mBank S.A.

IFRS Financial Statements 2013

Selected financial data

The selected financial data are supplementary information to these Financial Statements of mBank S.A. for 2013.

		in PLN '000		in EUR '000	
		Year ended 31.12.2013	Year ended 31.12.2012 restated	Year ended 31.12.2013	Year ended 31.12.2012 restated
I.	Interest income	**3 631 968**	**4 135 914**	**862 495**	**990 970**
II.	Fee and commission income	**1 084 180**	**1 011 765**	**257 464**	**242 420**
III.	Net trading income	**326 358**	**344 897**	**77 501**	**82 638**
IV.	Operating profit	**1 340 645**	**1 449 052**	**318 367**	**347 195**
V.	Profit before income tax	**1 340 645**	**1 449 052**	**318 367**	**347 195**
VI.	Net profit	**1 070 306**	**1 193 575**	**254 169**	**285 982**
VII.	Net cash flows from operating activities	**(1 899 191)**	**3 290 233**	**(451 007)**	**788 344**
VIII.	Net cash flows from investing activities	**126 161**	**(133 420)**	**29 960**	**(31 968)**
IX.	Net cash flows from financing activities	**(2 379 208)**	**296 936**	**(564 998)**	**71 146**
X.	Net increase / decrease in cash and cash equivalents	**(4 152 238)**	**3 453 749**	**(986 046)**	**827 523**
XI.	Basic earnings per share (in PLN/EUR)	**25.39**	**28.34**	**6.03**	**6.79**
XII.	Diluted earnings per share (in PLN/EUR)	**25.38**	**28.31**	**6.03**	**6.78**
XIII.	Declared or paid dividend per share (in PLN/EUR)	**10.00**	**-**	**2.37**	**-**

		in PLN '000		in EUR '000	
		As at		As at	
		31.12.2013	31.12.2012 restated	31.12.2013	31.12.2012 restated
I.	Total assets	**100 232 132**	**98 057 913**	**24 168 628**	**23 985 596**
II.	Amounts due to the Central Bank	**-**	**-**	**-**	**-**
III.	Amounts due to other banks	**18 863 854**	**20 241 514**	**4 548 576**	**4 951 204**
IV.	Amounts due to customers	**64 008 374**	**59 881 918**	**15 434 118**	**14 647 502**
V.	Equity	**9 573 220**	**9 072 794**	**2 308 357**	**2 219 264**
VI.	Share capital	**168 696**	**168 556**	**40 677**	**41 230**
VII.	Number of shares	**42 174 013**	**42 138 976**	**42 174 013**	**42 138 976**
VIII.	Book value per share (in PLN/EUR)	**226.99**	**215.31**	**54.73**	**52.67**
IX.	Capital adequacy ratio	**20.59**	**19.66**	**20.59**	**19.66**

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

- for items of the statement of financial position – exchange rate announced by the National Bank of Poland as at 31 December 2013: EUR 1 = 4.1472 and 31 December 2012: EUR 1 = PLN 4.0882.
- for items of the income statement – exchange rate calculated as the arithmetic mean of exchange rates announced by the National Bank of Poland as at the end of each month of 2013 and 2012: EUR 1 = PLN 4.2110 and EUR 1 = PLN 4.1736 respectively.

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Income statement

	Note	Year ended 31 December	
		2013	2012 restated
Interest income	5	3 631 968	4 135 914
Interest expense	5	(1 610 638)	(2 073 966)
Net interest income		**2 021 330**	**2 061 948**
Fee and commission income	6	1 084 180	1 011 765
Fee and commission expense	6	(418 565)	(374 689)
Net fee and commission income		**665 615**	**637 076**
Dividend income	7	61 861	35 663
Net trading income, including:	8	326 358	344 897
Foreign exchange result		*274 978*	*316 404*
Other net trading income and result on hedge accounting		*51 380*	*28 493*
Gains less losses from investment securities, investments in subsidiaries and associates	22	78 754	149 850
Other operating income	9	80 483	75 029
Net impairment losses on loans and advances	12	(414 816)	(383 735)
Overhead costs	10	(1 235 572)	(1 206 882)
Amortisation	24,25	(161 513)	(168 589)
Other operating expenses	11	(81 855)	(96 205)
Operating profit		**1 340 645**	**1 449 052**
Profit before income tax		**1 340 645**	**1 449 052**
Income tax expense	13	**(270 339)**	**(255 477)**
Net profit		**1 070 306**	**1 193 575**

