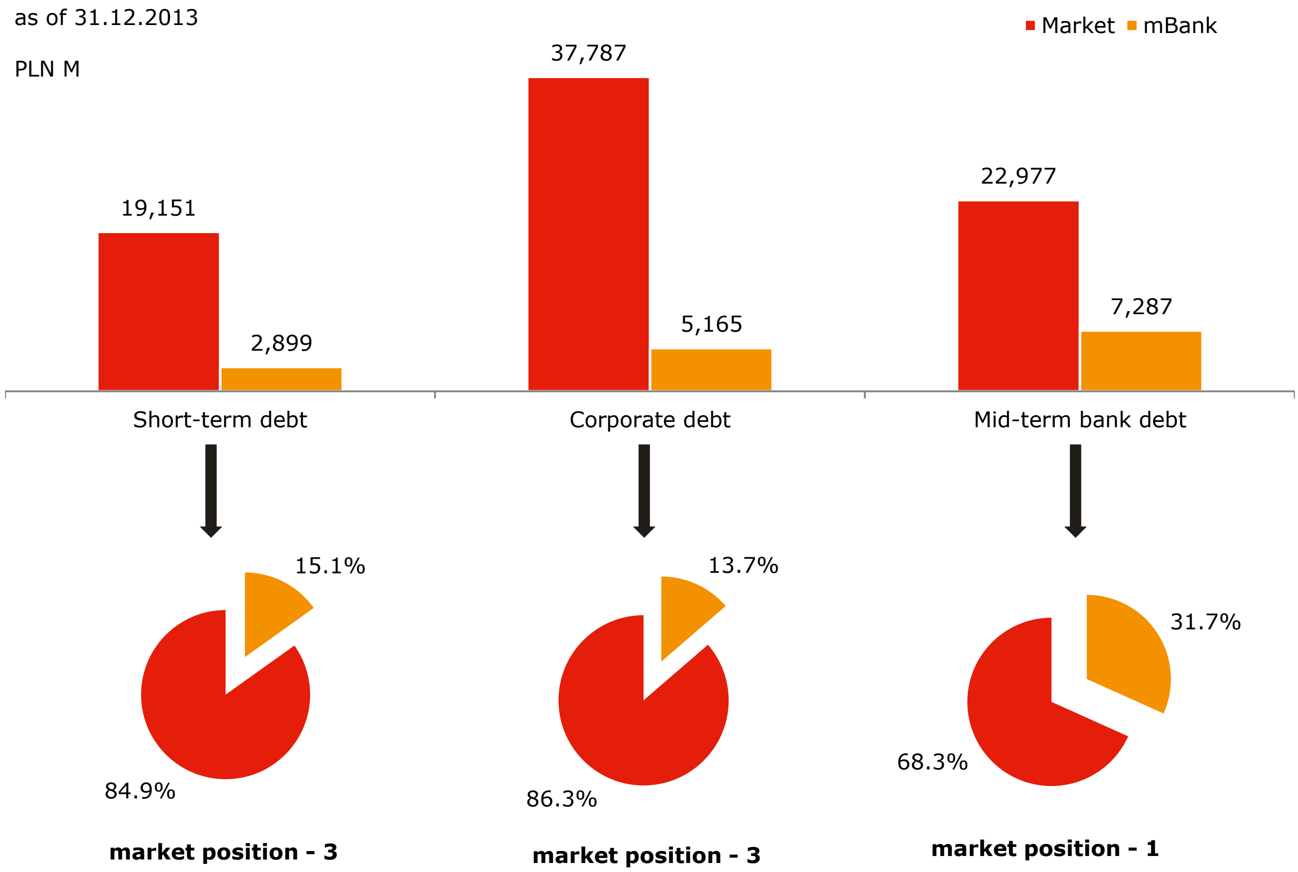
- Direct sale of financial market products to corporate banking clients and non-banking financial institutions (such as insurance companies, pension and investment funds and assets management companies) and selected private banking clients.

- Origination of debt securities for corporate banking clients and banks, as well as trading in these securities. As of Q1 2014, this segment was moved to the Corporate and Investment Line (previously Corporates and Institutions, more information in Chapter 9. Corporates and Financial Markets Segment).

In 2013, mBank organised or co-organised a number bond issues on the domestic market for corporate issuers and banks, in particular for:

- Sygnity S.A. - PLN 100 million mid-term bond issue programme
- Elemental Holding S.A. – PLN 30 million mid-term bond issue programme
- Siódemka S.A. – PLN 60 million mid-term bond issue programme
- Enea Wytwarzanie S.A.- PLN 746 million bond issue programme
- TAURON Polska Energia S.A. - PLN 5 billion bond issue programme
- Gino Rossi S.A. –PLN 35 million bond issue programme
- Eurocash S.A. - PLN 500 million bond issue programme
- Bank Pocztowy S.A. - PLN 300 million short-term bond issue programme.

mBank on the Non-Treasury Debt Markets



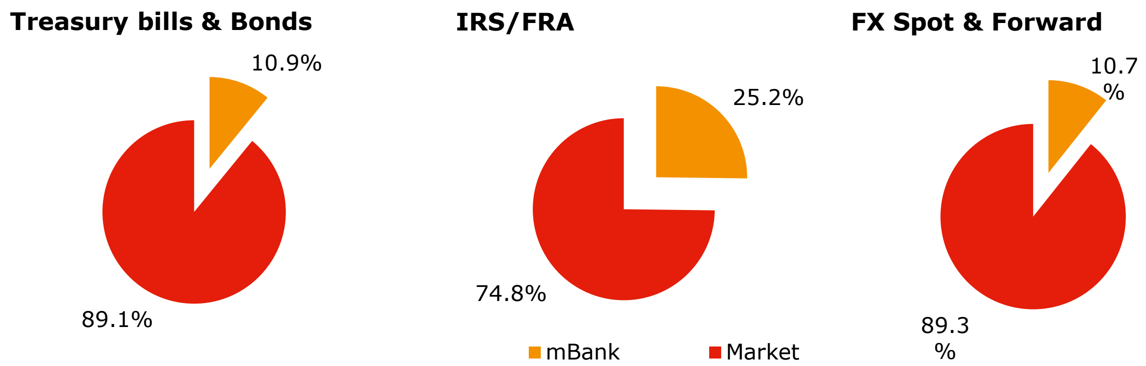
The value of unredeemed banks' debt securities (excluding the road bonds issued by BGK) arranged or co-arranged by mBank amounted to c. PLN 7.3 billion, compared to PLN 5.8 billion at the end of 2012. The largest issues in 2013 were the PLN 350 million bond issues for BOŚ Bank arranged by mBank. Other major deals included a EUR 80 million covered bond issue for mBank Hipoteczny and bond issues for Credit Agricole Bank Polska at PLN 174 million, Santander Bank – PLN 160 million, Getin Noble Bank – PLN 185 million, BGŻ Bank – PLN 228 million. Moreover, mBank placed ten-year subordinated bonds of mBank worth PLN 500 million with a five-year call option, sold on the domestic market.

In 2013, mBank offered investors for the first time its bonds denominated in CHF under the Euro Medium Term Note Programme (EMTN). The bonds maturing on October 8, 2018 were issued and priced on

September 25, 2013 and the issue was worth CHF 200 million. The yield on the bonds was 2.52%. The transaction is a key element of the One Bank Strategy, which aims at diversifying the financing base and ensure stable refinancing of the CHF mortgage loans portfolio on attractive terms.

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

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



Enhancement of sales of investment banking products

In 2013, the work initiated in 2012 on the investment banking product sales model was continued in order to further increase the volume of sales of financial market products. The key initiatives aimed at increasing the transaction volumes and revenue generated from co-operation with clients included:

- Modification of the sales structure by appointing new special job positions for commodity products separate from the existing position of financial market specialist; appointment of the job positions and the team mentioned above allows the other financial market specialists to focus better on flow transactions and, consequently, to further grow the sales of hedging transactions to clients.
- Appointment of a special team of experts in structured finance projects of mBank and Group subsidiaries (mLeasing, mBank Hipoteczny). The team offers financial market transactions which hedge the risks of existing projects.
- Continued improvement of processes facilitating financial market transactions and implementation of further modifications which support activation of products, contacts with the Bank and confirmation of transactions; development of the telecommunication infrastructure.
- Implementation of a new mobile banking application with FX functionalities. The application is supported by all leading platforms of mobile telecommunication devices. The module allows clients among others to exchange currencies, check FX rates in real time and place bids.
- Amendment of the strategy of selling investment banking products to clients in the financial sector, including creation of the Institutional Clients Department which provides a comprehensive offer of products and services to clients in the sector. The new organisation of the sales line provides the Bank's clients with comprehensive service from a single unit of the Bank which ensures relationship management and access to a full product range.

9.2.1. Financial Institutions

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

As of December 31, 2013, the Bank had 23 active loans amounting to the equivalent of PLN 24,971 million, of which PLN 16,703 million were drawn. In 2013, 1 loan in CHF, 1 loan in USD and 5 loans in EUR, amounting to PLN 3,595 million in total, were repaid at maturity. Additionally, the Bank contracted 3 new loans in EUR, amounting to PLN 912 million in total. mBank's total exposure under loans from other banks was by PLN 3,131 million lower than at the end of 2012. At 2012 exchange rates, the decrease would amount to PLN 2.4 million.

The Bank's exposure under loans granted to other banks reached the equivalent of PLN 648.2 million as of December 31, 2013. The Bank's portfolio included 30 active short-term and long-term loans granted to other banks.

Finally, mBank maintained its leading position in export financing (mid-term loans insured with the Export Credit Insurance Corporation - KUKE) and continued to foster trade finance relations with correspondent banks.

9.2.2. mBank's custody services

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

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

2013 was another successful year for mBank in the area of custody services. The total value of clients' assets in safe-keeping increased by c. 15% year on year while the number of cleared transactions increased by 21% in 2013. The total net asset value of the serviced investment and pension funds increased by c. 18% year on year.

10. Retail Banking segment

2013 brought about two significant developments impacting retail customers of the Bank. The first among them was the launch of the new online transactional system (for more information regarding the New mBank project please refer to section 2.3. Key projects of mBank Group in 2013) introducing a number of new functionalities and a new, highly visual and ergonomic user interface.

The launch of New mBank in June 2013 coincided with the refreshing of mBank logo and was followed by the full rebranding of the existing Group brands under the mBank brand in November 2013 (for more information regarding the rebranding process please refer to section 2.3. Key projects of mBank in 2013).

From the perspective of the Retail Banking segment a uniform brand together with a unified product offering of mBank and former MultiBank bring greater cross-selling potential, new opportunities for optimisation of the sales process, and a more effective utilisation of the electronic infrastructure and the branch network.

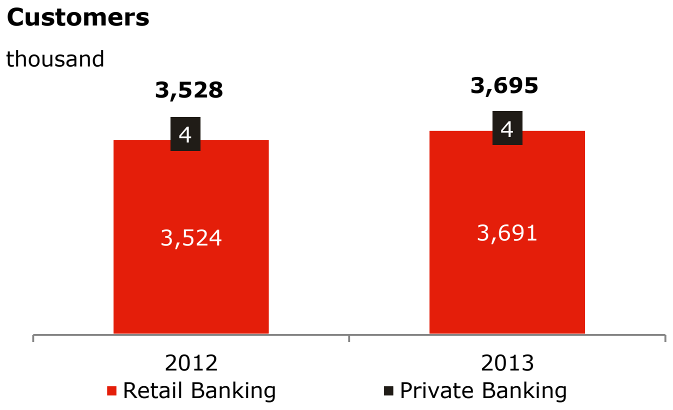
10.1. Retail Banking in Poland

10.1.1. Retail customers

The Bank has remained among the market leaders in acquiring new retail customers for several years. At the end of 2013, the number of retail banking clients in Poland increased by 167 thousand, i.e., 4.7% year on year, and stood at 3.7 million.

Customers served in Poland include individuals as well as microenterprises. There were 486 thousand microenterprises at the end of December 2013, including 23.3 thousand acquired in 2013.

The graph presents the change in the number of retail clients in 2012-2013.

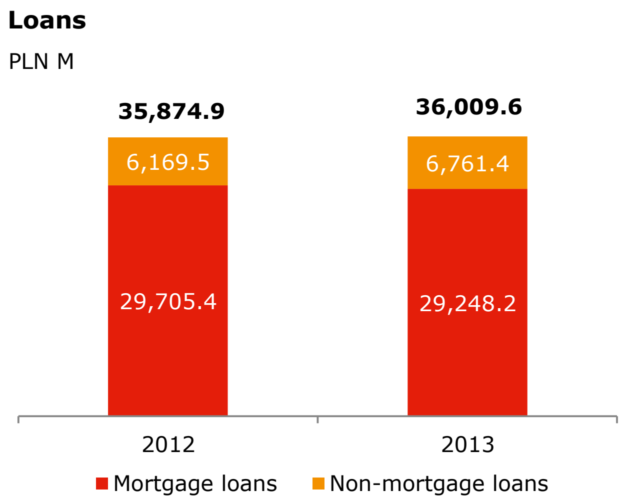


10.1.2. Product offering

Loans

In 2013, changes in the Bank's credit policy were mainly designed to adjust the regulations with the provisions of Recommendation T. Banks were granted more independence in the individual setting of acceptable risk parameters depending on the specificity of their business and risk appetite, while preserving the existing necessary conservative approach to these parameters.

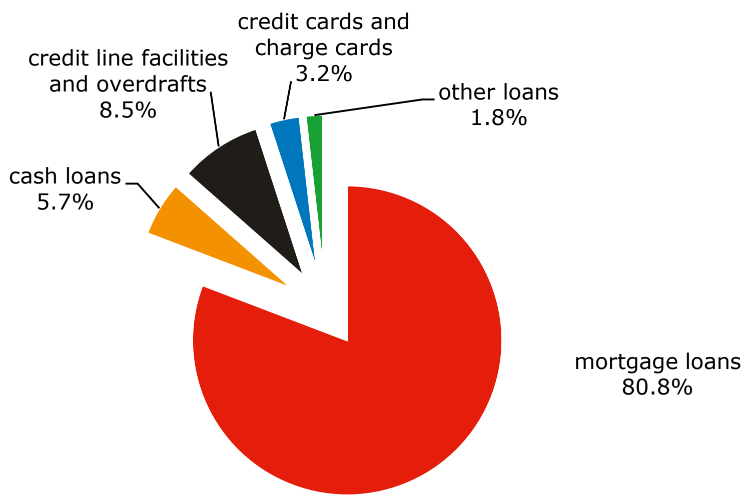
The value of gross loans granted to Retail Banking clients stood at PLN 36,009.6 million at the end of December 2013, compared to PLN 35,874.9 million a year earlier which represents an increase of PLN 134.7 million or 0.4% year on year.



The graph below presents the structure of the Bank's loan portfolio.

The value of the Bank's retail mortgage loans in Poland decreased by PLN 457.2 million or 1.5% year on

Retail loan portfolio structure



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

Retail mortgage loans (excl. Private Banking)	31.12.2012	31.12.2013
Balance sheet value (PLN billion)	27.2	**26.5**
Average maturity (years)	21.6	**20.8**
Average value (PLN'000)	280.9	**273.4**
Average LTV (%)	79.4%	**78.4%**
NPL (%)	1.8%	**2.2%***

** In Q4 2013 the Bank modified its impairment credit risk parameters as part of its AIRB measurement methodology. The modified approach introduces a "client view" of recognizing default cases in lieu of a previously applied "product view" (resulting in more conservative client-oriented approach and therefore an increase of NPL ratio). For the sake of comparability, the NPL ratio is presented under the "product view" methodology; the NPL ratio under the newly implemented "client view" methodology stood at 4.4% at the end of 2013.*

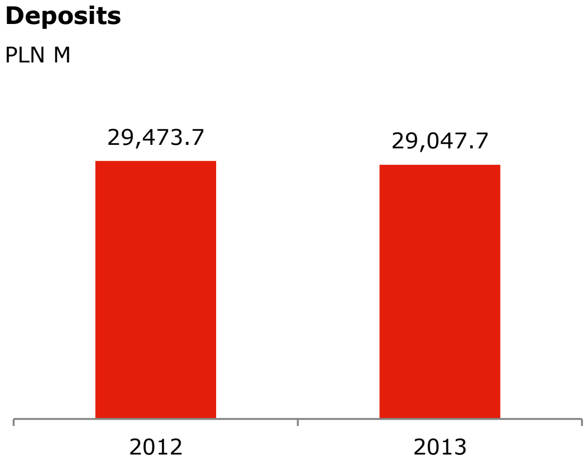
The increase of the NPL ratio of mortgage loans in 2013 was driven by a further decrease of the mortgage loan portfolio and its natural ageing.

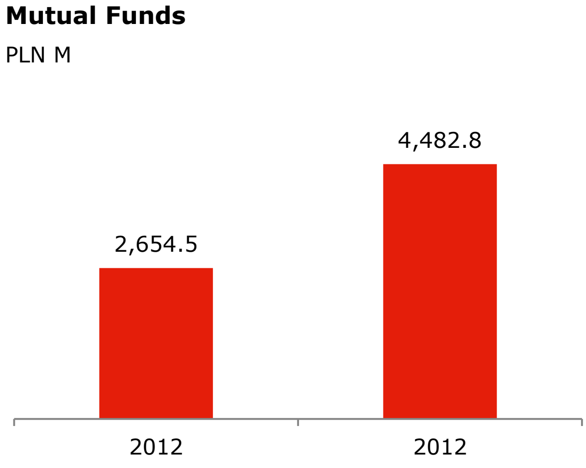
The non-mortgage loan portfolio increased by PLN 591.9 million or 9.6% at the end of 2013. The fastest-growing loans included cash loans and credit lines owing to rising utilisation of global limits granted to existing clients.

Deposits and investment funds

At the end of December 2013, retail deposits stood at PLN 29,047.7 million compared to PLN 29,473.7 million a year earlier, which represents a decrease of PLN 426.0 million or 1.4% year on year. The improvement on the financial markets encouraged mBank clients to reallocate their funds towards higher yielding investments such as stock and bond funds.

mBank's offer includes an open platform of investment funds – the Investment Funds Supermarket, which allows clients to buy shares in Polish and foreign investment funds. At the end of 2013, assets placed with investment funds through the intermediation of mBank stood at PLN 4,482.8 million, representing an increase of PLN 1,828.3 million or 68.9% year on year.





Cards

The number of debit cards issued in the Retail Banking Area in Poland reached 5,683.6 thousand, which represents an increase of 899.8 thousand cards or 18.8% year on year.

The number of issued credit cards stood at 757.7 thousand at the end of 2013, representing an increase of 55.9 thousand or 7.9% year on year.

In 2013, the Bank's activities aimed at the development of the card business focused on maintaining a high growth rate of newly issued cards, supported by demand from existing and new customers and increasing the number of transactions with mBank credit cards in the total number of transactions on the market.

Brokerage and insurance services

The number of Bank clients using brokerage services was stable in 2013. Clients held 208.2 investment accounts with mBank's eBroker service, 6.1 thousand more than at the end of 2012. Clients of former MultiBank held 32.9 thousand accounts with the Brokerage Service, i.e., 0.7 thousand more than in 2012.

In 2013, Dom Maklerski mBanku (mDM) launched an advanced application for clients and employees compatible with the Universal Trading Platform (UTP) implemented by the Warsaw Stock Exchange. UTP is the trading platform used by NYSE Euronext exchanges and many other markets. A mobile transactional system for iOS (iPhone) was also added to mDM's brokerage offer.

The sale of insurance (motor, travel, property insurance) products to mBank's customers is performed by former MultiBank's Insurance Centre and mBank's Insurance module operated by the company BRE Ubezpieczenia TUiR. In addition to standard insurance products, it also offers bancassurance products (insurance of mortgage loans, cash loans, car loans, insurance packages attached to credit cards and current accounts), which are very popular with customers.

In 2013, income from premiums written on stand-alone insurance products (insurance not bundled with credit products) increased, predominantly driven by accident insurance, Assistance 24h insurance and the Safe Card package. In H2 2013, following an information and sales campaign of motor hull and liability insurance under the motto "New mBank = New Insurance Prices", the Bank sold more than 7 thousand new insurance policies.

Retail Banking offer development

The implementation of the new transactional system and the Group's rebranding afforded an opportunity to introduce new or largely modified credit, deposit and investment products including:

For individual customers:

- Launch of a fully remote credit process for new customers in non-mortgage lending.
- Implementation of an application supporting the transmission of the client's transaction history details from the primary bank (which maintains the client's primary bank account) to mBank for the client's credit rating.
- Launch of the process of on-line opening of PLN and currency saving accounts and term deposits with accounts for new customers;
- Introduction of Revolving Loan Insurance for natural persons; the insurance covers death and complete or partial inability to work following an accident
- Subscription of investment certificates of closed-end investment funds (Legg Mason Concentrated Equity and PKO Global Strategy)
- Implementation of mobile NFC (Near Field Communication) cards in partnership with two mobile network operators (T-Mobile and Orange). The technology allows mBank clients to pay in shops using their mobile phones.
- New deposits:
  - **"Variety Basket"** investment deposit based on prices of commodities such as cocoa, coffee and sugar
  - **"Born Winners"** structured deposit based on valuations of 5 listed companies
  - **"Lions of the Trading Floor II"** structured deposit based on WIG20 index
  - **"Autumn Treasures"** deposit for new funds.
- Introduction of insurance of electronic devices and household equipment.
- Implementation of the "2-in-1" card which combines a credit card with a cash loan and the Your Liability and Your Travel Insurance on credit cards for retail customers.

Furthermore, clients who hold mBank payment cards can benefit from a new discount program called mOkazje. It is the first European implementation of merchant funded rewards program. mBank uses its real-time CRM engine to identify patterns in customers' transactions and to match those patterns to relevant merchant offers. Customers have access to the mOkazje program within their transaction history or though dedicated tab in the internet banking. mOkazje are also available using dedicated Facebook application and New mBank mobile applications.

For micro- , small and medium enterprises:

- Launch of de minimis loan guarantees under an agreement with Bank Gospodarstwa Krajowego. The Agreement supports broader accessibility of loans for SMEs. In 2013, nearly 500 clients used the products and the loans with de minimis guarantees for microenterprises stood at PLN 38.1 million.
- European Investment Bank (EIB) loans for natural persons who carry out an economic activity, self-employed professionals, civil partnerships and joint stock companies which employ less than 250 staff.
- Implementation of the process of on-line opening of business accounts for existing and new clients.
- Implementation of the process of opening of accounts for limited liability companies, associations, foundations and co-operatives.

- Introduction of the mBusiness account with a POS terminal (featuring a free-of-charge cash services at mBank branches and free-of-charge transfers from the corporate account).

- Modification of the risk scoring process whereby credit decisions are made based on scans of documents sent by an adviser to an analyst.

For Private Banking and Wealth Management clients

- Launch of the FIZelina application which supports non-public issues of closed-ended fund certificates. The main idea behind the application was to ensure uniformity of offering documentation and facilitate the subscription process. Another important goal of the implementation was to enhance the processing of non-public issues.

- Introduction of a new Aggressive SME Strategy developed for investors interested in above-average profits who accept high risk (strategies managed by mWealth Management ranked at the top of the Asset Manager ranking published by the Gazeta Giełdy Parkiet daily).

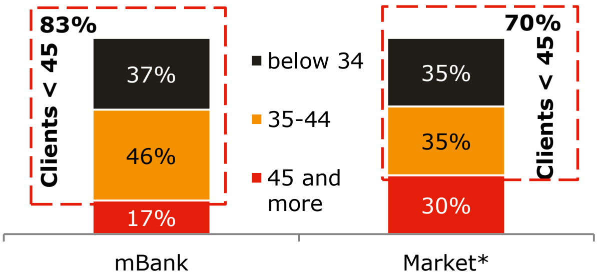
10.1.3. Mortgage customer profile

mBank attaches special importance to maintaining the highest quality of its loan portfolio, including mortgage-secured exposures which represent a significant proportion of the Bank's retail loans. In this context, the mortgage customer profile is a particularly important source of information and it is regularly reviewed by the Bank. This allows mBank to better understand the risk inherent in lending, to assess the customers' satisfaction with the Bank, and to build a tailored lending offer. Regular surveys conducted by mBank on a large sample of borrowers are an important source of information on the Bank's mortgage customers.

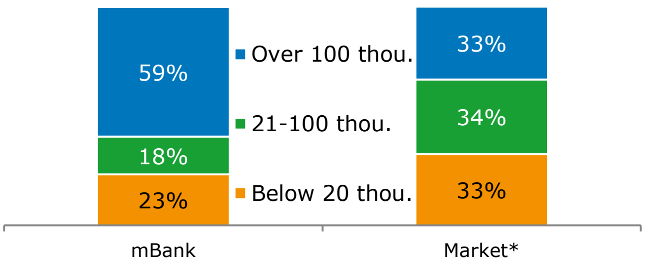
The surveys include a 2013 CATI survey (i.e. Computer Assisted Telephone Interview) conducted on a sample of more than 3.2 thousand mortgage customers of the Bank.

The survey methodology was based on a randomly selected sample of original holders of mortgage loans including weights adjusted to the market benchmark profile in terms of the customers' gender and the currency of the loan. The market data were sourced from the 2012 Retail Banking Audit (ABD) performed by TNS Polska. The review indicates a positive positioning of mBank in the context of the present and prospective quality of the housing loan portfolio. The favourable demographics and social characteristics of the Bank's customers is reflected in the highly regular payment of loan instalments, as well as a strong potential for further cross-selling of other banking products. Selected results of the survey are presented in the charts below.

Customer age



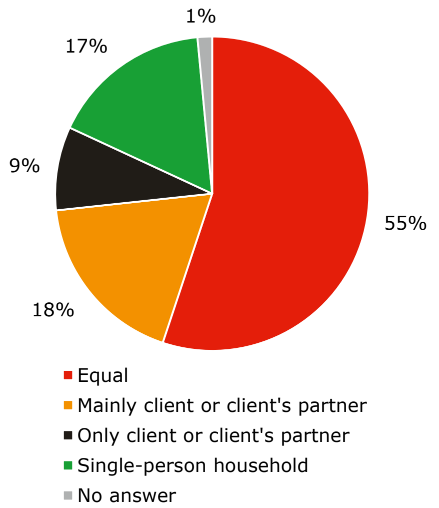
Customer domicile by number of inhabitants



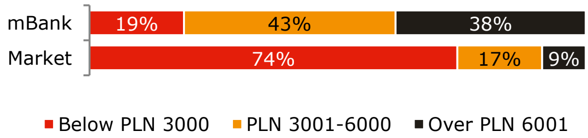
*Source: ABD Survey

83% of mBank's mortgage customers are less than 45 years old, as compared to a market benchmark of 70%. Furthermore, the proportion of the Bank's customers who live in larger cities its much higher than the benchmark. As the number of job openings and the amount of salaries increase with the size of the urban center, the current age and domicile structure of mBank's mortgage customers is conducive to a timely loan repayment. Furthermore, mBank's mortgage loan portfolio is concentrated in areas of low unemployment owing to the Bank's strategy of locating retail branches in Poland's most attractive regions. No less than 59% of the Bank's mortgage customers live in Poland's biggest and dynamically growing cities: Warsaw, Kraków, Poznań, Łódź, Wrocław, and the Tricity.

Participation in providing for client's household

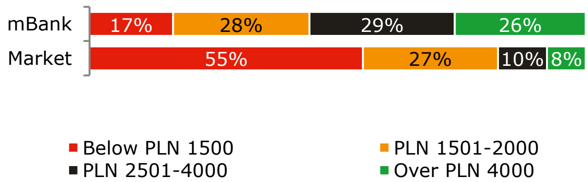


Monthly client's individual net income



* Source: ABD survey

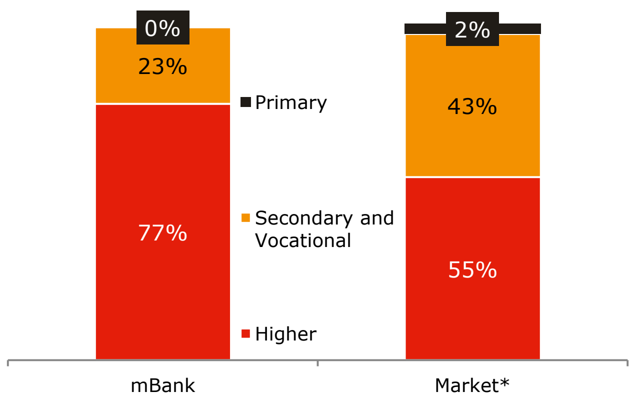
Monthly income per person in the client's household



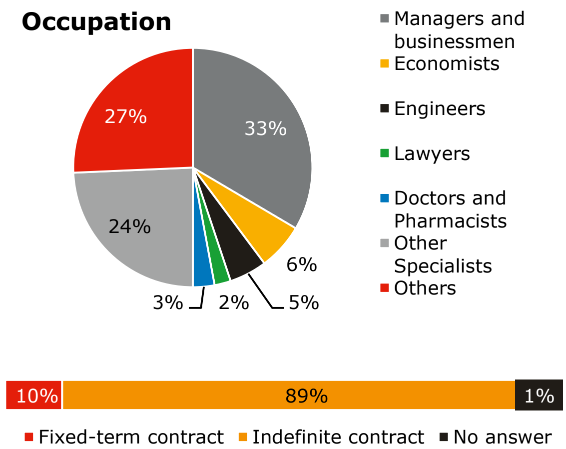
* Source: 2011 Social Diagnosis

Nearly 80% of mBank's mortgage customers declare an income above PLN 3 thousand, compared to a benchmark of only 26%. In addition, mBank's customers are statistically more affluent as measured by disposable income per household member compared to the benchmark. Importantly, loan repayment is a liability of two members of a household in case of as many as 73% of all loans granted by the Bank. This ensures better safety of debt payment in the event of any problems on the labour market.

Education



Occupation



* Source: ABD survey

The vast majority of mBank's mortgage customers have a better educational and professional profile than the benchmark: nearly 90% are employed under contracts of indeterminate duration, while their professions are sought after and well-paid.

Similarly to previous years, mBank plans to continue and expand the reviews of its customer base in 2014 to support both the on-going monitoring of the loan portfolio characteristics as well as to enhance the supporting information accompanying the future issues of covered bonds backed by retail mortgage loans.

10.1.4. Branch network

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

As of June 30, 2013, the mBank network, managed through Aspiro, covered 92 locations (24 Financial Centres, 62 mKiosks and 6 partner mKiosks) and 21 Agent Service Points across Poland.

Moreover, mBank branch network operates through 133 outlets of former MultiBank (71 Financial Service Centres and 62 Partner Outlets) and the number remained unchanged compared to the end of 2012. The former MultiBank network is focused predominantly on larger urban areas reflecting the affluent target client group it services.

According to the "One Bank" Strategy, until 2018 all retail and corporate branches will be unified and ready to serve all customers with its wide offer.

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

10.2. Retail Banking in the Czech Republic and Slovakia

10.2.1. Economy and banking sector in the Czech Republic

GDP, inflation, interest and FX rates

For the entire 2013, the Czech National Bank (CNB) forecasts a GDP decrease of 1.3%, after the economy contraction in 2012, when the GDP also decreased by 1.2% compared to 2011. The gross domestic product was declining in all quarters of 2012, as the economic recession was gradually deepening during the year. The main causes of the unfavourable development were: decreasing domestic demand of households for goods and services for final consumption as well as demand of investors for fixed capital. Despite the increasing active balance, the external trade was not able to compensate the domestic demand development any more.

The year on year growth of consumer prices slowed down to 1.4% in December 2013, compared with 2.4% at the end of 2012. The same value of 1.4% reached also the average inflation rate for 2013, dropping by 1.9 percentage point from the preceding year level of 3.3%, and was the lowest since 2009.

Throughout 2013 the interest rates remained unchanged and the repo rate was maintained at 0.05%. In November 2013, the CNB started forex interventions with the aim to weaken the currency and further relax monetary conditions. According to the declaration of the central bank's governor, CNB will keep the exchange rate close to CZK 27 to the euro till at least the beginning of 2015.

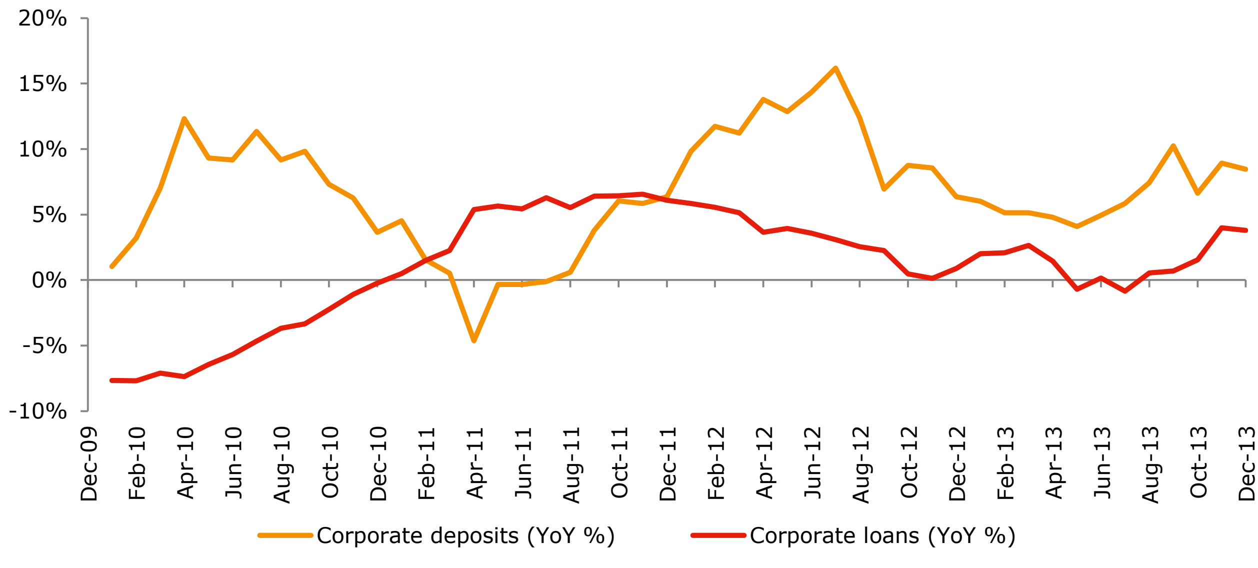
The seasonally adjusted unemployment rate reached 6.8 % in December 2013 and decreased by 0.4 percentage point year on year.

According to the forecast of the Czech National Bank on the economic situation in the Czech Republic for 2014, average annual inflation adjusted for the effects of changes in indirect taxes in 2014 will reach 1.0% (0.2% for Q1, with an expected increase to 1.9 % at the end of the year). GDP growth in 2014 is expected to accelerate to the level of 2.2%, which means that the Czech economy is going to expand more dynamically in comparison to 2013. What is more, further relaxation of monetary policy in the Czech Republic will result in lowering interest rates to 0.4% in 2014. An increase in the level of interest rates is expected in 2015.

Banking sector

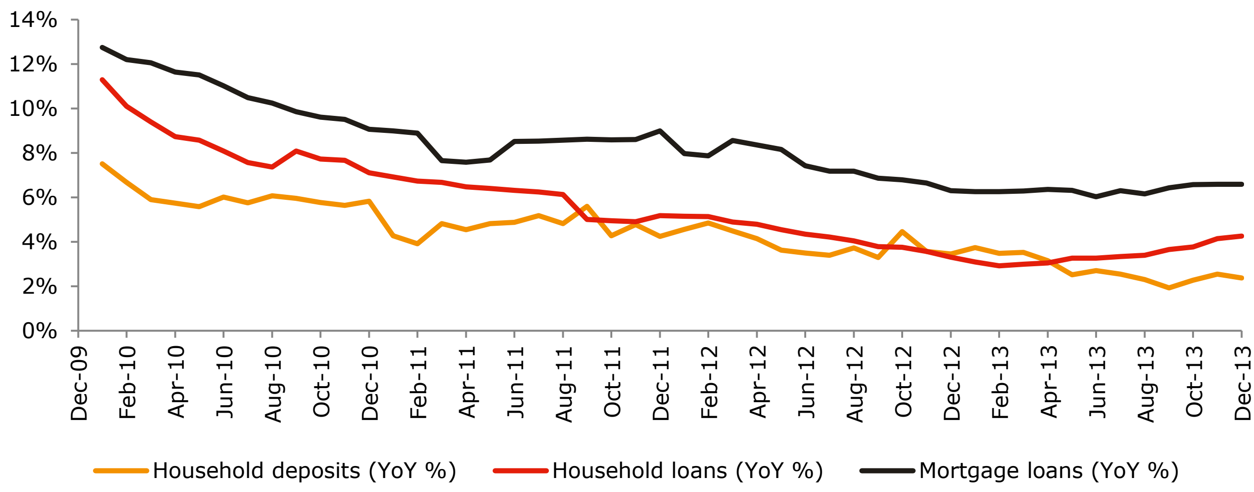
The total assets of the Czech banking sector stood at CZK 5.2 billion at the end of December. In the last months of 2013, all loan segments experienced improvements or stabilisation: mortgages remain the major driver both in terms of volumes and growth momentum, while corporate lending recovered to 4% year on year following zero growth in 2012.

The Czech Republic: Corporate Loans and Deposits



Corporate loan demand in the Czech Republic has already recovered to some extent. Long-term loans have the largest share in the overall stock of corporate loans and their volume had been rising since autumn 2008. The share of non-performing loans in the total volume of loans to non-financial corporations has been declining since 2011, amounting to 7.1% in December 2013. After only moderate growth of corporate deposits in H1 2013, the volume started to show cyclical improvement following better business perspectives.

The Czech Republic: Household Loans and Deposits



The volume of loans to households grew at low, but stable pace throughout 2013. As regards the breakdown of loans to this sector by purpose, loans for house purchase were the largest item, accounting for 72% of the total volume of loans to households. Banks in the Czech Republic granted 92.6 thou. mortgage loans worth a record CZK 149.3 billion to citizens in 2013, the volume of the newly granted loans being almost 23% higher compared with 2012. Unlike the previous years, the overall production was influenced by the trend of refinancing, which accounted for about one-third of the total production. In 2012, banks provided 73.6 thou. mortgage loans worth CZK 121.6 billion in total to citizens, which was an annual increase of 2.1% in the volume of the newly granted loans. The share of non-performing loans in the total volume of loans to households was 5.0% in December 2013. Household deposits have still grown, however the growth pace has been showing consistent declining trend over the recent years.

10.2.2. Economy and banking sector in Slovakia

GDP, inflation and interest rates

A year on year economic growth continued in the Slovak Republic in Q3 2013. Compared with the analogical period of 2012, the GDP growth rate increased at constant prices by 1 percentage point to 0.9%. Economic development was affected by a growth of non-domestic demand and a fall of domestic demand. Export of goods and services increased by 1.9% whilst there was a decline of imports of goods and services by 0.4%. Domestic demand fell by 1.2% as a result of a reduction in production of gross capital by 6.4% whereas production of gross fixed capital decreased by 9.8%. In Q1-Q3 2013, the GDP moderated by 1.6 percentage point to 0.7% year on year. In 2012, a year on year growth rate of GDP reached 2.0% at constant prices and was higher by 1.2 percentage point compared with 2011.

In December 2013, annual inflation reached a value of 0.4% in total, and core inflation stood at 0.4% as well. Average annual inflation rate measured by harmonized index of consumer prices amounted to 1.5% for 2013.

In Slovakia, as a member of euro zone, the key interest rate, set by the European Central Bank (ECB), decreased by 0.25 percentage point to 0.25% on November 7, 2013.

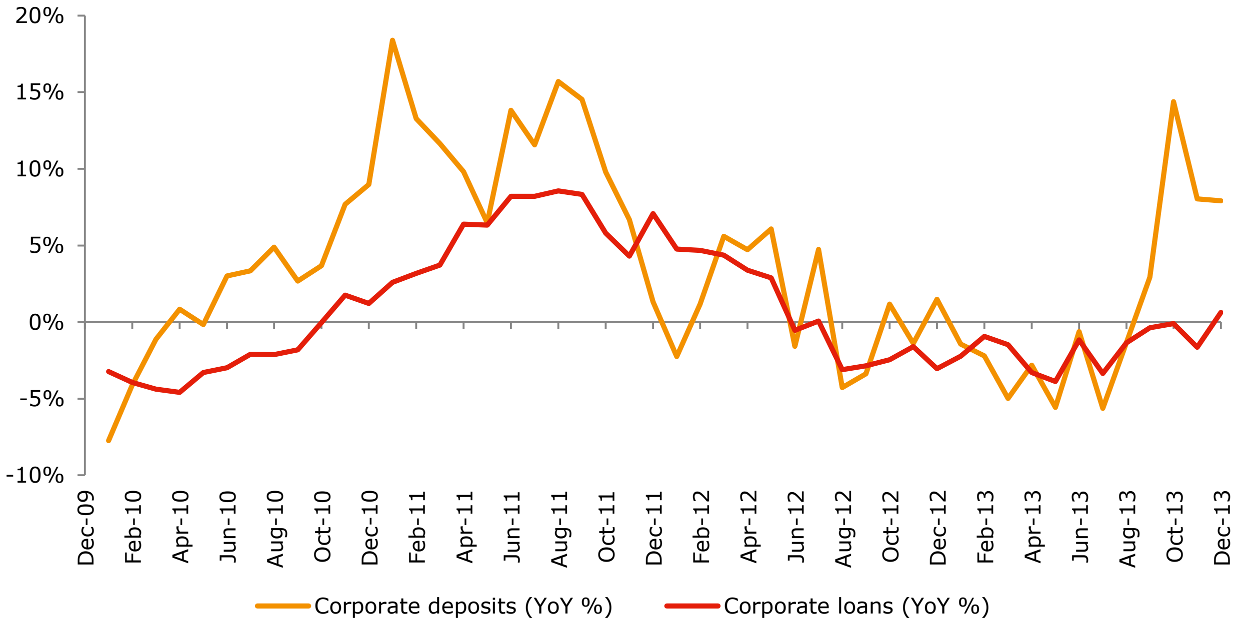
Unemployment in Slovakia remained at 13.5% in December 2013, the same figure as in November when it was record-low in over one year.

According to the National Bank of Slovakia's forecasts, the country's economy output is expected to increase by 2.3% of GDP in 2014 and 3.3% in 2015. The foreseen upgrade in development trajectory is due to faster growth of the domestic economy in 2014 and the expected improvement in export performance in 2015. More favourable expansion in investments and higher growth of consumption by the public administration should translate into inflation deceleration to 0.6%, whereas consumer demand should accelerate to 1.9%. The significant decrease of inflation is expected to result in a real salaries increase and household consumption rebound. The situation on the job market remains stable, indicating a gradual growth of employment in H1 2014.