Net profit		**1 070 306**	**1 193 575**
Weighted average number of ordinary shares	14	**42 155 456**	**42 118 904**
Basic earnings per share (in PLN)	14	**25.39**	**28.34**
Weighted average number of ordinary shares for diluted earnings	14	**42 167 491**	**42 158 632**
Diluted earnings per share (in PLN)	14	**25.38**	**28.31**

Notes presented on pages 10–107 constitute an integral part of these Financial Statements.

IFRS Financial Statements 2013 PLN (000's)

Statement of comprehensive income

	Note	Year ended 31 December	
		2013	2012 restated
Net profit		**1 070 306**	**1 193 575**
Other comprehensive income net of tax, including:	15	**(164 359)**	**342 182**
Items that may be reclassified subsequently to the the income statement			
Exchange differences on translation of foreign operations (net)		1 266	555
Change in valuation of available for sale financial assets (net)		(164 881)	341 402
Items that will not be reclassified to the income statement			
Actuarial gains and losses relating to post-employment benefits (net)		(744)	225
Total comprehensive income net of tax, total		**905 947**	**1 535 757**

Notes presented on pages 10–107 constitute an integral part of these Financial Statements.

IFRS Financial Statements 2013 PLN (000's)

Statement of financial position

ASSETS	Note	31.12.2013	31.12.2012	01.01.2012 restated
Cash and balances with the Central Bank	16	1 643 073	4 816 095	1 032 081
Loans and advances to banks	17	4 488 865	5 052 629	5 222 678
Trading securities	18	903 912	1 528 994	1 676 798
Derivative financial instruments	19	2 349 542	2 796 542	1 504 020
Loans and advances to customers	21	63 756 680	61 987 890	61 558 586
Hedge accounting adjustments related to fair value of hedged items	20	970	2 439	1 924
Investment securities	22	25 081 290	19 740 852	20 930 666
Investments in subsidiaries	23	757 259	937 336	546 430
Intangible assets	24	408 784	389 325	389 807
Tangible assets	25	442 726	480 647	542 410
Current income tax assets		6 593	-	-
Deferred income tax assets	33	133 258	148 866	83 221
Other assets	26	259 180	176 298	321 432
Total assets		**100 232 132**	**98 057 913**	**93 810 053**
LIABILITIES AND EQUITY				
Liabilities				
Amounts due to the Central Bank		-	-	-
Amounts due to other banks	27	18 863 854	20 241 514	25 281 169
Derivative financial instruments	19	2 472 350	3 481 294	1 857 371
Amounts due to customers	28	64 008 374	59 881 918	54 018 635
Hedge accounting adjustments related to fair value of hedged items	20	(4 349)	4 220	-
Debt securities in issue	29	451 916	659 048	-
Other liabilities	31	962 870	1 147 996	1 371 511
Current income tax liabilities		-	217 940	227 251
Deferred income tax liabilities	33	80	79	85
Provisions	32	141 060	128 815	72 304
Subordinated liabilities	30	3 762 757	3 222 295	3 456 200
Total liabilities		**90 658 912**	**88 985 119**	**86 284 526**
Equity				
Share capital:		**3 512 338**	**3 501 633**	**3 493 812**
- Registered share capital	37	168 696	168 556	168 411
- Share premium	38	3 343 642	3 333 077	3 325 401
Retained earnings:	39	**5 738 676**	**5 084 596**	**3 887 332**
- Profit from the previous years		4 668 370	3 891 021	3 887 332
- Profit for the current year		1 070 306	1 193 575	-
Other components of equity	40	**322 206**	**486 565**	**144 383**
Total equity		**9 573 220**	**9 072 794**	**7 525 527**
Total liabilities and equity		**100 232 132**	**98 057 913**	**93 810 053**
Capital adequacy ratio *)	47	**20.59**	**19.66**	**15.28**
Book value		**9 573 220**	**9 072 794**	**7 525 527**
Number of shares		**42 174 013**	**42 138 976**	**42 102 746**
Book value per share (in PLN)		**226.99**	**215.31**	**178.74**

*) data relating to the capital adequacy ratio for comparative periods has not been restated

Notes presented on pages 10–107 constitute an integral part of these Financial Statements.