Banking sector

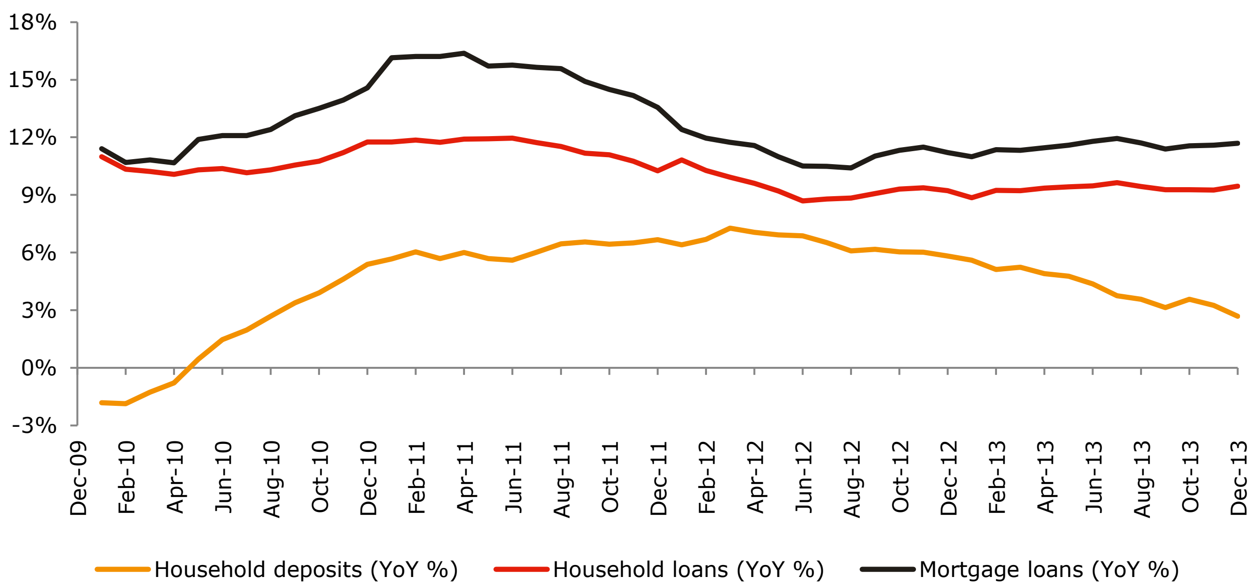
The total volume of bank loans in the country grew by 3.9% to EUR 37.0 billion, thanks to the growing debt of the population. Client deposits at banks increased by 4.3% to EUR 44.6 billion in 2013.

Slovakia: Corporate Loans and Deposits



Lending to enterprises continued to decline year on year, but the decrease in corporate loans was not homogeneous with regard to the structure of the economy, whereas the segment of small and medium-sized enterprises recorded even a moderate increase in loans. December 2013 was the first month since the end of H1 2012 when corporate loans recorded a marginal increase. As demand for loans being weak, credit standards maintained a moderately tightening trend that was reflected mainly in the interest margins on smaller loans. The margins on mid-sized and large loans remained on a stable trajectory. The share of non-performing loans in the total volume of loans to non-financial corporations amounted to 7.5% at the end of 2013, compared to 7.4% at the end of 2012. The corporate deposit base showed significant increase in Q4 2013, after the previous contraction.

Slovakia: Household Loans and Deposits



Retail lending in Slovakia continued to grow rapidly in recent years, mainly due to housing loan acceleration, with the year on year pace close to 10% in 2013. Compared with other EU countries, the ratio of household debt to disposable income has been very low in Slovakia, however, at the same time, it has been rising at the fastest pace in Europe. The current low interest rates have supported a demand for loans for housing purposes but this development have not exerted pressure on real estate prices.

House prices in Slovakia fell again in Q4 2013 and reached the lowest level in over 6 years. The prices were thus the lowest since the spring of 2007 and dropped by 2.6% year on year. No significant changes are expected on the Slovak real estate market in the near future. One reason for this is the fact that a significant part of new loans is not used for gaining new housing but for refinancing of older, less advantageous loans. The average LTV (i.e. Loan to Value ratio) ratio for new loans continued to hover around 70% in 2013.

Retail deposits grew at a slower and declining pace during 2013 (+2.1% in comparison to +3.4% growth in 2012), due to the shift of funds from time deposits to sight deposits, daily time deposits and deposits redeemable at notice. There was also some movement of funds out of bank accounts into investment funds.

10.2.3. Summary of Foreign operations of mBank

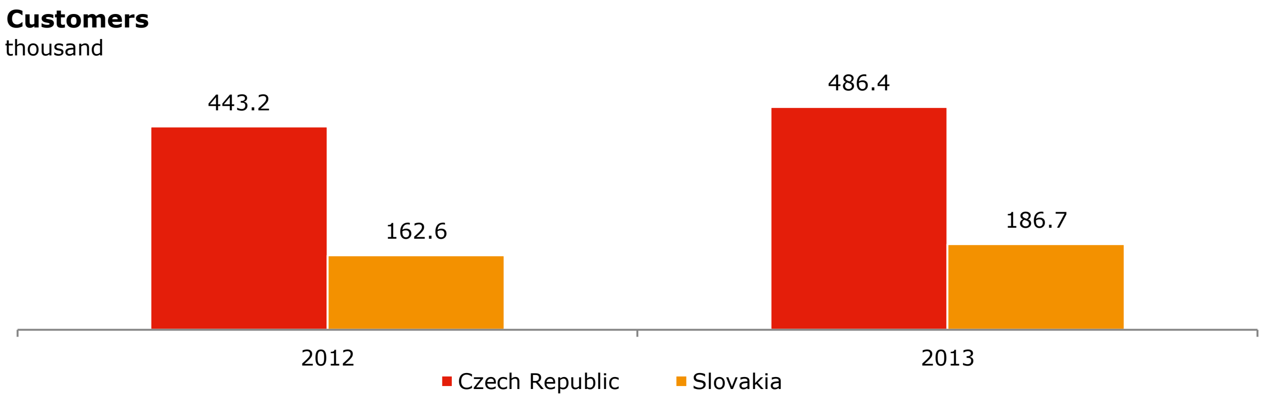
mBank in the Czech Republic and Slovakia provides its retail banking services to individual clients. The Bank offers products such as current accounts, savings accounts, payment and credit cards, overdrafts or housing loans. In addition, clients of mBank in the Czech Republic are provided with financial advisory services.

<table>
<tr><th>mBank in the Czech Republic</th><th>mBank in Slovakia</th></tr>
<tr><td colspan="2">2013 in figures</td></tr>
<tr><td colspan="2">▪ Profit before income tax totalled PLN 14.4 million, up by 16.9% year on year.</td></tr>
<tr><td colspan="2">▪ The Bank generated total income in amountof PLN 88.1 million compared to PLN 72.5 million in 2012 (+21.5%).
▪ The key driver of improved performance was the higher net interest income (+16.1% year on year) and net fee and commission income (+36.9% year on year).</td></tr>
<tr><td>▪ Mortgage loans of mBank clients stood at 1.3% of the mortgage loans market.</td><td>▪ Mortgage loans of mBank clients stood at 0.6% of the mortgage loans market.</td></tr>
<tr><td>▪ Deposits of mBank clients stood at 1.1% of the retail deposits market.</td><td>▪ Deposits of mBank clients stood at 1.6% of the retail deposits market.</td></tr>
</table>

10.2.4. Retail customers

mBank in the Czech Republic and Slovakia had 673.1 thousand clients at the end of December 2013 (486.4 thousand at mBank CZ and 186.7 thousand at mBank SK). In 2013 the Bank acquired 67 thousand new clients.

The graph presents the change in the number of retail clients in 2012-2013.



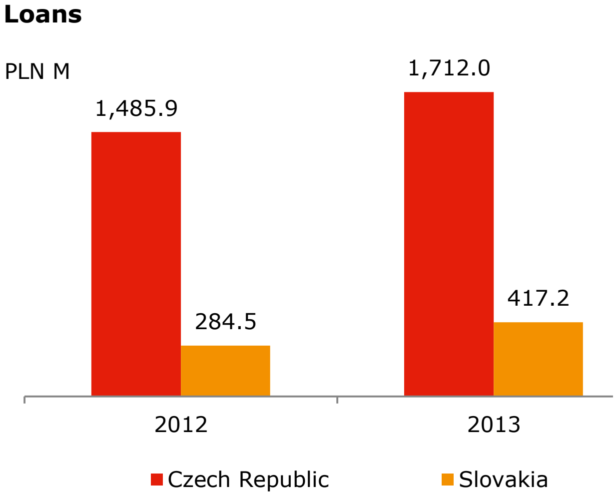
10.2.5. Retail Banking offer development

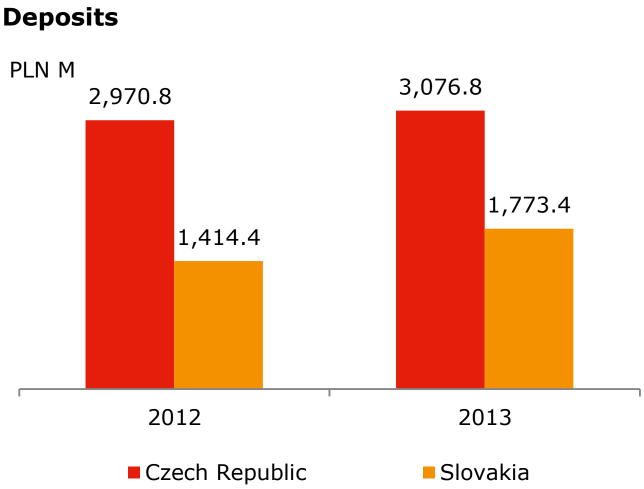
Loans and deposits

At the end of December 2013, the value of loans granted by mBank in the Czech Republic and Slovakia stood at PLN 2,129.1 million (mBank CZ - PLN 1,712.0 million, mBank SK - PLN 417.2 million), which represents an increase by PLN 358.6 million or 20.3% year on year.

At the end of December 2013, the value of deposits collected by mBank in the Czech Republic and Slovakia totalled PLN 4,850.2 million (mBank CZ - PLN 3,076.8 million, mBank SK - PLN 1,773.4 million), which represents an increase by PLN 465 million or 10.6% year on year.

At the end of 2012 and 2013, the structure of the Bank's retail loans and deposits was as follows:





Cards

At the end of December 2013, the total number of debit and credit cards issued in the Czech Republic and Slovakia reached 1,026.7 thousand and 37.5 thousand respectively.

Development of the product offer

- Launch of a remote credit process for non-mortgage loans in the Czech Republic and Slovakia.
- Implementing an on-line process of opening accounts in the Czech Republic.
- Extending the availability of the call center (up to seven days per week).
- Expanding the list of external partners offering mBank loans in the Czech Republic and Slovakia.

10.2.6. Branch network

The number of foreign mBank outlets remained unchanged compared to the end of 2012. In the Czech Republic, the network consists of 26 outlets (9 Financial Centres and 17 mKiosks), and 9 in Slovakia (4 Financial Centres and 5 mKiosks).

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

The Czech Republic:

Slovakia:

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

11.1. Main directions of change in the management of risk area

The Group manages risks on the basis of regulatory requirements and best market practice, by developing risk management strategies, policies and guidelines.

According to the Group's Strategy "One Bank for Clients and Employees" for 2012-2016 approved by the Management Board and the Supervisory Board, the Bank has modernised the Risk Area's organisational structure in order to reflect the client-centric approach and integrated responsibility for all kind of risks.

The mBank Group risk management concept is based on three lines of defence which represent:

- **Primary responsibility of Business for risk** – risk management in Business operations.
- **Responsibility of the Risk area** – understood as defining processes, providing substantive support, making business decisions, as well as measuring, mitigating, monitoring and reporting the Group's risks. This line of defence ensures independent supervision of the "underlying responsibility of the Bank for risk".
- **Role of internal audit** – defined as providing independent assessment of business and risk.

The Bank's Risk Area operates within the following organisational structure:

Deputy President of the Management Board and CRO

Retail Risk Department

- Developing risk management rules and processes.
- Accepting products, taking into account impact on different risks and regulatory and economic capital requirements.
- Defining credit risk strategy, including reporting policies.
- Defining credit procedures and processes.
- Methodology of credit decision-making.
- Credit risk assessment.
- Credit decisions for retail products.
- Administering the credit portfolio.
- Debt enforcement and restructuring and process methodologies.
- Developing creditworthiness models.
- Portfolio analysis.
- Preventing credit fraud and controlling operational risk in the credit process.

Corporate Risk Assessment Department

- Developing credit policies for corporate clients, countries, financial institutions.
- Credit decision-making (or participation) for regular and irregular exposures, taking into account impact on operational, reputation and liquidity risks, capital requirements and return on equity.
- Analysis, assessment and controlling of credit risk of countries, banks, international financial institutions and non-financial clients of the Bank and the Group subsidiaries.
- Early Warning (EW) of impaired corporate client creditworthiness including management of the Watch List (WL).
- Controlling compliance with credit limits of countries, banks, international financial institutions and non-financial clients of the Bank and the Group subsidiaries.
- Managing the Bank's credit risk provisions.

Corporate Risk Processes Department

- Managing the corporate credit process.
- Defining and administering credit instructions and procedures.
- Development of scoring models.
- Modelling (Retail and Corporate Banking).
- Sector analysis and recommendations (defining sector risk appetite).
- Preparing reports and ensuring reporting of credit risk parameters.
- Managing and developing the credit decision-making system.
- Supporting Business in the optimisation of the Bank's credit client service processes.
- Settlement and accounting for non-standard corporate clients.

Financial Markets Risk Department

- Measuring, controlling and monitoring market risk, interest rate risk of the banking book, liquidity risk and counterparty risk.
- Methodologies of measuring market risk, interest rate risk of the banking book, liquidity risk and counterparty risk.
- Methodologies of valuation of financial instruments.
- Controlling and valuation of transactions and results of front-office units.
- Substantive administration of front-office systems and the risk measurement system.
- Controlling the Bank's participation in WIBID/WIBOR fixing.

Integrated Risk and Capital Management Department

- Risk and capital integration under ICAAP (Internal Capital Adequacy Assessment Process).
- Controlling capital adequacy, planning and limiting risk capital.
- Integrating risk valuation (economic capital, provisions, stress testing).
- Integrating non-financial risks including operational risk.
- Validating quantitative models.
- Internal control system.
- SREP – Supervisory Review & Evaluation Process.

Projects and Risk Architecture Management Department	▪ Managing the risk project portfolio. ▪ Competence centre for process management. ▪ Developing and optimising risk process architecture. ▪ Managing risk IT applications of Risk area (business maintenance and development). ▪ Managing risk data and co-operating with Finance area within the centralised MIS.
Foreign Branches Risk Department (from February 1, 2014)	▪ Managing Retail Banking credit risk, credit risk assessment process, participating in client's credit decision making. ▪ Credit administering and settlements. ▪ Debt enforcement and restructuring, controlling operational risk in the credit process.

Risk responsibilities are based on the following pillars of organisational management:

- **Client-Centric Approach** – understanding the needs of the Risk area clients.
- **One risk** – integrated approach on risk management.
- **Risk v. return rate** – supporting Business in the decision-making process and defining the Bank's risk appetite on the basis of long-term relationship between risk and rate of return.

A new initiative of the Risk Area was added in 2012 to the One Bank Strategy implemented in 2012-2016: "Approach to Risk Management". It includes a range of projects grouped in five themes:

- Strengthening the business-risk Dialogue.
- Review of risk appetite definitions.
- Improvement of the credit process.
- Improvement of Risk employee competences.
- Simplification and integration of the risk IT structure.

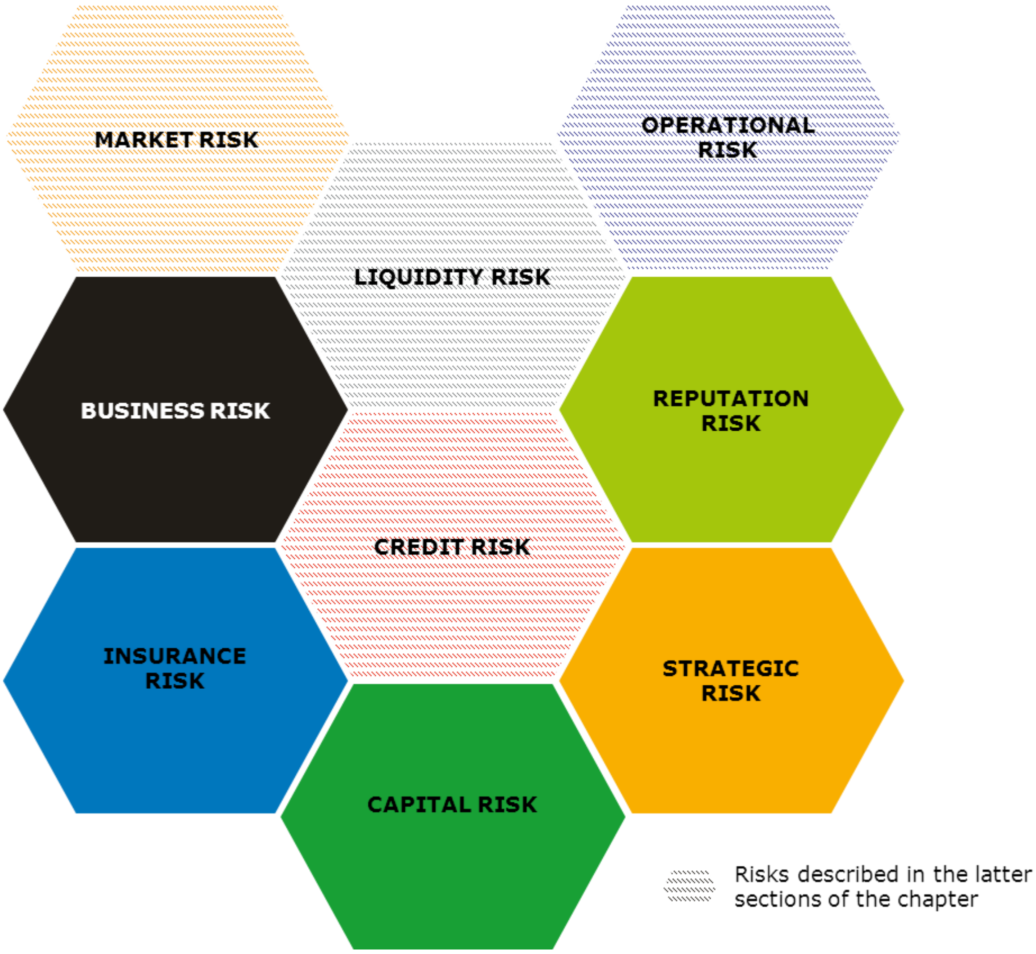
One of the outcomes of risk efforts in the implementation of the One Bank Strategy was the establishment of the Risk Forum in early 2013. The Risk Forum includes the following committees which are the decision-making and communication platforms based on the concept of strengthening the business-risk dialogue:

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

11.2. Main risks of the mBank Group's business

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

Within the Group's risk inventory process implemented under the principles of ICAAP, the following risks were inherent to the operations of the Group:



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

11.3. Credit risk

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

Credit risk management tools

Credit risk inherent in financing of mBank Group clients is assessed based on shared statistical models (developed for the AIRB approach) and uniform tools, and is based on common definitions of terms and parameters used in the credit risk management and rating process. mBank ensures their cohesion at Group level.

The Group uses different models for particular client segments. The rules governing the clear assignment of clients to a system are defined in the Group's internal regulations.

mBank and the Group subsidiaries in their credit risk management process use the core risk measures defined under the AIRB approach:

- PD – Probability of Default (%)
- LGD – Loss Given Default (%)
- EAD – Exposure at Default (amount)
- EL – Expected Loss (amount)

as well as related measures including:

- RD – Risk Density, which is defined as EL to EAD (%)
- LAD - Loss at Default, where PD=100% (amount).

In the decision-making process, for reporting and communication with business units, PD and EL are expressed in the language of rating classes whose definitions (Masterscale) are uniform across the Commerzbank Group.

In its credit risk management process, the Bank also attaches great importance to the assessment of unexpected loss risk. Capital required to cover unexpected loss is estimated at a confidence level of 99.91%. For this purpose, the Bank uses the following measures:

- RWA – Risk Weighted Assets used under the AIRB approach to calculate regulatory capital required to cover credit risk (unexpected loss)
- CVaR – Credit Value at Risk, or economic capital required to cover the risk of unexpected credit loss, calculated according to the Bank's internal methodology in the ECVaR model which measures the frequency and severity of particular losses conditioned also by the exposure value. As a result, the share of capital charges of particular clients grows more than proportionally along with the rise in the client's exposure, which results in adequate identification of risk concentration by the model.

In managing mortgage-secured credit exposure for different types of real estate and also for different products, the Group uses the LtV ratio - Loan to Value, i.e., the loan amount to the market (or mortgage banking) value of the real estate which secures the loan.

Thanks to its simplicity, this measure is broadly used in communication with clients and in the construction of price matrices for credit products.

Stress testing is an additional tool of credit risk assessment which supplements VaR measurement of credit risk. Stress testing of the economic capital required to cover credit risk is measured quarterly.

Stress tests of credit risk are two-dimensional, analysed separately and jointly:

- the analysis of sensitivity of ECVaR model indications to assumptions concerning credit exposures (e.g., correlation) – i.e., parametric tests
- the analysis of extreme credit losses on the assumption of an unfavourable macroeconomic situation – i.e., macroeconomic tests in which an econometrical model forecasts values of input parameters for the economic capital model (PD, LGD) based on assumptions of the Chief Economist about macro parameters in the case of the negative economic scenario. The risk parameters developed according to the above scenario form the basis for calculating economic capital both before and after the assumptions of parametric tests are taken into account.

In addition to the tools listed above, which are applied both in corporate and in retail credit risk measurement, the Group uses tools specific to these areas.

For corporate credit risk, the mBank Group estimates maximum exposure to a client / group of related clients using the following credit risk mitigating measures:

- MBPZO – Maximum Safe Total Exposure, which defines the maximum level of financial debt of an entity from financial institutions calculated under the Bank's methodology, approved by mBank's competent decision-making body.

- LG – General Limit, which defines the level of credit risk financial exposure to a client / group of related clients acceptable to the Group, approved by mBank's competent decision-making body. LG includes a structured limit and products granted outside the structured limit, including exposures of both mBank and the Group's companies.

To minimise credit risk, the Group uses a broad range of collateral for credit products, also necessary to actively manage the capital requirement. In their assessment of the quality of risk products, mBank uses the MRV ratio – Most Realistic Value, which reflects the worst-case scenario of debt enforcement through forced sale of collateral.

In addition, the decision-making process and the assessment of profitability per client in the CRM system use the RAROC ratio – Return on Risk Adjusted Capital, or return on the capital invested in risk products.

Retail credit risk measures are constructed to reflect the characteristics of this customer segment and, in the case of portfolio measures, the high granularity of the loan portfolio:

- DtI – Debt-to-Income, i.e., monthly credit payments to the net income of a household, used for individual customers.

- DPD – Days-Past-Due, a family of portfolio risk measures based on the number of days past due date (e.g., share of contracts which are from 31 to 90 days past due date in the total portfolio by number or by value).

- Vintage ratios, which represent the quality of cohorts of loans disbursed within a certain time bracket (e.g., each quarter) at a different phase of their lifetime, based on DPD.

- RC LLP – Risk Cost LLP, the cost of risk for a loan portfolio (segment), i.e., increment in loan loss provisions to the performing loan portfolio balance.

- Roll-rates, which measure the migration of contracts between days-past-due brackets (1-30, 31-60, 61-90 DPD, etc.).

Credit risk strategy – Corporate Banking

The Strategy of the Group's corporate credit risk management is closely correlated with the One Bank Strategy and aims to improve co-operation in credit risk measurement and management as well as to safely define risk appetite. According to ICAAP assumptions, the Strategy is complemented by detailed credit policies and banking procedures both in mBank and the Group subsidiaries which generate credit risk and impact the quality of corporate credit risk management. The implementation of uniform risk measures and risk controlling processes at Group level takes into account the specificities of the Group entities. The Bank makes sure that the process does not affect client relations.

The diversified approach to corporate clients is tied to the client's risk level as measured by PD and credit risk concentration measured with LaD or CVaR of a client or group of related clients, taking into account the exposure of the Group subsidiaries.

The credit decision-making system is consistent with the Corporate Credit Risk Management Strategy and the approved principles of the Credit Risk Policy. The competent decision-making levels are defined in a decision-making matrix. On that basis, depending on the EL rating and the aggregate exposure of a client or group of related clients, the appropriate decision-making level responsible for the credit decision is assigned. In addition, based on CVaR, decision-making may be elevated up to the Management Board of the Bank.

The Bank manages credit risk and the integrated operational process within the Group in a comprehensive manner. Risk management is supported by analyses of mBank Group credit portfolio structure and the resulting formal limits, guidelines and recommendations on the Group's exposure to selected companies, sectors and geographic markets. In its current credit risk management and determination of concentration risk, mBank performs quarterly portfolio analyses using a Steering Matrix which incorporates PD rating and LAD v. CVaR.

In order to mitigate the risk of lending and guarantees, mBank Group classifies and monitors credit risk products. The Group uses write-offs and provisions under the International Financial Reporting Standards (IFRS). mBank also controls the credit portfolio on quarterly basis including an analysis of the dynamics of change in the size and (sector) segmentation of the credit portfolio, client risk (PD rating), the quality of collateral against credit exposures, the scale of change in EL, Risk Density, and default exposures.

In Corporate Banking, the Group avoids concentration in industries and sectors whose credit risk is considered excessively high. The acceptable risk level is defined taking into account market segmentation and sector concentration limits. In compliance with PFSA's Recommendation S, the Bank has identified a mortgage-secured credit exposure portfolio, not only in Retail Banking but also in Corporate Banking. mBank manages the mortgage-secured credit exposure portfolio risk with a focus on defining an optimised portfolio structure in terms of quality (rating), currencies, country regions, tenors, and types of properties. The main principles of mortgage-secured credit exposure risk management in Corporate and Investment Banking, the risk profile, the division of responsibilities, the rules of determining internal limits, and the rules of reporting are set out in the mBank Mortgage-Secured Credit Exposure Risk Management Policy.

Credit risk strategy – Retail Banking

Lending in Retail Banking is a key segment of the mBank Group's business model, both in terms of the share in total assets and the contribution to its profits.

mBank's retail credit offer covers a broad range of products financing the needs of individual customers (OF) and small companies (MF). The scope and construction of the offer derive from the One Bank Strategy, whereby credit products in combination with the state-of-the-art transactional platform, savings and insurance products address all financial needs of clients within the Group.

Apart from the Polish market, Retail Banking credit products are offered (since 2007) through the foreign branches (OZ) of mBank in the Czech Republic (CZ) and Slovakia (SK) in an online banking model similar to that operating in Poland (under the "mBank" brand) since 2000. The share of the foreign branches' exposure portfolio was less than 6% of the aggregate retail portfolio at the end of 2013 (by value). The Bank ensures the coherence of the credit risk management policy on all markets; any differences in specific rules or parameter values derive from the specificities of local markets or different goals of business strategies and are at each time subject to approval by the Retail Banking Risk Committee.

As credit exposures are highly granular (more than 1.7 million active loans), the Retail Banking credit risk management process is based on a portfolio approach. This is reflected in the statistical profile of risk rating models including the models which fulfil the regulatory requirements of the Advanced Internal Ratings-Based approach (AIRB). The AIRB parameters (PD, LGD and EL) are used widely in order to estimate credit requirements, to determine acceptance criteria and terms of transactions, and to report risks.

Furthermore, Retail Banking credit risk management has the following characteristics:

- High standardisation and automation of the credit granting process, including decision-making, both in acquisition, post-sale services, and debt collection.

- Little (as compared to Corporate Banking) discretionary competences in the decision-making process (e.g., no discretionary adjustment of clients' ratings).

- Alignment of decision-making endowment with mass acquisition, including automation of decision-making for selected transactions.

- Extensive risk reporting system based on portfolio analysis of credit exposure quality, including vintage analysis and days-past-due analysis.

Under the portfolio approach, exposures are classified (separately for each market) as ML (mortgage-secured products) or NML (unsecured products or products with collateral other than mortgage). Furthermore, the segmentation includes products for individuals (ML OF, NML OF) and products for business clients (ML MF, NML MF). The segmentation serves two main functions:

- Ensuring correct alignment of risk rating methods (models, procedures, required documentation) with the client's risk profile, exposure and business requirements.

- Defining homogeneous transaction sub-portfolios to enable adequate quantitative assessment of quality in the context of the generated income margin.

The main point of reference in the Retail Banking credit risk management process is risk appetite defined in correlation with the One Bank Strategy which provides for:

- Optimisation of the balance-sheet structure in terms of profitability and financing by reducing the growth rate of credit portfolios with long tenors (and low margins) while supporting growth of short-term loans (with high margins).

- Developing long-term financing of the Group with covered bonds issued against retail mortgage loans.

Taking into account the above goals of the Strategy, the Bank continued to focus its NML policies on lending to existing clients with a high creditworthiness (c. 4/5 of NML acquisitions) while systematically growing the acquisition of external clients. To reduce operational risks of accepting new clients, the Bank develops its credit policy using, among others, credit testing and is actively developing its fraud prevention system.

For long-term loans (ML segment), the Bank maintains a conservative policy of borrower creditworthiness and credit rating to offset the higher probability of systemic risks materialising within the lifetime of a loan. In view of the current low interest rate environment, in its creditworthiness rating the Bank focuses among others on long-term interest rate estimates.

In retail mortgage lending, in order to mitigate the risk of impairment of mortgage collateral in relation to the value of credit exposure, the Bank addresses its credit offer mainly to clients who buy properties, within large urban areas.

As of 2014, the Bank will introduce modifications to the rules of mortgage lending (mainly to make them more restrictive) as stipulated in Recommendation S, including gradual reduction of the maximum LtV and the requirement of the compliance of loan currency to currency of the borrower's income. The modifications will facilitate a programme of cooperation between mBank and mBank Hipoteczny which started in Q4 2013 and aimed at sales of housing loans to the Groups retail clients. According to the plan's assumptions, retail housing loan portfolio of mBank Hipoteczny will be financed by issuing covered bonds backed by residential mortgage loans.

In its credit risk management process, the Bank attaches great importance to communication between Risk and Retail Banking. The Retail Banking Credit Policy Committee, established in 2010, is a platform of decision-making and dialogue between the two business lines. As of 2014, the Committee has been transformed into the Retail Banking Risk Committee. Under a new concept it covers both credit risk and all secondary risks (reputation risk, legal risk, operational risk, data quality risk, etc.).

11.3.1. Quality of the loan portfolio

The share of default exposures in gross loans and advances to clients as of December 31, 2013 was 6.0% compared to 4.9% in 2012. Provisions for loans and advances decreased from PLN 2,236.2 million at the end of 2012 to PLN 2,093.0 million at the end of 2013, and the IBNI (Incurred But Not Identified) loss provision increased from PLN 169.5 million to PLN 229.6 million over that period.

The ratio of provisions to default loans (coverage ratio) stood at 47.4%, compared to 65.7% a year earlier.

At the end of November 2013, mBank brought credit risk parameters used for the impairment valuation in the retail banking area into compliance with analogous parameters applied under the AIRB methodology after having eliminated differences between the approach under the IFRS 39 and the principles of Basel II. The main change lied in the identification of default. Under the new estimates, a default is identified based on all available credit data of the client ('client view'), whereas the old approach was entirely product-based ('product view').

The more conservative approach led to:

- earlier identification of impaired status and consequently, higher volume of impaired loan portfolio;
- higher estimates of recoveries from the portfolio due to a higher rate of return to a normal situation by clients prudentially classified as defaulting on their credit obligations.

As a result of the above changes a default on one of exposures by a single client leads to the same treatment of all other credit products of that client. Previously, a default on a specific exposure by a client did not automatically impact the risk treatment of the remaining exposures of that client. Consequently, a larger amount of impaired loans is reported on the Group level, at the same time benefiting from significantly higher profitability of natural recovery. Similarly aggregation of past due amounts from all credit products and recognition of the oldest past due date result in a significant increase of the impaired loans volume.

In 2013, the Bank sold retail and corporate impaired loan portfolios (default portfolios). The nominal value of sales transactions amounted to PLN 852.1 million (including corporate portfolio of PLN 642.9 million). Sold receivables, in the majority of cases, were highly covered by impairment provisions, and above mentioned transactions have had a significant impact on reducing the defaulted portfolio at the end of 2013 and coverage ratio.

The table below presents the quality of the credit portfolio of mBank as of December 31, 2013, compared to December 31, 2012.

Quality of mBank's Loan Portfolio	31.12.2013 PLN M	31.12.2012 PLN M
Loans and advances to customers (gross)	**65,849.9**	**64,224.1**
Not impaired	61,915.9	61,079.2
Impaired	3,934.0	3,144.9
Impaired as % of gross exposure	**6.0%**	**4.9%**
Provisions for loans and advances to customers	**2,093.0**	**2,236.2**
Portfolio provisions	229.6	169.5
Provisions for impaired exposures	1,863.4	2,066.7
Coverage ratio of impaired portfolio	**47.4%**	**65.7%**
Coverage ratio of gross portfolio	**3.2%**	**3.5%**
Loans and advances to individuals (gross)	**38,301.1**	**37,689.6**
Not impaired	35,948.1	36,389.2
Impaired	2,353.0	1,300.4
Impaired as % of gross exposure	**6.1%**	**3.5%**
Loans and advances to corporate entities (gross)	**24,975.3**	**23,492.2**
Not impaired	23,394.3	21,647.7
Impaired	1,581.0	1,844.5
Impaired as % of gross exposure	**6.3%**	**7.9%**
Loans and advances - other customers (gross)	**2,573.5**	**3,042.2**
Not impaired	2,573.5	3,042.2
Impaired	-	-
Impaired as % of gross exposure	**0.0%**	**0.0%**

11.4. Market risk

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

Tools and measures

In its business, mBank is exposed to market risk, i.e., the risk of unfavourable changes in the present value of financial instruments in the Bank’s portfolios due to changes in market risk factors: interest rates, FX rates, prices of securities, the implied volatility of options, and credit spreads. The Bank identifies market risk related with positions of the trading book measured at fair value (using the direct measurement method or the model measurement method) which may materialise in the form of losses reflected in mBank's financial performance. Moreover, the Bank attributes market risk to the banking book positions, regardless of the methods for calculating earnings generated from those positions used for the purpose of accounting reporting. In particular, in order to measure the interest rate risk of Retail and Corporate Banking products without a fixed interest revaluation date or with rates administered by the Bank, the Bank uses replicating portfolio models. In 2013, the Bank introduced the capital modelling concept, which is reflected in market risk measurement at the level of the Bank’s internal organisational structures. Market risk measures of the interest positions of the banking book are calculated with the use of net present value (NPV) models. Market risk exposure is quantified by measurement of Value at Risk (VaR) and by use of stress tests.

Stress testing reflects the hypothetical change in the present valuation of mBank's portfolios that would occur as a result of stress-test scenarios, i.e., specific stressed values of risk factors in a one-day time horizon.

The stress testing methodology was largely modified in February 2013 and August 2013. A standard stress test was defined for standard risks: FX rates, interest rates, stock prices and their volatility, as well as a stress test including change of credit spreads. This addressed among others the requirement for stress tests to cover independent impact of underlying risk (spread between T-bond yields and IRS rates) to which the Bank is exposed by holding a portfolio of T-bonds.

Market risk, in particular interest rate risk of the banking book, is also quantified by measurement of Earning at Risk (EaR) of the banking book.

The EaR methodology was modified in January 2013, which resulted in a significant difference in EaR in 2012 and in 2013. In view of low interest rates in some currencies, especially CHF, the modifications imposed rational limitations on interest rates used in EaR calculations, especially for CHF, as reflected in EaR values. In addition, the EaR methodology was expanded to include parameters of flexibility of interest rates for individual product groups depending on market change of interest rates and to differentiate EaR depending on the structure of interest rates for individual products (reflecting the impact of interest rate multipliers applied in the formula).

Strategy

The main principle of organisation of the market risk management process stipulates separation between the market risk monitoring and control function and the functions related with opening and maintaining open market risk positions. The market risk monitoring and control functions are performed by the Financial Markets Risk Department (DRR) in the Risk Area of the Bank supervised by the Deputy President of the Management Board and Chief Risk Officer, whereas operational management of market risk positions takes place in the Financial Markets Department (DFM), the Brokerage House (BM) and the Treasury Department (DS) supervised by the Member of the Management Board of mBank responsible for the Financial Markets Area. BM is an organisational unit of mBank which was separated from the DFM structure and carries out its operations focusing on financial instruments traded on the WSE. In addition, investment positions sensitive to market risk factors (to prices of shares listed on the Warsaw Stock Exchange) are managed by the Structured and Mezzanine Finance Department (DFS), which is part of the Corporate and Investment Banking area.

In order to limit the level of exposure to market risk, the Bank's Management Board (for the Bank portfolio) and the Bank's Risk Committee (from February 1, 2014 - the Bank's Financial Markets Risk Committee) (for portfolios of business units), set binding VaR limits, stress test limits which are warning thresholds, as well as maturity gap limits which are warning thresholds.

Measuring mBank's risk

Value at Risk

In 2013, the Bank's market risk exposure, measured by Value at Risk (VaR, for one day holding period, at 97.5% confidence level), was moderate in relation to the established limits. The average utilisation of VaR limits for the portfolio of the Financial Markets Department (DFM), whose positions consist primarily of trading book portfolios, amounted to 23% (PLN 1.4 million), for the Brokerage Bureau (BM) 18% (PLN 0.4 million), and for the Treasury Department (DS), whose positions are classified solely in the banking book, 39% (PLN 15.8 million) for the positions without capital modelling, and 41% (PLN 13.1 million) for the positions with capital modelling.

The average utilisation of the VaR limit for the position of the Structured and Mezzanine Finance Department (DFS) in shares listed in the Warsaw Stock Exchange was 74% (PLN 5.6 million). In 2013, the VaR figures for the Bank's portfolio were driven mainly by portfolios of instruments sensitive to interest rates – the banking book T-bonds portfolios managed by DS and the trading book portfolios and interest rate swap positions managed by DFM. The second major factor impacting the Bank's risk profile was the DFS equities portfolio, where the PZU share price is a significant risk due to the maintained large position in the company by the Bank. The DFM portfolios of instruments sensitive to changes in exchange rates, such as FX futures and options, and the exposure of the BM portfolios to equity price risk and the risk of implied variability of options traded on the WSE had a relatively low impact on the Bank's risk profile.

The tables below present VaR statistics in 2013 compared to 2012 (the values presented in the table were calculated for the Bank's portfolio excluding the DFS positions).

PLN thousand	2013				2012			
	31.12.12	average	maximum	minimum	31.12.12	average	maximum	minimum
VaR IR	15,155	16,034	22,806	6,774	6,162	11,146	14,368	6,162
VaR FX	212	348	1,196	73	132	506	2,004	76
VaR EQ	592	396	892	126	274	245	815	0
VaR	15,460	16,142	22,633	7,043	6,171	11,241	14,885	6,131

VaR IR – interest rate risk
VaR FX - FX risk
VaR EQ – stock price risk

The table below presents analogous VaR statistics for the Bank's portfolio including the DFS positions, and takes into account the PZU shares transferred to DFS in November 2012.

PLN thousand	2013			
	31.12.2013	average	max	min
VaR IR	15,155	16,034	22,806	6,774
VaR FX	212	348	1,196	73
VaR EQ	7,268	5,659	7,451	4,551
VaR	16,910	17,622	23,556	10,840

VaR IR – interest rate risk
VaR FX - FX risk
VaR EQ – stock price risk

Stress testing

In 2013, the average utilisation of the stress test limits in mBank was 59% (PLN 921.4 million). The average utilisation of the stress test limits in 2013 was 75% (PLN 785.2 million) for the portfolio held by DS without capital modelling and 86% (PLN 814 million) with capital modelling. The average utilisation of the limit was 26% (PLN 114.3 million) for the DFM portfolio and 8% (PLN 0.9 million) for the BM portfolio.

Interest rate risk of the banking book

In 2013, the interest rate risk of the banking book as measured by EaR, i.e., potential decrease of interest income within 12 months assuming an unfavourable 100 bps change of market interest rates (decrease of interest rates for each currency) and based on a stable value of the portfolio over the period, was moderate for positions in PLN and low for positions in CZK, CHF, USD and EUR due to the small interest rate position gap in these currencies and/or currently low interest rates which prevent a 100 bps decrease. At the end of 2013, EaR was PLN 70.9 million for PLN, PLN 0.5 million for CHF, PLN 4.6 million for CZK, PLN 7.2 million for EUR, and PLN 1.0 million for USD.

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

PLN million	2013				2012			
	31.12.13	average	max	min	31.12.12	average	max	min
PLN	70.9	50.6	116.9	6.7	90.3	38.5	101.8	0.1
USD	1.0	1.2	2.3	0.1	2.2	3.1	9.3	0.4
EUR	7.2	6.5	10.0	1.8	10.9	5.0	15.1	0.0
CHF	0.5	0.4	0.6	0.2	14.5	17.8	27.6	11.2
CZK	4.6	5.6	7.4	3.0	8.3	7.1	9.7	3.6

11.5. Liquidity risk

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

Tools and measures

In its operations, mBank is exposed to liquidity risk, i.e., the risk of being unable to honour its payment obligations, arising from the Bank's balance-sheet and off-balance-sheet positions, on terms advantageous to the Bank and at a reasonable price.

In terms of its sources, liquidity risk may result from internal factors (reputation risk resulting for instance in excessive withdrawal of cash by Bank clients, materialisation of credit risk) and external factors (turbulences and crises on the financial markets, country risk, turbulences in the operation of clearing systems).

For this purpose, the Bank has defined a set of liquidity risk measures and a system of limits and warning thresholds which protect the Bank's liquidity in the event of unfavourable internal or external conditions. Independent measurement, monitoring and controlling of liquidity risk is performed daily by the Financial Markets Risk Department. The main measures used in liquidity risk management of the Bank include ANL (Available Net Liquidity), the regulatory measures (M1, M2, M3, M4), and LCR and NSFR for analysis only. ANL reflects the projected future cash flow gap of assets, liabilities and off-balance-sheet commitments of the Bank, which represents potential risk of being unable to meet liabilities within a specific time horizon and under a certain scenario. ANL cash flow projections are based on crisis scenarios which include excessive withdrawal of cash by the Bank's clients and being unable to liquidate some assets due to an external crisis.

Strategy

The liquidity strategy is pursued by active management of the balance sheet structure and future cash flows as well as maintenance of liquidity reserves adequate to liquidity needs depending on the activity of the Bank and the current market situation.

The Bank manages liquidity risk at two levels: strategic (within committees of the Bank) and operational (Treasury Department).

The liquidity risk limit system is based mainly on defining acceptable gaps for ANL tenors in specific time horizons and for different liquidity risk profiles (for all currencies in aggregate converted to PLN) and for specific foreign currencies.

Measuring mBank's liquidity risk

The liquidity of mBank remained safe in 2013, as reflected in the high surplus of liquid assets over short-term liabilities in the ANL tenors and in the regulatory measures.

The table below presents the ANL gap for tenors up to 1M and 1Y in 2013 as well as the regulatory **measures M1, M2 and LCR:**

Measure*	2013			
	31.12.2013	average	max	min
ANL 1M	7,426	10,788	13,564	7,371
ANL 1Y	6,964	9,698	12,823	5,967
M1	10,625	11,887	15,998	8,139
M2	1.58	1.72	2.29	1.30
LCR	1.87	1.92	2.82	1.43

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

The long-term coverage measures (M3, M4) were stable and safe, above the minimum set by the regulator at 1. In particular, M3 ranged from 5.04 to 6.48 and M4 ranged from 1.25 to 1.32 in 2013.

11.6. Operational risk

mBank organises the operational risk management process taking into account the regulatory requirements. PFSA resolutions and recommendations (including Recommendation M in particular) constitute a starting point for developing the framework of the operational risk control and management system in the mBank Group.

The Bank understands operational risk as the possibility of incurring a loss arising from inadequate or defective internal processes, systems, errors or actions taken by the Bank's employee or from external events. Additionally, operational risk includes legal risk.