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Statement of changes in equity

Changes from 1 January to 31 December 2013

	Note	Share capital		Retained earnings					Other components of equity			Total equity
		Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	Exchange differences on translation of foreign operations	Valuation of available for sale financial assets	Actuarial gains and losses relating to post-employment benefits	
Equity as at 1 January 2013 - restated		**168 556**	**3 333 077**	**3 027 390**	**23 867**	**925 143**	**1 108 196**	**-**	**(7 778)**	**494 118**	**225**	**9 072 794**
Total comprehensive income	15							**1 070 306**	**1 266**	**(164 881)**	**(744)**	**905 947**
Dividends paid	41	-	-	-	-	-	(421 420)	-	-	-	-	(421 420)
Transfer to General Risk Fund	39	-	-	-	-	40 000	(40 000)	-	-	-	-	-
Transfer to supplementary capital		-	-	738 064	-	-	(738 064)	-	-	-	-	-
Issue of shares	37, 38	140	-	-	-	-	-	-	-	-	-	140
Stock option program for employees	43	-	10 565	-	5 194	-	-	-	-	-	-	15 759
- value of services provided by the employees		-	-	-	*15 759*	-	-	-	-	-	-	*15 759*
- settlement of exercised options		-	*10 565*	-	*(10 565)*	-	-	-	-	-	-	-
Equity as at 31 December 2013		**168 696**	**3 343 642**	**3 765 454**	**29 061**	**965 143**	**(91 288)**	**1 070 306**	**(6 512)**	**329 237**	**(519)**	**9 573 220**

Changes from 1 January to 31 December 2012

	Note	Share capital		Retained earnings					Other components of equity			Total equity
		Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	Exchange differences on translation of foreign operations	Valuation of available for sale financial assets	Actuarial gains and losses relating to post-employment benefits	
Equity as at 1 January 2012 - before restatement		**168 411**	**3 325 401**	**2 061 378**	**20 178**	**825 143**	**1 066 012**	**-**	**(8 333)**	**152 716**	**-**	**7 610 906**
- changes to accounting policies		-	-	-	-	-	(85 379)	-	-	-	-	(85 379)
Equity as at 1 January 2012 - restated		**168 411**	**3 325 401**	**2 061 378**	**20 178**	**825 143**	**980 633**	**-**	**(8 333)**	**152 716**	**-**	**7 525 527**
Total comprehensive income	15							**1 193 575**	**555**	**341 402**	**225**	**1 535 757**
Transfer to General Risk Fund	39	-	-	-	-	100 000	(100 000)	-	-	-	-	-
Transfer to supplementary capital		-	-	966 012	-	-	(966 012)	-	-	-	-	-
Issue of shares	37, 38	145	-	-	-	-	-	-	-	-	-	145
Stock option program for employees	43	-	7 676	-	3 689	-	-	-	-	-	-	11 365
- value of services provided by the employees		-	-	-	*11 365*	-	-	-	-	-	-	*11 365*
- settlement of exercised options		-	*7 676*	-	*(7 676)*	-	-	-	-	-	-	-
Equity as at 31 December 2012 - restated		**168 556**	**3 333 077**	**3 027 390**	**23 867**	**925 143**	**(85 379)**	**1 193 575**	**(7 778)**	**494 118**	**225**	**9 072 794**

Notes presented on pages 10–107 constitute an integral part of these Financial Statements.