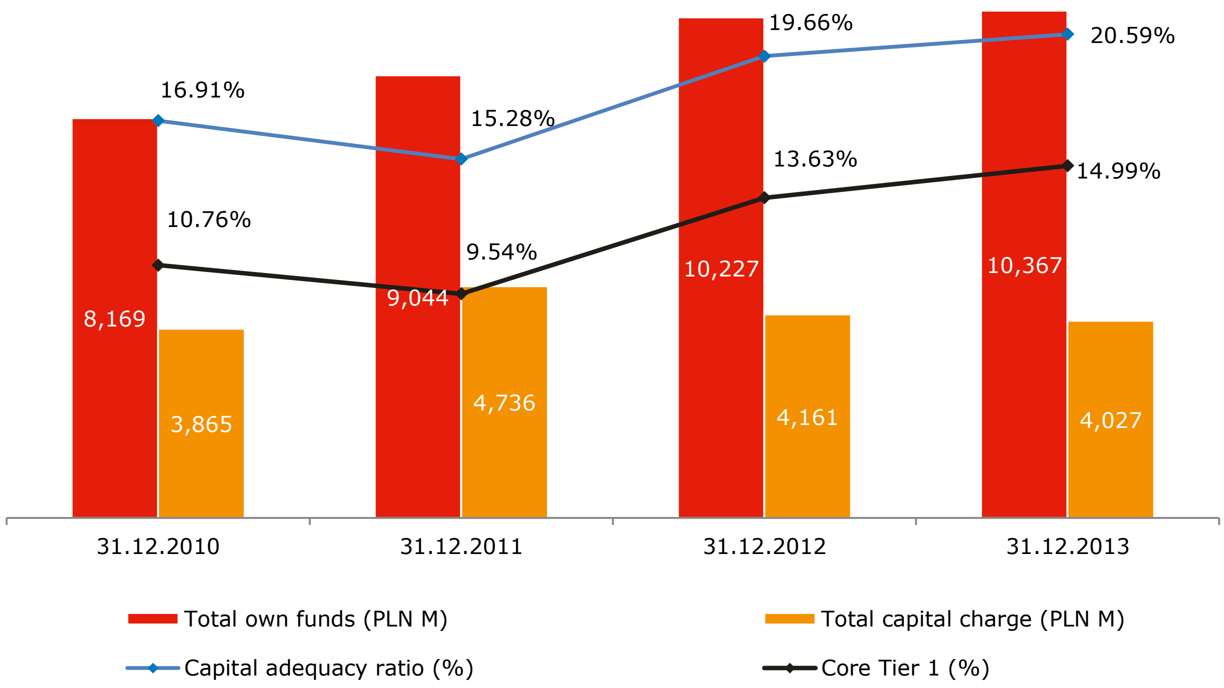
The operational risk control and management system, with its classification of roles and responsibilities, forms an organisational basis and the necessary structures in order to enable expedient and effective control and management of operational risk at every level of mBank's organisational hierarchy. The structure of operational risk control and management covers in particular the role of the Management Board of the Bank, the Business and Risk Forum, the Chief Risk Officer, the Integrated Risk and Capital Management Department, and the tasks assigned to persons managing operational risk in particular organisational units and business areas of the Bank. The operational risk control and management process at mBank is developed and co-ordinated by the central operational risk control function while operational risk management takes place in every organisational unit of the Bank and in every subsidiary of the mBank Group. It consists in identifying and monitoring operational risk and taking actions aimed to avoid, mitigate or transfer operational risk.

The entire operational risk control process is supervised by the Supervisory Board of the Bank through the Risk Committee of the Supervisory Board. In 2014, mBank is planning to implement Risk Management Effectiveness Self-Assessment in order to identify key risks embedded in the Bank's processes and to assess effectiveness of their management. The Self-Assessment results will be used to optimise and improve the Bank's operational risk management system.

11.7. Capital adequacy

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

Capital Adequacy of mBank



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

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

On December 3, 2013, mBank issued subordinated bonds with a total nominal value of PLN 500 million maturing in 2023. On February 14, 2014, the Polish Financial Supervision Authority granted permission to include in the calculation of Tier 2 capital of mBank the amount of PLN 500 million, constituting a subordinated liability due to bonds issue.

12. HR development

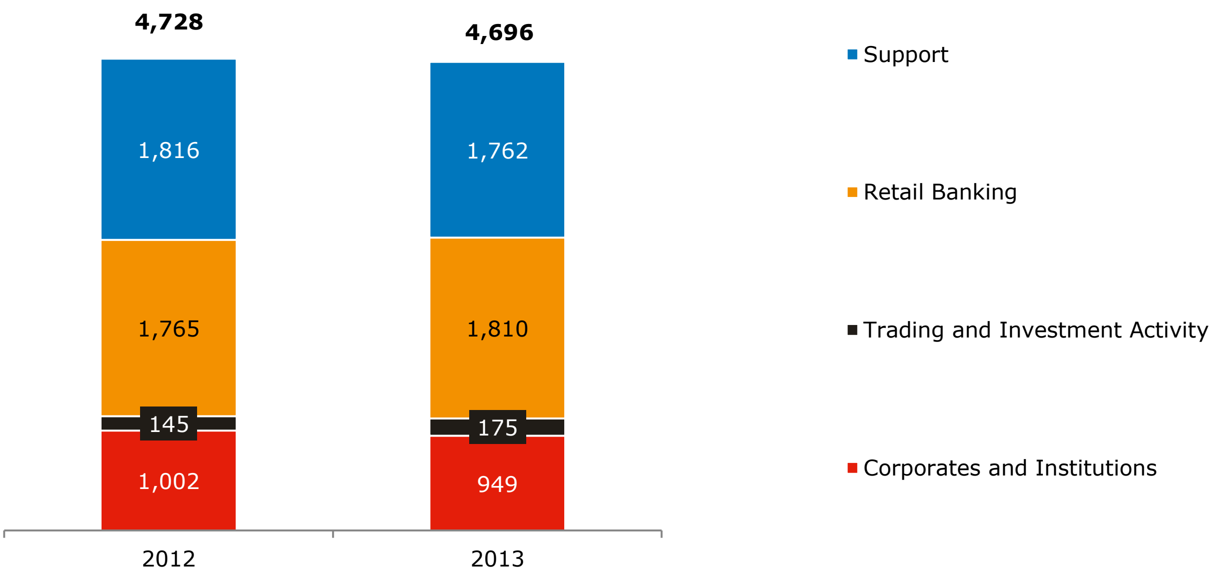
12.1. Changes in employment

Employment at mBank amounted to 4,696 FTE at the end of 2013 and was lower by 32 FTE or 0.7% compared to 2012, due to organizational changes in mBank Group and shift of part of FTEs from Risk area to one of the subsidiaries within the Group – mBank Hipoteczny.

The Bank’s employment breakdown by business lines is presented below:

Headcount in mBank by business lines

in FTE at the end of 2013



The Bank's employees are relatively young: 61% are younger than 35 years. Employees are also well-educated: above 83% are university graduates. Many employees undertake post-graduate studies and internal MBA studies, thus acquiring new professional qualifications.

12.2. Training and development

A development planning process was carried out in 2013 across the organisation and at all managerial levels. The teams’ performance needs were identified in relation to their business targets. The competences and knowledge necessary for effective performance of tasks were defined. Tools adequate to the defined needs were selected. As a result, development plans for employees were designed in close relationship with the teams’ business targets in order to directly support their achievement.

The improvement of mBank employees’ qualifications increasingly relies on development means other than traditional training. In 2013, special emphasis was put on activation of on-the-job learning of new skills (participation in projects, workshops, etc.) as well as internal knowledge transfer (including topical discussion meetings to exchange professional experience as well as temporary delegation of employees to other teams).

Internal knowledge transfer

mBank employs experts of huge potential in all business areas. The Bank unlocks their potential and creates conditions where employees can transfer knowledge to other employees. mBank maintains an expert knowledge exchange system and organises meetings to present employees’ interests and achievements outside the Bank.

In 2013, the Bank designed development programmes which support effective transfer of skills and knowledge: programmes for managers (including improvement of management by coaching and development work with the manager's team) as well as train-the-trainer programmes (addressed to the Bank's employees who are internal trainers).

Internal mobility

The Bank's internal recruitment ratios continued to improve in 2013. Employee transfers between organisational units as a form of recruitment successfully conclude no less than 45% of mBank's recruitment procedures (excluding mass procedures, e.g., at the call centre). The internal job market gives more and more employees a real opportunity of effective development within the organisation.

Our people make the difference

In 2013, mBank organised the second edition of the contest "Our people make the difference" aimed at supporting the new Strategy of the Bank. The programme awarded the forward looking employees who inspire others, constantly learn new things and expand their horizons.

Employees were awarded in seven different categories. By introducing the categories, the Bank intended to show how important, in the light of the new Strategy and challenges faced by the Bank, is the role of managers, adaptation of new employees to the organisational culture, mutual support between areas, innovative thinking of every employee and effective co-operation. The Bank appointed a special committee to select the winners from among the candidates nominated by mBank employees.

Young Talents

"Looking forward" - one of mBank's organisational values materializes in activities addressed to students and graduates. In 2013, 10 students served their traineeship in various units of the bank, preparing for effective work in the target job position. Just like regular employees, they are subject to formal multidimensional assessment. All were offered jobs and now are full-time employees of mBank. The Bank will accept 15 student interns selected in a multi-step recruitment process in 2014.

Participants of the Young Talent Development Programme (which covers internships and apprenticeships in mBank) are hired under employment agreements and enjoy the same job benefits as the bank's full-time employees.

12.3. mBank's incentive system

The incentive system of mBank is based on the remuneration policy and intangible elements (e.g. possibility of career development). The incentive system plays a key role in developing corporate culture and builds a competitive advantage by acquiring and retaining competent employees.

The remuneration policy at mBank covers both the base salary (fixed component) as well as the variable part depending on the objectives achieved by the whole organisation and by individual employees.

In 2013, incentive programmes both for the Management Board Members and Key Managers were implemented.

Incentive Programmes for the Management Board Members of the Bank

On March 14, 2008 the Ordinary General Meeting of mBank, by adopting a relevant resolution, adopted an incentive programme for the Management Board of the Bank.

Under the programme the Management Board Members have the right to take up bonds with priority right with respect to acquisition of shares of the ultimate parent entity, Commerzbank AG. In 2010, the programme was changed in the part concerning shares of Commerzbank, so that the Management Board Members may obtain the right to receive cash equivalent corresponding to the value of the shares of Commerzbank calculated based on the average share price on the date when the right to receive the equivalent originated.

All the rights under payments settled in cash equivalent based on shares of Commerzbank and all the rights under payments settled in mBank shares within the framework of the programme have already been granted. Payments are settled in three equal deferred tranches and the last settlements of the programme are scheduled for 2015.

The bonds may be acquired by the authorized persons over the years 2010 – 2018, provided that their employment continues. Obtaining the right to acquire bonds and the number of bonds depend on the level of fulfilment of the following conditions:

- Individual assessment of the Management Board Member by the Supervisory Board.
- Net ROE of mBank Group in the financial year for which the shares are granted.
- Generation of a consolidated profit before income tax of mBank Group or consolidated profit before income tax of particular business lines of the Group for a given financial year.

On December 7, 2012, the Supervisory Board, adopted a new Inventive Programme at mBank which replaced the currently applicable programme signed on March 14, 2008. Under the new programme, the Management Board Members have the right to receive a bonus, including "cashless bonus", paid in the Bank's shares, including phantom shares (i.e. virtual shares).

The acquisition of the bonus right by the Management Board member and estimation of the basis amount used to calculate the bonus are based on Net ROE of mBank Group. Equivalent of 50% calculated based on the base amount of ROE constitutes the so-called guaranteed bonus in respect of achievement of financial result. As regards the remaining 50% of the base amount, the Executive Committee of the Supervisory Board may grant the so-called discretionary bonus if it decides that a given the Management Board Member achieved the annual/multi-year business and development objective and taking into account the situations on financial markets. 40% of the bonus due to the Management Board Member for a given financial year, constituting the sum of the guaranteed bonus and discretionary bonus, is paid in the form of cash payment, the remaining 60% will be paid as a cashless bonus in three equal annual deferred tranches.

The conditions for receiving the cashless bonus and its amount depend on:

- Net ROE in the financial year for which the cashless bonus is awarded.
- Assessment of financial standing of the Bank by the Remuneration Committee.
- Assessment of the performance of the Management Board Member for a period longer than one financial year.

In 2014, Members of the Management Board will obtain the possibility of acquiring bonds with the priority right to take up shares of the Bank within Tranche I of the cashless bonus for 2012.

Incentive Programmes for Key Managers of mBank Bank Group

On October 27, 2008, the Extraordinary General Meeting of the Bank adopted an incentive programme for the key management staff of mBank Group. In 2010, the Management Board of the Bank decided to launch the programme and approved the list of participants for Tranche III. Within Tranche III 13,000 options were granted. In 2011 within the Tranche IV and V programme 20,000 options and 19,990 options were granted. The rights started to be exercised in 2012 for Tranche III, in 2013 for Tranche IV and the process will last till December 31, 2019. The rights under Tranche V may be exercised after meeting specified conditions concerning acquisition of rights in the period from May 1, 2014 to December 31, 2019. The conditions for acquiring rights refer to:

- Being in an employment relationship throughout the term of the Tranche.
- Obtaining an economic ratio for mBank Group specified by the Management Board.
- Obtaining a specific appraisal by the programme participant in each year of the Tranche.

In 2011, the Programme was suspended and the remaining tranches were not activated.

On April 11, 2013, the Extraordinary General Meeting of the Bank adopted a resolution amending the rules of the employee programme, which replaced the incentive programme for key management staff of mBank Group of 2008, whereas as regards the persons who acquired bonds or were granted right to acquire bonds, the programme will be carried out under the existing principles.

The aim of the programme is to ensure growth in the value of the Company's shares by linking the interest of the key management staff of mBank Group with the interest of the Company and its shareholders and implementing in mBank Group variable components of remuneration of the persons holding managerial positions at mBank Group in accordance with the Resolution of the Polish Financial Supervision Authority.

The entitled persons will obtain in 2015 the possibility of acquiring bonds with the priority right to take up shares of the Bank within Tranche VI. The bonds may be acquired during the Programme Term, but not later than by December 31, 2019. The condition for obtaining the right to acquire bonds in the scope of Tranches VI-VIII is reaching the economic ratio set in order to carry out the Program separately by the relevant authorities of the Bank and particular Bank subsidiaries.

The Bank's Management Board/Supervisory Board of the subsidiary, where the Program is carried out, may take a decision on suspending the Program in whole or decreasing the number of bonds or the number of bonds deferred in a given tranche in justified cases.

Detailed information on the incentive programmes are presented in note 43 to mBank S.A. Financial Statements for 2013, in accordance with the International Financial Reporting Standards.

12.4. MbO (Management by Objectives) – planning and assessment system

2013 was the third consecutive year of operation of the coherent system for planning and assessment (MbO - Management by Objectives). During this period, mBank worked intensively on developing the system and clarifying the coherent and internally transparent rules for setting and cascading objectives, in order to raise the awareness about targets among all the employees and the entire organisation.

By the end of 2013, based on more than 3-year experience, the process of setting and cascading the 2014 objectives was implemented in the Bank and in selected Group subsidiaries. The stronger understanding of the strategic objectives of the Bank and the Group will allow the organisation to focus the employees' involvement on the most important issues, right from the start and at the same time, will result in notable effectiveness and time savings.

The MbO system has several functions in the organization:

- it translates directly into the Bank’s and the Group’s performance – imposes discipline and involves the entire organization in the achievement of results
- it forms a direct communication platform – forwarding information on the role and involvement of an individual employee in developing the organization and achieving the strategic objectives of the Bank.

13. Investments

In 2013, investment spending was higher compared to the past years. In 2013, the Bank spent PLN 154.7 million compared to PLN 146.1 million a year earlier.

The majority of investment spending at the Bank, i.e. PLN 134.0 million was related to the information technology area (IT). Expenditures in the IT area resulted from the implementation of the new online retail banking platform (New mBank).

Investments in the logistics and security area, amounting to PLN 20.7 million were related to the development and modernisation of the corporate branch network and the Head Office (in Warsaw and in Łódź) as well as the purchase of new equipment for the Bank’s retail outlets.

14. mBank and social corporate responsibility

Banks play an important role in the economy and the society. For a number of years, the Group has strived to accompany its commercial success with efforts to support valuable projects that benefit the society. That role is played mainly by the mBank Foundation in addition to numerous volunteer employee projects and initiatives supported by the Bank.

14.1. mBank Foundation

mBank Foundation (mFoundation), established in 1994, was one of the first such foundations in the banking sector and is the expression of the social involvement of mBank. The mission of mFoundation is to support programs aimed at enhancing education and quality of life through actions coherent with the image and policy of mBank.

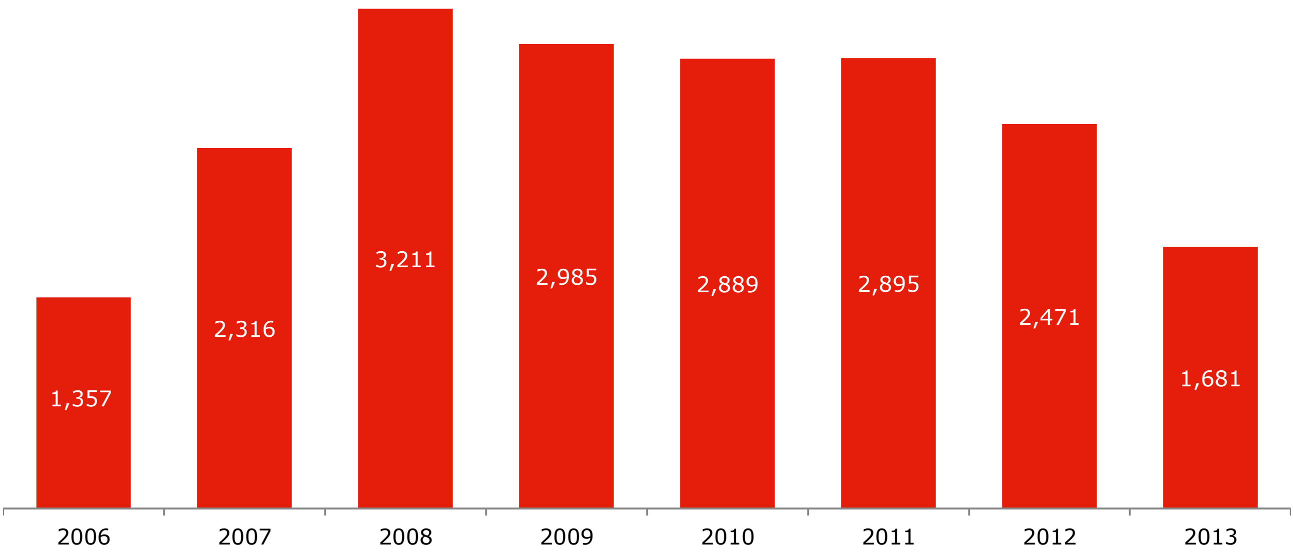
In 2014, mFoundation celebrates its 20th anniversary. The strategy of the Foundation changed in the wake of rebranding. On November 13, 2013, the Council of the Foundation set a new direction for the mFoundation activity for 2014-2016. The new strategy focuses on mathematical education since mBank believes that mathematics is the foundation of logical thinking. The Bank wants to develop and stimulate mathematical reasoning, and prove that the ability to calculate effectively is interesting and necessary in everyday life. Following the new direction mBank will not only continue to cooperate with organizations supported so far but also becomes open to new possibilities.

Plans of the Foundation include grant and scholarship programmes, contests for schools, non-governmental organizations and teachers as well as a volunteering programme for the Group employees. The Foundation aims to reach children, teenagers and their parents, as well as teachers, students and young academics. Scholarship programmes are a chance for children from different backgrounds interested in mathematics with above-average academic performance to pursue further education. Programmes for teachers allow them to expand competence and gain knowledge about the right approach to talented students. mBank is convinced that due to the new strategy of the Foundation it will contribute to the development of mathematical skills of young Poles.

In 2013, the Foundation disbursed PLN 1,681 thousand on its statutory objectives.

mBank Foundation disbursements 2006-2013

PLN thou.



The structure of the statutory expenditures was as follows:

- Education, science and entrepreneurship – 56.6%
- Healthcare and social welfare – 29.3%
- Culture and protection of national heritage – 14.1%

In 2013, the Foundation continued to work with its regular partners and supported the implementation of one-off projects.

The Foundation supported the following projects in 2013:

- mBank Foundation and the CASE ("Centre for Social and Economic Research") continued their cooperation which consists in organizing seminars and conferences for researchers, experts and practitioners of management concerning the transition of the Polish economy (mBank CASE Seminars).
- The Educational Enterprise Foundation (FEP) – continuing support for the Bridge Scholarship Programme (financial assistance to freshmen students from underprivileged backgrounds). In 2013, the Foundation endowed 25 scholarships. In addition, 26 scholarships were granted to students of faculties such as: economics, finance and accounting, and international relations participating in contests organized by the Foundation and FEP.
- The ABC XXI - All of Poland Reads to Kids Foundation - co-funding of the 11th edition of the Foundation's social campaign and organisation of the Polish Week of Reading to Kids.
- The Gdansk Institute for Market Economics - co-funding of the project developed during the 8th Civic Congress "How to modernize Poland - from the development of infrastructure to new attitudes and behaviours".
- The Friends of Art Foundation AUREA PORTA - co-funding of the project entitled "Digitalizing and archiving of composer, dramatic, graphic and journalistic works of professor Bogusław Schaeffer and popularizing his work by creating a dedicated website".
- The Foundation for Social and Economic Initiatives (FISE) - sponsoring the prize in the Competition for the Best Social Enterprise of the Year.
- The Zygmunt Noskowski Foundation - implementation of the project entitled "Mr Lutosławski".
- The Friends of Integration Association - co-funding of the 11th edition of the "Barrier Free Man - edition 2013" (contest promoting people who achieved success despite their disability).
- The SYNAPSIS Foundation - co-funding of the observation and therapeutic project consisting in diagnosis of pervasive developmental disorder (autism spectrum) among children.
- Polish museums - co-funding of exhibitions, expositions and publications.
- Local libraries and schools - funding the purchase of books and teaching aids.

Moreover, just like in the previous years, the Foundation supported other entities implementing projects in the areas covered by the strategy of the Foundation and its statutory objectives.

14.2. Other social – oriented activities

"Let's Do Good Together"

In 2013, Bank employees participated in four editions of the "Let's Do Good Together" volunteer programme. Since several years, Bank employees have been supporting orphanages, nursing homes, social care centres, community centres and public schools, hospitals, kindergartens, animal shelters, foundations and associations. Every three months, the jury selects 5 to 10 projects out of the submitted applications, which receive funding in the amount of PLN 2,500. Throughout 2013, 33 projects were accomplished.

"Tomorrow Belongs to Women"

"Tomorrow Belongs to Women" is a support programme addressed to all the women working at mBank. As part of the project the Bank organises meetings with experts, networking discussions and other activities making it easier for women working at the Bank to achieve the work-life balance. The key themes of the meetings were selected based on suggestions from women working at the Bank given in an internal questionnaire.

15. Statement of mBank on application of Corporate Governance principles in 2013

15.1. Corporate Governance Principles binding on mBank

The set of corporate governance principles binding on mBank is contained in the document "Code of Best Practice for WSE Listed Companies". Since 1 January 2013, the version of "Code of Best Practice for WSE Listed Companies" including amendments introduced by resolution of the WSE Board No. 19/1307/2012 November of 21, 2012, has been in force.

The text of the "Code of Best Practice for WSE Listed Companies" is available on the website of the Warsaw Stock Exchange (http://www.corp-gov.gpw.pl/), and a link to this site is also available on mBank's website (http://www.mbank.pl).

In its internal statutory documents, the Bank has integrated the regulations concerning the corporate governance principles, in particular those relating to the rules of operation of the General Meeting and the Supervisory Board (and its standing committees) as well as the rights of the shareholders and the Supervisory Board.

Irrespective of the "Code of Best Practice for WSE Listed Companies", mBank undertook to abide by best industry practices developed by the Polish Bank Association.

In 2013, the Polish Bank Association amended the existing Good Banking Practice Principles by adopting the Code of Banking Ethics at the 25th General Meeting of the Polish Bank Association held on 18 April 2013. The Code of Banking Ethics is a set of principles referring to banks, their employees, and persons acting as intermediaries in banking activities. The document includes two parts: Code of Best Banking Practice and Code of Employee Ethics. The former describes the rules governing relations with clients and employees, rules for handling claims/complaints filed by clients, rules governing relations between banks and other financial institutions, and rules for cooperation between banks and local communities. The latter describes basic rules of conduct for bank employees governing relations with external and internal partners.

One of the orders of the President of the Management Board of mBank obliges Bank employees to read the Code of Banking Ethics and to abide by the rules specified therein.

The Code of Banking Ethics is available on the website of the Polish Bank Association (http://zbp.pl/dla-bankow/zespoly-rady-i-komitety/dzialania-w-obszarze-legislacyjno-prawnym/komisja-etyki-bankowej).

15.2. Application of Corporate Governance Principles

In 2013, mBank was applying the corporate governance principles, with the exception of rule no. 10 point 2 chapter IV of the document "Code of Best Practice for WSE Listed Companies". A message about exclusion of this rule was sent to the WSE via the EBI (Elektroniczna Baza Informacji - Electronic Database) system on March 7, 2013.

The above rule stipulates the obligation to ensure that shareholders have the possibility to participate in the general meeting with the use of means of electronic communication.

For many years mBank has broadcasted General Meetings in real time, however, without the possibility to engage in two-way on-line communication by allowing shareholders to speak during the General Meeting from a different location. The Bank's By-laws and the Standing Rules of the General Meeting do not provide for the possibility to actively participate in general meetings with the use of means of electronic communication.

Furthermore, in the opinion of the Management Board of the Bank, in the absence of developed market practice, the organisation of general meetings with the use of means of electronic communication bears legal and technical risks. Binding provisions of law do not define the status of a shareholder participating in the general meeting with the use of means of electronic communication who does not take a part in voting, which generates unnecessary legal risks.

In the opinion of the Management Board of mBank, the rules for participating in general meetings, currently applicable at the Company, allow effective execution of rights arising from shares and protect the interests of all shareholders, even the minority shareholders.

The Company does not exclude the possibility to apply the above rule in the future on the basis of developed market standards.

The following points of the Recommendations require an additional commentary:

- Point 5 of the Recommendations regarding the remuneration policy.

  In accordance with the recommendation, mBank has a remuneration policy which determines the form, structure and level of remuneration, including the remuneration of members of the supervisory and management bodies of the Company. The remuneration system ensures a linkage between the remuneration of senior managers and the financial results of the Company. The remuneration system integrates a range of principles derived from the Commission Recommendation of 14 December 2004, fostering an appropriate regime for the remuneration of directors of listed companies (2004/913/EC) supplemented by the Commission Recommendation of April 30, 2009 (2009/385/EC). These principles include among others: determination of fixed and variable components of remuneration of the Management Board by the Remuneration Committee, a linkage of the variable components of remuneration with pre-defined performance criteria, detailed regulations concerning the option scheme, and specification of the total remuneration and its components of individual members of the Management Board and the Supervisory Board in the notes to the annual financial statements.

  However, the Commission Recommendations were not used as a model for the remuneration system of the Bank and not all the provisions of the Recommendations were applied. In particular, the remuneration policy is not a separate item on the agenda of every Ordinary General Meeting and is not submitted for a vote.

- Point 9 of the Recommendations which calls for ensuring a balanced proportion of women and men in management and supervisory functions in companies.

  The Bank ensures equal access of men and women to management positions, which is not based on a predetermined parity.

  The persons sitting on the Bank's Management Board and Supervisory Board should display the highest competence, be adequately educated and experienced. Other factors, such as gender, are not a determinant in this respect. The Bank is of the opinion that it would be unjustified to introduce regulations based on pre-established parities, and leaves the decision on selecting members of the Management Board and Supervisory Board in the hands of duly authorised bodies of the Company.

  Since the Ordinary General Meeting held in 2002, the 12-member Supervisory Board of mBank has had one female member - Teresa Mokrysz. At the same time, Ms Mokrysz is a member of the Audit Committee of the Supervisory Board. The 7-member Management Board of mBank has also one female member - Lidia Jabłonowska-Luba, Chief Risk Officer.

mBank attaches a lot of weight to open, transparent and effective information policy. On a regular basis, the representatives of the Management Board and the Investor Relations Team actively participate in meetings with investors, both in Poland and abroad. The website operated by the Company has become an important communication platform. In the investor relations section the Bank publishes information on the shareholders of mBank, Annual Meetings, ratings, the Euro Medium Term Note Programme, quotations of the Bank's shares on the WSE, analysts' recommendations, consensus of mBank Group's forecasted performance, and the target share price. All those interested may review annual statements, periodic and current reports, presentations on the strategy and performance of mBank Group, monthly newsletter for investors and analysts as well as Investor Calendar.

mBank has been also publishing an on-line version of its annual report, which provides convenient and highly interactive access to financial data of mBank Group. In 2012, the Bank launched mBank Analyzer, an innovative and interactive tool which allows users to analyse financial and business data of mBank Group from different angles. Additionally, the information is accompanied by webcasts of meetings with analysts at which the financial results of mBank Group are presented (more information in chapter "Investor Relations (IR) function at mBank").

The website has a section dedicated to corporate governance and best practice, which includes among others the By-laws and rules of the Bank's bodies, statements on the application of corporate governance principles, principles of remunerating the Management Board and the Supervisory Board, information on incentive programmes, rules for changing the entity entitled to audit financial statements, and information on the participation of men and women in statutory bodies of mBank.

15.3. Internal control and risk management systems with regard to the process of preparing financial statements of mBank

mBank is equipped with the internal control system which supports Bank management by ensuring the effectiveness of the Bank's operation, reliability of financial reports as well as compliance of the Bank's operation with the provisions of law and internal regulations applicable at the Bank.

The internal control system includes the following:

- functional control
- risk monitoring and risk control mechanisms
- monitoring compliance of the Bank's operation with the provisions of law and internal regulations
- internal audit.

The purpose of functional control is to ensure compliance of the activities performed with the applicable rules, the provisions of law, the Bank's internal regulations and good practice in this respect, to monitor the effectiveness and adequacy of the control mechanisms implemented, and what is more to respond to any irregularities as they arise. Functional control is a system applicable to each organisational unit and process.

The monitoring of risk control mechanisms and compliance of the Bank's operation with the provisions of law and internal regulations is executed as part of functional control and controls carried out by specialised risk and compliance units.

The adequacy and effectiveness of the internal control system is subject to independent assessment of the Internal Audit Department (DAW). DAW operates on a basis of the Banking Law, mBank's internal regulations, International Standards for the Professional Practice of Internal Auditing, and best business practice in this respect. The audit results are reported to the President of the Management Board, Chief Risk Officer and the Chairman of the Supervisory Board of the Bank.

The process of preparing financial data for reporting needs is automated and based on the General Ledger of the Bank. Preparation of data in source systems is subject to formalised operational and acceptance procedures. Creating the General Ledger of the Bank takes place within a process covering respective internal controls. Manual adjustments are subject to special controls.

The process of monitoring the operational risk which occurs in the preparation of financial statements in the Bank includes mechanisms which effectively ensure the security of IT systems. mBank has in place a business continuity plan which covers also the IT systems used in the process of preparing financial statements.

Financial statements of mBank and the Group are prepared by the Financial Reporting Department. The responsibility for keeping accounting books and administering the model chart of accounts lies with the Accounting Department. Both departments report to the Deputy President of the Management Board, Chief Financial Officer.

The prepared financial statements are submitted to the Management Board for verification. The Audit Committee of the Supervisory Board receives information on the quarterly financial statements and on profit and loss before it is published. After in-depth discussions with the Bank's external auditor and the Management Board of the Bank, the Audit Committee recommends whether the Supervisory Board should approve or reject the annual financial statements.

The annual and semi-annual financial statements of the Bank are subject to an independent audit and a review by a statutory auditor. The selection of the statutory auditor of the Bank requires a resolution of the General Meeting. The Audit Committee of the Supervisory Board issues an opinion on the selection of the statutory auditor. mBank observes the rule stipulating that the key statutory auditor should change at least once every five years. This is in line with Article 89 of the Act on Statutory Auditors and their Self-Government, Entities Entitled to Audit Financial Statements and Public Supervision dated 7 May 2009 (Journal of Laws of 2009, No. 77, item 649). Furthermore, mBank abides all recommendations issued by the Polish Financial Supervision Authority regarding the change of statutory auditors.

In 2013, the Ordinary General Meeting of the Bank appointed Ernst & Young Audit sp. z o.o. as auditor to examine the Bank's financial statements and consolidated financial statements of the Capital Group for 2013 and 2014. PricewaterhouseCoopers Sp. z o.o. was the previous auditor.

The procedures of cooperation of the Bank and the external auditor ensure that all the important issues related to the recognition of economic events in the books and financial statements are being consulted on an ongoing basis.

All the subsidiaries of mBank Group consolidated for the purpose of consolidated financial statements are obliged to apply uniform accounting policies with respect to the recognition of measurement and disclosures in accordance with the International Accounting Standards. The Financial Reporting Department monitors the reporting packages prepared by the subsidiaries in terms of their correctness, completeness, coherence and continuity of data. The control functions with respect to the Group subsidiaries are performed by representatives of mBank sitting on the Supervisory Boards of the subsidiaries.

The aspiration to ensure the highest standards of financial statements is reflected in the high quality of reporting.

mBank was the winner of "The Best Annual Report 2012" contest in the category of on-line annual reports. It also won the special award "The Best of the Best" for the best annual report.

These are yet another awards won by mBank in contests organised by the Institute of Accounting and Taxes (IRiP). So far, the Bank has emerged as winner or received other distinctions in the category of financial institutions four times.

15.4. Significant blocks of shares

Commerzbank AG is the majority shareholder of mBank. The share of Commerzbank has been increasing from 21.00% in 1995, to 50.00% in 2000 and 72.16% in 2003. Starting from 2005, the share has declined slightly due to the implementation of the managerial options programme in mBank.

At the end of 2013, Commerzbank held 29,352,897 shares of mBank, which accounted for 69.60% of the share capital and votes at the General Meeting. 30.40% of mBank shares in free float are held by institutional investors, in particular Polish pension funds, and Polish and foreign investment funds and individual investors. ING Otwarty Fundusz Emerytalny and AVIVA Otwarty Fundusz Emerytalny Aviva BZ

WBK exceeded the 5% threshold of shares and votes at the General Meeting, which obligated them to announce the shares purchase.

Shareholder Status as of 31.12.2013	Percentage of share capital and total number of votes
Commerzbank AG	69.60%
ING Otwarty Fundusz Emerytalny	5.76%*
AVIVA Otwarty Fundusz Emerytalny Aviva BZ WBK	5.11%*

*****_Information about the share capital of ING Otwarty Fundusz Emerytalny and AVIVA Otwarty Fundusz Emerytalny Aviva BZ WBK presented on a basis of annual asset structure of AVIVA OFE and ING OFE as of 31.12.2013._

The strategic shareholder of mBank, Commerzbank AG, is a leading German bank with a history dating back to 1870, which provides its services to private and corporate customers.

The German government - currently the largest shareholder of Commerzbank - holds a 17% stake in the share capital through the Germany's Financial Market Stabilisation Fund (SoFFin). Institutional investors hold about 47% of shares in free float (the largest investors - BlackRock and Capital Group - hold more than 5%). Individual investors hold about 26% of shares.

With the segments Private Customers, Small and Medium-sized Enterprises (Mittelstandsbank), Corporates & Markets, Central & Eastern Europe, Commerzbank offers its customers an attractive portfolio of products and services. Commerzbank is a strong partner for the export-oriented SME sector in Germany and worldwide. With a total of more than 1,200 branches in Germany, Commerzbank has one of the densest networks of branches among German banks. Moreover, Commerzbank operates in more than 52 countries. It provides its services to nearly 15 million individual clients and about 1 million corporate clients. At the end of 2013, Commerzbank Group held assets of EUR 549.7 billion and total capital of EUR 26.9 billion. Commerzbank Group employs 52.9 thousand employees, including 41.1 thousand in Germany.

15.5. Special control rights and limitations concerning the shares

Pursuant to the By-laws of mBank, all the existing shares give the right to one vote at the General Meeting. There are no preferred shares. The control rights of Commerzbank AG as the parent entity of mBank are a result of the number of shares held, their percentage share in the equity, and the number of votes at the General Meeting of mBank.

The By-laws of mBank do not impose any limitations on the exercise of the voting right. There are no provisions which would separate the equity rights attached to securities from the holding of securities. Furthermore, there are no limitations on the transfer of the property right to securities issued by the Bank.

15.6. Principles of appointing and dismissing Management Board Members

Pursuant to the By-laws of mBank, the Management Board is composed of at least three members appointed for a joint term of 5 years. At least half of the Management Board members, including the President of the Management Board, must hold Polish citizenship.

The President of the Management Board, the Deputy Presidents of the Management Board and the other Members of the Management Board are appointed and dismissed by the Supervisory Board, acting pursuant to the provisions of the Banking Law and considering relevant qualifications for the assigned functions. The Polish Financial Supervision Authority (PFSA) approves two Members of the Management Board of the Bank: the President of the Management Board and the member responsible for developing and implementing the Bank’s credit policy and risk management.

In accordance with the Code of Commercial Partnerships and Companies, a Member of the Management Board may also be dismissed or suspended by the General Meeting.

The mandate of a Member of the Management Board expires at the latest on the day of the General Meeting that approves the financial statements for the last full financial year of the term of that Management Board Member. The mandate of a Member of the Management Board also expires if the member dies, resigns from his position or is recalled. The mandate of a Member of the Management Board appointed before the end of the term expires on the expiration of mandates of the other Members of the Management Board.

15.7. Amendments to the Company's By-Laws

Amendments to the By-Laws of mBank require adoption of a resolution by the General Meeting of mBank and registration of the adopted amendment in the National Court Register. Before the General Meeting of mBank is presented with a draft resolution concerning amendment to the By-Laws, the Management Board of mBank adopts a resolution on the proposed amendment by approving the draft resolution of the General Meeting, and then the draft is presented to the Supervisory Board of mBank for approval. Under the Code of Commercial Partnerships and Companies, the resolution on amendments to the By-Laws is passed by a majority of 75% of votes.

In accordance with Article 34.2 of the Banking Law Act of 29 August 1997, any amendment to the Bank's By-laws requires the authorisation of the Polish Financial Supervision Authority where such amendment relates to:

- The Bank's registered business name
- The Bank's registered office, objects and scope of the Bank's operation
- The bodies and their competences, including particularly the competences of the Members of the Management Board appointed with the approval of the Polish Financial Supervision Authority and the decision-making principles, the basic organisational structure of the Bank, the procedures applicable to making legally binding statements regarding property rights and obligations, the procedures for issuing internal regulations and the procedure for making decisions on assuming obligations or disposing of assets whose total value with regard to a single entity exceeds 5% of the Bank's own funds
- The principles of functioning of the internal control system
- The own funds and the financial management principles
- Shares preferred or limited as to voting rights.

The latest amendments to the By-laws of BRE Bank SA (currently mBank S.A.) were introduced by Resolution No. 27 of the 26th General Meeting held on April 11, 2013. The Resolution is available on the website of mBank.

15.8. General Meeting procedures and authority, shareholder rights and exercise procedures

15.8.1. General Meeting procedures

The General Meeting is convened and prepared pursuant to the provisions of the Code of Commercial Partnerships and Companies, the Bank's By-laws, and the Standing Rules of the General Meeting. Both the By-laws and the Standing Rules of the General Meeting are available on the website of mBank.

The General Meeting (GM) convened by the Management Board in the way of an ordinary procedure is held once a year, no later than in June. The Supervisory Board may convene an Ordinary General Meeting if the Management Board fails to convene it within the time limits set out in the By-laws and an Extraordinary General Meeting, if the Supervisory Board considers it necessary. In addition, under specific circumstances, the shareholders have the right to convene a General Meeting or to request for a General Meeting to be convened.

Shareholders may participate in the General Meeting and cast their votes either in person or by proxies. One proxy may represent more than one shareholder.

Subject to the cases defined in the Code of Commercial Partnerships and Companies, the General Meeting is valid regardless of the number of shares represented at the General Meeting.

All matters submitted to the General Meeting are previously submitted to the Supervisory Board for consideration.

Subject to specific exceptions, resolutions of the General Meeting are passed in an open ballot by a simple majority of votes, unless the Code of Commercial Partnerships and Companies or the mBank By-laws impose a stricter requirement for the passing of resolutions on specific issues. A secret ballot is required in the case of elections and motions to dismiss members of the Bank's authorities or liquidators, motions to call members of the Bank's authorities or liquidators to account, and motions concerning personal issues. In addition, a secret ballot is required if requested by at least one shareholder present or represented at the General Meeting.

Voting takes place with the use of a computer system, which also counts the votes. The correct course of voting is supervised by the three-member Returning Committee elected from among the candidates put forward by the Chairman of the Meeting.

The By-laws and Standing Rules of the General Meeting do not provide for the possibility to vote by mail or with the use of electronic means of communication.

The Bank's Supervisory Board is elected in a secret ballot by the General Meeting. Prior to the election to the Supervisory Board, the General Meeting determines the number of Members of the Supervisory Board of the given term within the limits specified in the By-laws.

15.8.2. Fundamental authority of the General Meeting

The following matters require a resolution of the General Meeting in addition to other matters set out in the Code of Commercial Partnerships and Companies:

- Examination and approval of the report of the Management Board on the Bank’s operation and financial statements for the past financial year
- Adoption of resolutions on the distribution of profit or coverage of losses
- Vote of discharge of duties for members of the Bank's authorities
- Election and dismissal of Members of the Supervisory Board
- Amendment to the By-laws
- Increase or reduction of the Bank's share capital
- Adoption of resolutions concerning the cancellation of shares and resolution to cancel shares, in particular setting the policy of share cancellation not regulated in the By-laws
- Creation and winding up of special purpose funds
- Issue of convertible bonds or preferred bonds
- Establishment of the principles of remunerating Members of the Supervisory Board
- Liquidation of the Bank or its merger with another bank
- Appointment of liquidators
- Matters submitted by the Supervisory Board
- Matters submitted by shareholders in accordance with the By-laws
- Election of an entity qualified to audit financial statements as statutory auditor of the Bank.

15.8.3. Shareholder Rights

The shareholders have the right to participate in the profit reported in the audited financial statements and allocated by the General Meeting to be paid to the shareholders.

The shareholders representing at least one-half of the share capital or at least one-half of the total number of votes in the Company may convene an extraordinary general meeting. The shareholders appoint the chairman of such meeting. The shareholder(s) representing at least one-twentieth of the share capital may request that the Management Board convene an extraordinary general meeting and that specific items be put on the agenda for such meeting.

Only persons who are shareholders of the Bank sixteen days before the date of the General Meeting ("record day") have the right to participate in the General Meeting of the Bank. The shareholder(s) of the Bank representing at least one-twentieth of the share capital may request that specific items be put on the agenda for the Ordinary General Meeting. The request should be submitted to the Management Board of the Bank no later than twenty-one days prior to the date of the Ordinary General Meeting.

Documents to be presented to a General Meeting, including draft resolutions, are published on the website of the Bank as of the date of calling the General Meeting.

Shareholders may participate in the General Meeting and cast their votes either in person or by proxies.

A shareholder has the right to:

- Vote, propose motions and raise objections
- Justify his or her position briefly
- Stand for election for Chairman of the General Meeting and propose a candidate for Chairman of the General Meeting to be noted in the minutes
- Take the floor during the proceedings and make a reply
- Table draft resolutions concerning the items put on the agenda
- Propose amendments and additions to draft resolutions on the agenda for the General Meeting before the discussion on the item covering the draft resolution concerned by the proposal is closed
- Propose formal motions relating to the proceedings and the voting procedure
- Propose candidates for the Bank's Supervisory Board in writing to the Chairman of the General Meeting or orally to the minutes
- Review the book of minutes and request a copy of resolutions authenticated by the Management Board
- Take legal action to have a resolution of the General Meeting annulled where the shareholder voted against a resolution of the General Meeting and after its adoption raised an objection to the minutes or the shareholder was unreasonably prevented from participating in the General Meeting or the shareholder was not present at the General Meeting as a result of it being convened incorrectly or the adopted resolution not being on the agenda
- Take legal action against the Company to have a resolution of the General Meeting annulled where the resolution is in breach of law.

The Management Board is obliged to provide the shareholder, at the shareholder's request, with information concerning the Company if this is justified by the assessment of an issue on the agenda. The Management Board should refuse information if:

- This could damage the Company or its associated company or subsidiary, in particular due to disclosure of technical, trade or organisational secret of the Company,
- This could expose a Member of the Management Board to criminal, civil or administrative liability.

In justified cases, the Management Board may provide information in writing no later than two weeks after the General Meeting is adjourned.

The General Meetings take place on the Bank's premises in Warsaw and are broadcast on-line. The General Meetings may be attended by the representatives of the media.

15.8.4. General Meeting in 2013

The 26th Ordinary General Meeting was held on April 11, 2013. The Meeting was attended by shareholders or their proxies representing in total 85.11% of shares in the Company's share capital.

In addition to standard resolutions on approving the financial statements and the reports of the Management Board of mBank and mBank Group for 2012, selecting the auditor, vote of discharge of duties for members of the Supervisory Board and the Management Board of the Bank for 2012, the following resolutions were adopted: resolution on changing the registered name of the Bank, amendments to the By-laws of the Bank and rules for the implementation of the incentive programme by mBank S.A.

The resolutions adopted by the 26th General Meeting and the detailed voting results are available on http://www.mbank.pl/relacje-inwestorskie/walne-zgromadzenia/, in the section dedicated to General Meetings of Shareholders.

15.9. Composition of and changes in the Management Board and the Supervisory Board of the Bank and their procedures

15.9.1. Composition of the Management Board

The Management Board is composed of at least three members appointed for a joint term of 5 years. At least half of the Members of the Management Board, including the President of the Management Board, must hold Polish citizenship, be habitually resident in Poland, speak Polish and have experience on the Polish market which can be used while managing the Bank. The Members of the Management Board manage selected areas of the Bank's operation within the scope determined by the President of the Management Board. The division of powers of the Members of the Management Board has been described in detail in the Management Board's resolutions.

The composition of the Management Board changed in 2013 as a result of the Management Board's term of office ending as of the Ordinary General Meeting in 2013 and due to the appointment of Wiesław Thor to the Supervisory Board of the Bank.

On April 11,2013, the Supervisory Board elected the following Members of the Management Board of the Bank for a joint 5-year term:

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

Lidia Jabłonowska-Luba became a new Member of the Management Board responsible for risk management. On September 17, 2013, the Polish Financial Supervision Authority granted consent to the appointment of Lidia Jabłonowska-Luba as Member of the Management Board in charge of risk management at the Bank and Chief Risk Officer. Until then the President of the Management Board Cezary Stypułkowski acted as Chief Risk Officer.

On August 1, 2013, changes aimed at closer integration of corporate and investment banking became effective and hence the scopes of responsibilities of two Members of the Management Board were partly changed. The scope of operation of the Corporate Banking Line supervised by the Deputy President

Przemysław Gdański was extended by investment banking services for enterprises. At the same time, the Investment Banking Line supervised by the Deputy President Hans Kemler was renamed Financial Markets Line.

Detailed information about the Members of the Management Board is presented below.

Cezary Stypułkowski - President of the Management Board, CEO

Born in 1956, Cezary Stypułkowski holds a Ph.D. in corporate law from the University of Warsaw. He studied at Columbia University Business School in New York as a member of the Fulbright Program in 1988-1989. He worked in government administration in the 1980s, among others as secretary to the Economic Reform Committee of the Council of Ministers and, in 1987, as advisor to the Prime Minister. From February 1991 he chaired the Management Board of Bank Handlowy S.A. for more than 12 years. He was President of PZU Group between June 2003 and June 2006. In December 2006, he became Managing Director of J.P. Morgan Investment Bank responsible for Central and Eastern Europe. Cezary Stypułkowski was also a member of the Deutsche Bank International Advisory Board, INSEAD International Advisory Board, Institute of International Finance in Washington and Geneva Association.

He was appointed President of the Management Board of the Bank on August 2, 2010, acting President of the Management Board of the Bank as of October 1, 2010, approved as President of the Management Board by the Polish Financial Supervision Authority on October 27,2010.

Przemysław Gdański – Deputy President of the Management Board, Head of Corporate and Investment Banking

Born in 1967, graduated from the University of Gdańsk (major: International Trade) and completed a one-year programme in international banking and finance at Loughborough University in the UK. In 2012 he completed the Advanced Management Program (AMP) at IESE Business School. He has been working in corporate banking for over 20 years.
In 1993-1995, he worked for IBP Bank S.A. (BRE Bank was one of its shareholders), then for ABN Amro Bank in Poland, Romania and in the headquarters in Amsterdam. In 2002- 2006 he was the Managing Director of Large Corporates Division in BPH Bank S.A. From May to November 2006 he was CEO and General Director of Calyon Bank Polska and Calyon Branch in Poland.
In November 2006, he took the position of Deputy President of the Management Board of BPH Bank, responsible for corporate banking and real estate financing.

After the merger of a part of BPH Bank and Pekao SA, Mr Gdański was appointed Deputy President of the Management Board, responsible for Corporate Banking, Markets and Investment Banking of Pekao SA.

Member of the Management Board of the Bank since November 19, 2008.

Jörg Hessenmüller – Deputy President of the Management Board, Chief Financial Officer

Born in 1970. He graduated from the Hochschule für Bankwirtschaft in Frankfurt am Main in 1997 and was awarded a master's degree in management (Diplom-Betriebswirt (FH)). From 1989 to 2009 he worked for Dresdner Bank, holding the position of, among others, Head of Financial Control responsible for London, New York, Moscow, Sao Paulo and Asia. In 2009 Jörg Hessenmüller was appointed Managing Director in Commerzbank Group and worked as Head of Investment Banking Finance, Group Finance, responsible for controlling and management reporting on: Corporates and Financial Markets, Portfolio Restructuring Unit, Group Treasury and Public Finance.

Member of the Management Board of the Bank since April 16, 2012.

Lidia Jabłonowska-Luba – Deputy President of the Management Board, Chief Risk Officer

Born in 1963. She graduated from the Institute of Mathematics of the University of Gdańsk.

From 1994 to 2001 Lidia Jabłonowska-Luba worked for Schroder Salomon Smith Barney Poland, advising clients, financial institutions in particular on M&A and public equity transactions. In 2002, Lidia Jabłonowska-Luba joined Citigroup in Poland, first as Head of Financial Institutions & Public Sector Division and since November 2003 as Member of the Management Board in charge of finance and operational risk management, capital management and implementation of the New Capital Accord. In April 2008, Lidia Jabłonowska-Luba joined KBC Group as Deputy President of the Management Board of Kredyt Bank supervising the bank's Finance and Risk Division. She was also an advisor to the CEO of Warta S.A. and TUnŻ Warta S.A. In March 2010, she was appointed Senior General Manager at KBC Group in Brussels responsible for managing all risk types in the group, including model development and validation, risk policies and procedures, risk support for business decisions, supervision and reporting, ICAAP and ORSA processes, capital adequacy policy and technological support for risk management.

Member of the Management Board of the Bank since April 12, 2013.

Hans-Dieter Kemler – Deputy President of the Management Board, Head of Financial Markets

Born in 1968, graduated from the Westphalian Wilhelm University of Münster in 1996. Between 1991 and 1992, worked in Bond Trading Department at Dresdner Bank. Between 1996 and 1998, employed with Sal. Oppenheim jr. & Cie. KGaA, Financial Markets Department in Frankfurt am Main. From 1998 to 2005, Head of the Corporate Risk Advisory in the Head Office of Commerzbank. Since 2005, member of the senior management of Commerzbank responsible for international public finance. He also acted as a managing director at Erste Europäische Pfandbrief- und Kommunalkreditbank AG in Luxemburg.

Member of the Management Board of the Bank since July 10, 2009.

Cezary Kocik – Deputy President of the Management Board, Head of Retail Banking

Born in 1971, graduated from the University of Łódź. Holder of a degree in Finance and Banking and a securities broker license. In 1994–1996, securities broker at Dom Maklerski Banku PBG. In 1996, employed with Bank PBG in the area of investment banking, debt collection and restructuring. In 1999, employed with Pekao S.A., in particular as branch manager in Łódź. Mr Kocik has been working in the Bank since 2004, first as director of the Credit Risk Management Department, then director of the MultiBank Sales and Marketing Department, and since 2008 as Managing Director for Retail Banking sales and business processes.

Member of the Management Board of the Bank since April 1, 2012.

Jarosław Mastalerz – Deputy President of the Management Board, Chief Operations Officer

Born in 1972. In 1996, graduated from the Faculty of Economics and Foreign Trade at the University of Łódź. Between 1996 and 1998, he worked in the Audit Department of PricewaterhouseCoopers. In 1998-2003, Marketing Director and then Financial Director in Zurich Group. After the take-over of the Polish Zurich operations by Generali in 2003, he worked as a Financial Director (also responsible for bank assurance) at Generali TU and Generali TUnŻ. Since 2006, Mr Mastalerz has been working for BRE Bank Group (currently mBank Group). Co-author of the insurance project BRE Ubezpieczenia. President of the Management Board of BRE Ubezpieczenia and BRE Ubezpieczenia TUiR.

Member of the Management Board of the Bank since August 1, 2007. Head of Retail Banking until March 30, 2012. On April 1, 2012 appointed as Member of the Management Board for Operations and IT.

15.9.2. Authority and principles of operation of the Management Board

The Members of the Management Board are jointly liable for the overall operation of the Bank. They work collegially and inform each other about the most important matters concerning the Bank for which particular Members of the Management Board are responsible. The Management Board may appoint standing committees or teams to perform specific functions or to co-ordinate the work of organisational units of the Bank or to perform specific tasks.

The following committees led by Members of the Management Board operate at mBank:

- Resource Management Committee (chairperson: Cezary Stypułkowski)
- Capital Management Committee (chairperson: Jörg Hessenmüller)
- Data Quality and IT Systems Development Committee (chairperson: Jörg Hessenmüller)
- Assets and Liabilities Management Committee of mBank Group (chairperson: Hans-Dieter Kemler)
- Foreign Branch Supervision Committee of mBank S.A. (chairperson: Cezary Kocik)
- Credit Committee of the Bank's Management Board (chairperson: Lidia Jabłonowska-Luba)
- Retail Banking Risk Committee (chairperson: Lidia Jabłonowska-Luba)
- Corporate and Investment Banking Risk Committee (chairperson: Lidia Jabłonowska-Luba)
- Financial Markets Risk Committee (chairperson: Lidia Jabłonowska-Luba)
- IT Architecture Committee of mBank S.A. (chairperson: Jarosław Mastalerz)
- IT Projects Committee of mBank S.A. (chairperson: Jarosław Mastalerz).

The Management Board manages the Bank’s business, represents the Bank and defines the guidelines for the Bank’s operation, especially for the areas subject to risks, including the credit policy, the investment policy, the Bank’s assets and liabilities management policy, and the guarantee policy. The Management Board presents to the Supervisory Board comprehensive information on all significant aspects of the Bank's operation and risks related to its operation as well as risk management methods, on a regular basis.

The Management Board operates pursuant to its Rules approved by the Supervisory Board (available on the Bank's website). The Rules determine among others the issues which require consideration of the Management Board as a collegial body and adoption of a resolution of the Management Board.

All resolutions are adopted by a majority of votes of the Management Board Members present at the meeting, and in the case of an equal number of opposing votes, the President of the Management Board has the casting vote. The Members of the Management Board strive to adopt resolutions by consensus.

Pursuant to best practice principle, the Rules of the Management Board stipulate that a Member of the Management Board should abstain from participating in decision-making on such matters where a conflict of interest arises or may potentially arise between the Bank and the Member of the Management Board, his or her spouse or relatives.

Rules and levels of remuneration of Members of the Management Board are determined by the Remuneration Committee of the Supervisory Board.

Total remuneration of the Members of the Bank's Management Board includes a fixed and a variable part.

Under the Incentive Programme for Members of the Bank's Management Board of 2012 the Members of the Bank's Management Board have the right to receive a bonus, including a cashless bonus paid in the Bank's shares, including phantom shares (i.e. virtual shares).

The net ROE of mBank Group forms the basis for acquisition by the Members of the Management Board of the right to a bonus and for calculation of the base amount necessary to determine the amount of the bonus for a given financial year. Equivalent of 50% of the base amount calculated based on the amount of ROE constitutes a so-called guaranteed bonus in respect of achievement of financial result. As regards the remaining 50% of the base amount, the Executive Committee of the Supervisory Board may grant a so-called discretionary bonus if it decides that a given Member of the Management Board achieved the annual/multi-year business and development objective, taking into account the situation on financial markets in the last/previous financial period/s. 40% of the bonus of a Member of the Management Board for a given financial year, constituting the sum of the guaranteed bonus and discretionary bonus, is paid in cash, the remaining 60% is paid as a cashless bonus in three equal annual deferred tranches after: 12, 24 and 36 months from the date of acquiring by the Member of the Management Board of the right to a cashless bonus. The conditions for receiving a cashless bonus and its amount depend on net ROE in the financial year for which the cashless bonus is awarded, assessment of the financial standing of the Bank by the Remuneration Committee and assessment of the performance of a given Member of the Management Board in a period longer than one financial year.

Furthermore, in 2012 and 2013 the remuneration of the Members of the Bank's Management Board still included settlements under the 2008 incentive programme. All rights related to payments settled in the money equivalent based on Commerzbank shares and all rights related to payments settled in mBank shares under this programme have already been granted.

Detailed information on the incentive programme for the Members of the Bank's Management Board is presented in the chapter entitled "mBank’s incentive system".

Total remuneration of the Management Board for the last two years is presented below:

2013 (PLN thousand)	Basic remuneration	Other profits	Bonus for 2012	Cash settlement of the incentive programme based on Commerzbank shares
Remuneration paid in 2013				
Members of the Management Board who performed their function on December 31, 2013	9,038.2	1,229.3	4,920.0	249.7
Former Members of the Management Board	488.3	1,535.0	1,249.3	382.6
Total	**9,526.5**	**2,764.3**	**6,169.3**	**632.3**

2012 (PLN thousand)	Basic remuneration	Other profits	Bonus for 2011	Cash settlement of the incentive programme based on Commerzbank shares	Additional bonus for 2008
Remuneration paid in 2012					
Members of the Management Board who performed their function on December 31, 2012	9,393.7	1,359.1	6,597.2	343.7	1,900.0
Former Members of the Management Board	1,029.8	50.8	2,205.0	680.9	636.9
Total	**10,423.5**	**1,409.9**	**8,802.2**	**1,024.6**	**2,536.9**

Information on the remuneration received by particular Members of the Management Board is presented in note 44 of mBank S.A. Financial Statements 2013 in accordance with the International Financial Reporting Standard, while the detailed description of the share-based incentive programme for the Management Board is presented in note 43 of mBank S.A. Financial Statements 2013 in accordance with the International Financial Reporting Standard.

15.9.3. Composition of the Supervisory Board - changes in 2013

The Supervisory Board acts on the basis of adopted Rules and performs the functions provided for in the By-laws of the Bank, the Code of Commercial Partnerships and Companies, and the Banking Law Act. The By-laws of mBank provide that the Supervisory Board consists of no less than five Members elected by the General Meeting for a joint term of three years. The number of the Supervisory Board Members is defined by the General Meeting. A Member of the Supervisory Board whose mandate expired in the course of the joint term of the Supervisory Board may be replaced with another person, elected by the Supervisory Board.

At least half of all Supervisory Board members, including the Chairman, shall have Polish citizenship. Pursuant to the statutory requirement, at least two Supervisory Board Members are independent, unless the General Meeting decides otherwise. The independence criteria of the Supervisory Board Members were introduced by the Resolution No 23 of the XXI Ordinary General Meeting dated March 14, 2008, and are stipulated in the Rules of the Supervisory Board.

The 26th General Meeting of BRE Bank held on April 11, 2013, extended the composition of the Supervisory Board by appointing Martin Blessing and Wiesław Thor as Members of the Supervisory Board as of April 12, 2013.

On November 13, 2013, Ulrich Sieber resigned from his position as Member and Deputy Chairman of the Supervisory Board as of November 30, 2013. The resignation was linked to Mr Sieber's ending term of office in the Commerzbank AG Management Board.

Pursuant to a Resolution of the Supervisory Board of the Bank dated December 12, 2013, Martin Zielke was appointed as Member of the Supervisory Board of the Bank until the end of the term of office of the current Supervisory Board.

Composition of the Supervisory Board at the end of 2013 is presented in the table below.

Maciej Leśny - Chairman of the Bank's Supervisory Board
In 1969 Maciej Leśny completed his studies at the Faculty of Economic Sciences at the Warsaw University. During his professional career, Mr Leśny worked for 6 years in the shipbuilding industry in Gdańsk and 8 years for Zakłady Elektronicznej Techniki Obliczeniowej. For more than 22 years he had worked in the central state administration, including 8 years in the position of Undersecretary of State: in the Ministry of Foreign Economic Co-operation; the Ministry of Economy; the Ministry of Economy, Labour and Social Policy; and finally in the Ministry of Infrastructure. He completed post-graduate studies and training in the United States the Michigan University (Business School of Administration) and De Paul University (Chicago). In 1992-1993, as a scholarship holder of the US government, Mr Leśny studied at the American University in Washington, DC. During his scholarship he served a four-month internship at the World Bank and completed a privatization training course in the International Monetary Fund. From March 1994 to 1998, Chairman of the Supervisory Board of BRE Bank. By December 2001, Member of the Supervisory Board. In 2004, Mr Leśny was re-elected Chairman of the Supervisory Board.
Martin Zielke – Deputy Chairman of the Supervisory Board
Mr Zielke studied at Göttingen University in 1985-1990, Master’s degree (Diplom-Kaufmann) in Economics graduated in 1990. In 1983-1985 he worked for Deutsche Bank AG, Kassel Branch. In 1990-2000 he worked for Dresdner Bank AG in Frankfurt am Main. In 1990-1995, Mr Zielke was the manager of sub-project relating to retail

customer strategy. In 1997, he was the head of new market positioning project. In 1997-1999, Mr Zielke was the Regional Head of Retail Banking, Northern Region. In 1999-2000, Mr Zielke was the Head of special project on retail banking / Area Head of Business Development

Later, until May 2001 he was a Regional Head of Portfolio Investment, Member of Operative Management Team in Deutsche Bank 24. In June-December 2001, Mr Zielke was the Regional Head of Financing Retail Banking with Deutsche Hyp, Frankfurt am Main. In January 2002 – December 2004, he was the Group Manager, Retail Banking, Commerzbank AG, Frankfurt am Main. In January 2005 - March 2006, Mr Zielke was the Group Manager Corporate Banking Commerzbank AG, Frankfurt am Main. From April 2006 to December 2007, Mr Zielke was the Member of the Board of Managing Directors of Eurohypo Aktiengesellschaft, Eschborn.

From February 2008 to November 2010, Mr Zielke was the Group Manager, Group Finance Division, Commerzbank AG, Frankfurt am Main.

Since November 2010 he has been a Member of the Board of Managing Directors of Commerzbank AG, responsible for the Private Clients Segment. Member of the Supervisory Boards of Comdirect Bank AG, Commerz Real AG and Commerz Real Investmentgesellschaft mbH.

Martin Blessing – Member of the Supervisory Board

Martin Blessing studied Business Administration at Frankfurt and St. Gallen Universities. In 1988 he was awarded an MBA from the University of Chicago.

Between 1989 and 1996 he worked for McKinsey in Frankfurt am Main and New York, becoming a Partner in 1994. In 1997 he joined Dresdner Bank AG, where he was Joint Manager of the Department for Private Customers. From 2000 to 2001 Mr Blessing has been Chairman of the Board of Advance Bank AG in Munich. Martin Blessing was appointed to the Board of Managing Directors of Commerzbank AG in 2001 and became the Chairman of the Board of Managing Directors in 2008.

Stephan Engels – Member of the Supervisory Board

Stephan Engels studied Business Administration at the University of St. Gallen. Between 1988 - 1993 he worked at Daimler-Benz AG´s internal audit department. Afterwards he headed the Regional Controlling Europe at debis AG for three years. From 1996 to 2000 he served as Chief Financial Officer at debis AirFinance B.V. In 2000 he joined DaimlerChrysler Bank AG, lastly as Member of the Board for Credit then Chief Financial Officer & IT.

From 2003 he worked at DaimlerChrysler Services AG, lastly as a Member of the Board for Finance, Controlling, Risk Management & Strategy. From 2007 - 2012 he was a Member of the Executive Committee of Mercedes-Benz Car Group for Finance & Controlling and Head of Management Group Controlling at Daimler AG. Since April 2012 he is a Member of the Board of Managing Directors at Commerzbank AG.

Andre Carls – Member of the Supervisory Board

Having studied business economics and completed a doctorate at the University of Cologne, Dr Carls joined Commerzbank through an international trainee programme in 1990.

He subsequently held various positions in Corporate Finance and Capital Markets in Frankfurt and from 1998 to 2000 was Executive Director of the investment banking division of Commerzbank in London.

From 2000 to 2008 Dr Carls was a member of the Board of Managing Directors of comdirect bank AG, from September 2002 to November 2004 as CFO and from November 2004 to March 2008 as CEO of comdirect bank AG.

From March 2008 to September 2008 he held the position as Deputy President of the Management Board and CFO of BRE Bank SA.

From March 2008 to December 2013 Dr Carls has been CEO of Commerzbank Auslandsbanken Holding AG and CEO of Central & Eastern Europe-Holding of Commerzbank AG.

In January 2014, Dr Carls became Divisional Board Member in the “Mittelstandsbank” of Commerzbank AG.

Thorsten Kanzler - Member of the Supervisory Board

Thorsten Kanzler studied mechanical engineering and economics at the University of Technology in Darmstadt (Germany), where he obtained the Diplom-Wirtschaftsingenieur (M.Sc. Eng.).

From 1991 to 2004 he was employed at Deutsche Bank AG on various positions in the treasury and risk management area in Frankfurt, New York, Sydney and London. Between 2004 and 2007, Mr Kanzler was Group Treasurer and Divisional Board Member of Corporate & Investment Banking in WestLB AG in Düsseldorf. From May 2007, Mr Kanzler was Head of Group Treasury & Capital Management at Dresdner Bank AG in Frankfurt am Main.

Since the beginning of 2009, Mr Kanzler has been Divisional Board Member for Group Treasury at Commerzbank AG. Mr Kanzler is responsible for assets and liabilities management, risk management of the banking books, capital management and funding.

Teresa Mokrysz – Member of the Supervisory Board

Ms Mokrysz graduated from the University of Economics in Katowice in 1978.

In 1990, she created the Mokate brand, one of the most recognisable Polish brands in the world. She transformed a small family firm into a global business. As one of the owners, Ms Mokrysz runs eight Mokate enterprises headquartered in Poland and in other countries of Central Europe. She built manufacturing plants in the Polish towns of Żory and Ustroń from scratch and developed the manufacturing plant located nearby Prague, Czech Republic (producing coffee, tea and intermediate goods for food industry). Under her leadership the company entered nearly 70 markets, selling its products on all continents.

Ms Mokrysz was a winner of the “Leader of the Decade” title given by Gazeta Wyborcza daily, and the “Success of the Decade” title by the Businessman Magazine. In 2000, the International Foundation for Women’s Entrepreneurial Spirit from Los Angeles awarded Ms Mokrysz the title of "the most entrepreneurial woman of the world". Founder of scholarships for talented and impoverished youth, provides financial support to health care institutions, nursing homes, children's homes and schools.

Dirk Wilhelm Schuh - Member of the Supervisory Board

Dirk Schuh is a graduate of the Frankfurt School of Finance and Management, Bankakademie.

Mr Schuh was employed with Dresdner Bank AG for 19 years. In 1989–1991 he was a team leader in the credit risk department of the head office of Dresdner Bank. From 1992 to 1995 Mr Schuh was a branch director in Dortmund. In 1996, Mr Schuh was responsible for the development of the corporate banking strategy in the head office. In 1997, he was responsible for the corporate banking area in Dresdner Bank in Dresden. In 1998, Mr Schuh was appointed regional manager for the south-east region in Leipzig.

In 2000, Mr Schuh was spokesperson for the Management Board of Deutsche Hypothekenbank Frankfurt – Hamburg AG. In 2002, he was appointed deputy chairman of the Management Board of Eurohypo AG.

In 2008, Mr Schuh was employed with Commerzbank Group as head of operations and credit risk. From 2009 to 2012 he was Divisional Board Member Group Credit Risk Management and Group Chief Credit Officer. Since November 2012 Mr Schuh has been Divisional Board Member Group Credit Risk Non-Core Assets and also since November 2013, Mr Schuh has been spokesperson of the Management Board of Hypothekenbank Frankfurt AG (formerly known as Eurohypo).

Waldemar Stawski - Member of the Supervisory Board

Graduate of the Gdańsk Technical University and post-graduate studies in: Accounting and Finance (2009-2010), Financial Analysis in Business Management (1992-1993), Microprocessors in Energoelectronics and Propulsions (1986-1987), Didactics and Pedagogy (1984-1985).

In 1991-2011 he underwent domestic and foreign training on banking, finance and bank's organization.

Mr Stawski holds the Accounting Certificate issued by the Minister of Finance and is authorised to provide bookkeeping services. He passed the exam for the candidates for members of supervisory boards at state-owned companies (certificate MPW 8 April 1995).

In 1983-1991, Mr Stawski was a member of the teaching staff of the Martime University of Gdynia. In 1991, he became an employee of Pomorski Bank Kredytowy. In 1993, Mr Stawski became a branch director in Gdynia. In 1995-2000, he was Director of the Regional Branch of PKO BP in Gdańsk. In 2000, Mr Stawski was appointed Deputy President of the Management Board of PKO BP SA responsible for managing the treasury, corporate clients, capital market and corporate governance areas. From June 2002 to February 2003, Mr Stawski was Chairman of the Team of Receivers for Wschodni Bank Cukrownictwa SA. Then, Member of the Management Board of CTL Logistics SA and General Director of the Polish Association of Transport and Logistics Employers.

In 2006, Mr Stawski became consultant of ALDAZ Sp. z o.o. Mr Stawski currently acts as Director at Zarzecki, Lasota i Wspólnicy Sp. z o.o.

In 2012, Mr Stawski was elected Member of the Management Board of Gdańsk Business Club of which he has been a member since 1995. In 2012, he was appointed to the Council of the Martime University of Gdynia.

Jan Szomburg – Member of the Supervisory Board

Jan Szomburg graduated the University of Gdańsk, PhD in economics. Mr Szomburg previously worked as an assistant and then as a lecturer at the University of Gdańsk.

He was a founder and the President of the Management Board of the Gdańsk Institute for Market Economics. In 1990s, Mr Szomburg was Chairman of the Supervisory Board of Polski Bank Rozwoju and Bank Gdański. He was also an advisor to the ownership transformation minister, a member of the Prime Minister's Ownership Transformation Council.

At present, Mr Szomburg is the President of the Management Board of the Institute for Market Economics.

Wiesław Thor – Member of the Supervisory Board

Wiesław Thor graduated from the Central School of Planning and Statistics (currently Warsaw School of Economics - SGH), training program “Train the Trainer” organised by KPMG and the South Carolina Business School, and summer school of banking at McIntire University Business School. Employed with BRE Bank since 1990 in the following positions: Specialist, Division Head, Deputy Director of the Warsaw Branch, Director of the Credit Department, and Chief Risk Officer from May 2000. From August 1, 2002, Country Risk Manager at Bank Handlowy S.A. in Warsaw.

On November 2, 2002, Mr Thor was appointed Member of the Management Board of BRE Bank, Chief Risk Officer. He was Deputy President of the Management Board of BRE Bank from March 15, 2008 to April 11, 2013.

Lecturer at the Warsaw Institute of Banking and SGH. Long-time Member of the Steering Committee of the Risk Management Association (formerly: Robert Morris Association European Credit & Risk Management Round Table) and Member of PRMIA Polska.

Marek Wierzbowski - Member of the Supervisory Board
Professor ordinarius at the University of Warsaw, legal advisor, the founding partner of the law firm "Prof. Marek Wierzbowski & Partners – Advocates and Legal Counselors", member of the Public Procurement Council, President of the Arbitration Court of the Chamber of Brokerage Houses, Deputy Chairman of the Supervisory Board of the Warsaw Stock Exchange, member of the Board of Directors of the Polish-U.S. Fulbright Commission, member of the Council in the European Law Institute based in Vienna. He was the deputy dean of the Faculty of Law and Administration, as well as vice chancellor of the University of Warsaw. For many years he was an associate of law firms Weil Gotshal & Manages and Linklaters. In his legal practise he managed legal teams, supporting numerous transactions, including sales of shares in connection with privatization of large enterprises. He participated in establishing brokerage houses. Mr Wierzbowski represented the Securities and Exchange Commission and the Commission for Banking Supervision in the Supreme Administrative Court. He was an advisor to the Minister of Privatisation, the Minister of Treasury and the President of the Energy Regulatory Office. He was also the deputy president of the Court of Arbitration at the Polish Chamber of Commerce.

The composition of the Supervisory Board reflects the care exercised to achieve the greatest possible diversification of members both in terms of their professional experience as well as their knowledge and skills. The Supervisory Board is composed of representatives of mBank's main shareholder, specialists of science and business, and persons having vast legal knowledge and banking expertise.

Independent Members of the Supervisory Board of mBank are: Maciej Leśny, Teresa Mokrysz, Waldemar Stawski and Marek Wierzbowski. Jan Szomburg does not meet the criteria of an independent member as he was the chairman of the Supervisory Board for over 12 years, whereas Wiesław Thor is not an independent member as he was a Member of the Management Board at mBank, and holding the function of Member of the Management Board at the Bank in the past five years is one of the reasons why a Member of the Supervisory Board cannot be considered an independent member. Martin Blessing, Andre Carls, Stephan Engels, Thorsten Kanzler, Dirk Wilhelm Schuh and Martin Zielke are not independent members due to their relation with the main shareholder of mBank.

The term of the Supervisory Board expires on the day of the General Meeting in 2014.

15.9.4. Authority and principles of operation of the Supervisory Board

The Supervisory Board exercises permanent supervision over the activities of the Bank in all areas of its business.

In addition to the rights and obligations prescribed by law and the By-laws, the responsibilities of the Supervisory Board shall specifically include the following matters:

- Approving the proposals of the Management Board concerning the essential organizational structure of the Bank which shall be construed as separated structurally and organizationally basic areas of the Bank's operation reporting to particular members of the Management Board
- Approving the Bank’s annual financial plans and multi-annual development plans
- Examination of all motions and matters subject to resolutions of the General Meeting of Shareholders
- Issuance or approval of rules provided for in the By-laws
- Defining management contracts and setting remuneration for members of the Board of Management
- Receipt of information on formation, acquisition, closing and disposal of branches, permanent establishments and parts of a business as well as of initiation and termination of lines of business and fields of activity in advance
- Approval of conclusion or amendment of each significant agreement or arrangement with the members of the Management Board or the Supervisory Board

- Approval of conclusion, amendment or termination of any significant affiliation agreements or cooperation treaties
- Receipt of information on expected deviations from the annual budget
- Issuing general guidelines for the Management Board regarding the level and structure of remuneration for senior management of the Bank
- Approval of the policy of variable items of remuneration of the persons holding managerial positions at the Bank.

Meetings of the Supervisory Board are convened by the Chairman of the Supervisory Board on his or her own initiative or on request of the Management Board or on request of the Supervisory Board Member at least three times a year. All the Management Board Members participate in meetings of the Supervisory Board except for those agenda items which directly concern the Management Board or its Members.

The Supervisory Board can pass resolutions provided that at least half of its members are present at the meeting while all the members have been invited. In exceptional cases, members of the Supervisory Board may pass resolutions by casting their votes in writing, with the mediation of another member of the Supervisory Board. No votes can be cast in writing on issues added to the agenda in the course of the meeting of the Supervisory Board.

Resolutions of the Supervisory Board shall be passed by an ordinary majority of votes and in case of an equal number of votes, the vote of the Chairman of the Supervisory Board shall prevail.

No resolution should be passed without the consent of the majority of the Independent Members of the Supervisory Board on the following matters:

- Any benefits provided by the Bank or any entities associated with the Bank to the Members of the Management Board
- Consent for the Bank to enter into a significant agreement with an entity associated with the Bank, a member of the Supervisory Board or the Management Board, or entities associated with them.

Adoption of resolution in contravention with the above mentioned requirement shall not, however affect its validity, if adopted in accordance with the provisions.

The Supervisory Board has 4 Committees: the Executive Committee, the Risk Committee, the Audit Committee, and the Remuneration Committee. Members of individual committees are presented below (in the first places - chairman of the committee).

Executive Committee	Risk Committee	Audit Committee	Remuneration Committee
<u>Maciej Leśny</u>	<u>Dirk Wilhelm Schuh</u>	<u>Stephan Engels</u>	<u>Andre Carls</u>
Martin Blessing	Thorsten Kanzler	Andre Carls	Maciej Leśny
Andre Carls	Maciej Leśny	Maciej Leśny	Marek Wierzbowski
Jan Szomburg	Waldemar Stawski	Teresa Mokrysz	

The tasks of the Executive Committee involve, in particular, exercising regular supervision over the Bank’s operation in the periods between meetings of the Supervisory Board. The Executive Committee authorises the Management Board to acquire, encumber or dispose of real estate, perpetual leasehold, or interests in real estate, shares or equity interests in companies, and other fixed assets if the value of the transaction exceeds 1% of the Bank’s own funds. Such authorisation is not required if the aforesaid acquisition took place as part of enforcement or bankruptcy proceedings, including the bankruptcy proceeding with the possibility to make an arrangement or other settlement with the Bank's debtor or in the case of the sale of assets so acquired.

The Audit Committee issues opinions about the selection of the Bank's statutory auditor by the General Meeting, recommends whether the Supervisory Board should approve or reject financial statements, exercises regular supervision over the internal control system at the Bank, and approves changes proposed by the Management Board of the Bank as regards the head of the Internal Audit Department.

The Audit Committee must be composed of at least one independent Supervisory Board Member with qualifications and experience in accounting and finance.

The Risk Committee has among others the following tasks: exercising permanent supervision over credit risk, market risk, operational risk and liquidity risk. Moreover, the Risk Committee issues recommendations for approval or rejection of exposures posing single entity risk, in accordance with the parameters defined by the Supervisory Board at the time. Moreover, the Risk Committee issues recommendations for approval or rejection of the transactions, provided for in the Banking Law, between the Bank and Members of the Bank's authorities, and recommendations for approval or rejection of the Bank's information policy regarding risk management.

The tasks of the Remuneration Committee include: reviewing the remuneration principles and amounts of remuneration paid to Members of the Management Board, setting the remuneration levels, presenting opinions concerning approval for Members of the Management Board of mBank S.A. to engage in competitive activity, issuing recommendations to the Supervisory Board regarding the general guidelines for the Management Board on the level and structure of remuneration for the Bank's senior management and the policy of variable components of remuneration paid to persons holding managerial positions at the Bank. Moreover, the Committee monitors the level and structure of the remuneration paid to senior managers.

All standing committees of the Supervisory Board make reports pertaining to their performance in the past reporting period available to shareholders. The aforesaid reports are appended to the set of materials for the Ordinary General Meeting.

The amount of monthly remuneration of the Members of the Supervisory Board was set in Resolution No. 26 adopted by the 25th General Meeting of BRE Bank held on 30 March 2012. The Chairperson of the Supervisory Board earns PLN 17,000 monthly, the Deputy Chairperson - PLN 14,500 monthly, while members of the Supervisory Board earn PLN 12,000 monthly.

Additional monthly remuneration is granted for participation in standing committees: 50% of the monthly basic remuneration for the first committee and 25% for participating in every other committee. Total remuneration for the participation in committees cannot exceed 75% of the basic remuneration.

Total remuneration of the Supervisory Board paid in 2012-2013 is presented in the table below.

Year	2013	2012
Remuneration in PLN thousand	**2,370.5**	2,283.7

Detailed information about the remuneration amounts paid to individual Members of the Supervisory Board is included in explanatory note no. 44 to mBank S.A. Financial Statements for 2013, in accordance with the International Financial Reporting Standards.

15.9.5. Operation of the Supervisory Board and its Commissions in 2013

In 2013 the Supervisory Board cooperated with the Management Board closely and regularly on the implementation of main strategic assumptions of the Bank, including rebranding which took place in 2013.

In 2013, the Supervisory Board held 6 meetings and adopted 57 resolutions. The resolutions covered all areas of the Bank's operation and were consistent with the scope of supervisory functions specified in laws, KNF's recommendations and internal regulations of the Bank.

The adopted resolutions concerned among others:

- Acceptance of financial statements of mBank, mBank Group and of other materials for the OGM,
- Adoption of the Financial Plan for 2014 and for the Med-Term Plan for 2014-2017.

- adoption of the Capital Management Policy
- Allocation of funds to the mBank Foundation
- Adoption of the information policy in the scope of capital adequacy
- Adoption of the investment policy in the scope of Mezzanine Finance
- Approval of the general organisational structure of mBank
- Adoption of the remuneration system at mBank, including the policy and rules for remunerating risk-takers at the Bank
- Approval of the Employee Incentive Programme Regulations, Information Memorandum drawn up to implement the Employee Incentive Programme and set dates for acquiring shares under the Programme
- Appointment of the Management Board for a new term
- Adoption of the rules for planning and evaluating MbO objectives for Management Board Members, as well as approving MbO objectives for 2014
- Adoption of the new wording of mBank By-laws, Rules of the Supervisory Board of mBank and the Rules of the Management Board of mBank, Rules of the Audit Committee, Rules of the Remuneration Committee and Rules of Risk Committee of the Supervisory Board of mBank
- Acceptance of the Internal Audit Plan for 2013
- Adoption of the compliance policy and approval of the report from the compliance risk management
- Adoption of the Policy of Managing Conflicts of Interest
- Adoption of the strategy list and policies requiring acceptance of the Risk Committee of the Supervisory Board and approval of Supervisory Board
- Approval of the risk management strategy
- Approval of the market risk strategy.

Furthermore, current results of mBank Group and its particular business areas were discussed and evaluated in a systematic, regular manner at the meetings of the Supervisory Board with reference to the financial plan.

Attendance of the Supervisory Board Members at meetings and participation in the Committees in 2013 is presented in the table.

	Attendance*	Executive Committee	Risk Committee	Audit Committee	Remuneration Committee
Martin Blessing (since April 12, 2013)	4/4	X (since April 12, 2013)			
Andre Carls	6/6	X		X	X
Stephan Engels	3/6			X	
Thorsten Kanzler	5/6		X		
Maciej Leśny	6/6	X	X	X	X
Teresa Mokrysz	4/6			X	
Dirk Wilhelm Schuh	6/6		X		
Ulrich Sieber (until November 30, 2013)	3/5	X (until April 11,2013)			
Waldemar Stawski	6/6		X		
Jan Szomburg	5/6	X			
Marek Wierzbowski	5/6				X
Wiesław Thor (since April 12, 2013)	4/4				

** Attendance at meetings / number of meetings during a term of office*

In performing its function of ongoing supervision of the Bank's operation in the periods between meetings of the Supervisory Board, the Executive Committee co-operated closely with the Management Board and was informed about the situation in the Bank on an ongoing basis. Apart from meetings of Supervisory Board, Member of the Committee has regular meetings with Members of the Management Board discussing the most important current issues of the Bank. Under the By-laws of the Bank, the Executive Committee took decisions on transactions exceeding 1% of the Bank's own funds.

The Audit Committee has been regularly informed about the results and the financial standing of the Bank and mBank Group and has been receiving and analysing information on actions taken in the key risk areas.

The Committee held four meetings in 2013 and discussed, among others, the following:

- Compliance of the process of preparing financial statements with the law and applicable regulations
- Appointment of a new external auditor for mBank and mBank Group
- Co-operation with the Bank's external auditor
- Conclusions from the audit of the annual financial statements of BRE Bank Group for 2012
- Scope of the audit of the financial statements for 2013
- Assessment of and supervision over the Internal Audit Department
- Assessment of and supervision over the internal control and risk management system at BRE Bank in 2012
- Approval of reports of the Compliance Department
- The Audit Committee recommended that the Supervisory Board approve the following
- Reports of the Management Board on operation of BRE Bank and BRE Bank Group in 2012, and Financial Statements for 2012
- Appointment of a new external auditor
- Annual report on compliance risk management at BRE Bank in 2012

- Report of the Outsourcing Coordinator in respect to the implementation of the Outsourcing Policy at mBank in 2012
- Annual report on supervising the processes of handling claims and complaints at BRE Bank in 2012
- Audit Plans of the Internal Audit Department for 2013.

At its meetings in 2013 the Risk Committee regularly discussed the quarterly risk reports (capital adequacy, liquidity risk, credit risk, operational risk, market risk and interest rate risk), and a range of issues related with the credit portfolio. Other major issues considered by the Committee included the largest exposures, development of risk parameters and of loan loss provisions at the Bank and in the Group.

In 2013, the Risk Committee issued 73 recommendations concerning exposures posing single entity risk in accordance with the parameters defined by the Supervisory Board.

The Remuneration Committee held two meetings in 2013 and discussed the issues concerning adoption of:

- Regulations of Incentive Programme at mBank
- MbO objectives for Members of the Management Board of mBank
- Amendments to Management Contracts of Members of the Management Board
- "Remuneration policy of mBank”
- Identification of risk takers at mBank and rules for their remuneration
- "Rules for planning and management by objectives assessment (MbO) for Members of the Management Board of mBank”.

In 2013 the Remuneration Committee took 30 decisions and submitted recommendations on the above issues to the Supervisory Board.

16. Statements of the Management Board

True and fair picture in the presented reports

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

- The annual financial statements and the comparative figures were prepared in compliance with the binding accounting principles and present a true, fair and clear picture of the financial position and the condition of the assets of mBank S.A. as well as its financial performance.
- The report of the Management Board on the business of the mBank in 2013 presents a true picture of the developments, achievements, and situation of the mBank S.A., including a description of the main risks and threats.

Appointment of the auditor

The Auditor authorised to audit financial statements and performing the audit of the annual financial statements of mBank S.A. for 2013 – Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością Sp. k. - was appointed in compliance with legal regulations. The audit company and its auditors fulfilled the conditions necessary for an impartial and independent audit report in compliance with respective provisions of Polish law and professional standards.

Signatures of the Management Board of mBank S.A.

Date	First and last name	Position	Signature
03.03.2014	Cezary Stypułkowski	President of the Management Board, General Director of the Bank	
03.03.2014	Lidia Jabłonowska-Luba	Deputy President of the Management Board, Chief Risk Officer	
03.03.2014	Przemysław Gdański	Deputy President of the Management Board, Head of Corporate and Investment Banking	
03.03.2014	Jörg Hessenmüller	Deputy President of the Management Board, Chief Financial Officer	
03.03.2014	Hans-Dieter Kemler	Deputy President of the Management Bard, Head of Financial Markets	
03.03.2014	Cezary Kocik	Deputy President of the Management Board, Head of Retail Banking	
03.03.2014	Jarosław Mastalerz	Deputy President of the Management Board, Head of Operations and Information Technology	