IFRS Financial Statements 2013 PLN (000's)

Statement of cash flows

	Note	Year ended 31 December	
		2013	2012 restated
A. Cash flows from operating activities		**(1 899 191)**	**3 290 233**
Profit before income tax		**1 340 645**	**1 449 052**
Adjustments:		***(3 239 836)***	***1 841 181***
Income taxes paid		(428 124)	(375 975)
Amortisation	24, 25	161 513	168 589
Foreign exchange (gains) losses on financing activities		47 136	(1 732 912)
(Gains) losses on investing activities		(13 253)	(115 842)
Impairment of investments in subsidiaries	23	452	105
Dividends received	7	(61 861)	(35 663)
Interest income (income statement)	5	(3 631 968)	(4 135 914)
Interest expenses (income statement)	5	1 610 638	2 073 966
Interest received		3 946 174	4 339 060
Interest paid		(1 409 216)	(1 675 867)
Changes in loans and advances to banks		(29 765)	19 640
Changes in trading securities		204 874	(135 599)
Changes in assets and liabilities on derivative financial instruments		(540 513)	361 801
Changes in loans and advances to customers		(1 916 359)	(548 995)
Changes in investment securities		(5 796 243)	1 403 530
Changes in other assets		(82 819)	146 020
Changes in amounts due to other banks		1 948 579	(1 706 762)
Changes in amounts due to customers		2 908 916	3 883 872
Changes in provisions		12 245	56 511
Changes in other liabilities		(170 242)	(148 384)
Net cash generated from operating activities		**(1 899 191)**	**3 290 233**
B.Cash flows from investing activities		**126 161**	**(133 420)**
Investing activity inflows		**371 479**	**38 010**
Disposal of shares in subsidiaries		3	56
Disposal of intangible assets and tangible fixed assets		752	2 291
Dividends received	7	61 861	35 663
Other investing inflows		308 863	-
Investing activity outflows		**245 318**	**171 430**
Acquisition of shares in subsidiaries		102 795	1 653
Purchase of intangible assets and tangible fixed assets		142 523	169 777
Net cash used in investing activities		**126 161**	**(133 420)**
C. Cash flows from financing activities		**(2 379 208)**	**296 936**
Financing activity inflows		**1 967 402**	**5 536 375**
Proceeds from loans and advances from other banks		82 356	84 254
Proceeds from other loans and advances		636 430	-
Issue of debt securities		-	3 414 454
Increase of subordinated liabilities	30	500 000	-
Issue of ordinary shares		140	145
Security deposit due to issue of Eurobonds		748 476	2 037 522
Financing activity outflows		**4 346 610**	**5 239 439**
Repayments of loans and advances from other banks		3 419 251	2 014 391
Repayments of other loans and advances		239 751	10 542
Redemption of debt securities		206 900	2 760 165
Acquisition of shares in subsidiaries - increase of involvement		12 000	88 286
Payments of financial lease liabilities		8 247	10 575
Dividends and other payments to shareholders		421 420	-
Interest paid from loans and advances received from other banks and subordinated liabilities		39 041	355 480
Net cash from financing activities		**(2 379 208)**	**296 936**
Net increase / decrease in cash and cash equivalents (A+B+C)		**(4 152 238)**	**3 453 749**
Effects of exchange rate changes on cash and cash equivalents		(34 521)	(42 994)
Cash and cash equivalents at the beginning of the reporting period		7 994 650	4 583 895
Cash and cash equivalents at the end of the reporting period	42	**3 807 891**	**7 994 650**

Notes presented on pages 10–107 constitute an integral part of these Financial Statements.

Explanatory notes to the financial statements

1. Information regarding mBank S.A.

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

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

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

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

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

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

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

As at 31 December 2013, the headcount of mBank S.A. amounted to 4 696 FTEs (Full Time Equivalents) – 5 681 persons (31 December 2012: 4 728 FTEs – 5 703 persons).

The Management Board of mBank S.A. approved these Financial Statements for issue on 3 March 2014.

2. Description of relevant accounting policies

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

2.1. Accounting basis

The financial statements of mBank S.A. have been prepared for the 12-month period ended 31 December 2013.

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

The preparation of the financial statements in compliance with IFRS requires the application of specific accounting estimates. It also requires the Management Board to use its own judgment when applying the accounting policies adopted by the Bank. The issues in relation to which a greater degree of judgment is required, more complex issues, or such issues where estimates or judgments are material to the financial statements are disclosed in the Note 4.

These financial statements were prepared under the assumption that the Bank continues as a going concern in the foreseeable future, i.e. in the period of at least 12 months following the reporting date. As of the date of approving these statements, the Bank Management Board has not identified any events that could indicate that the continuation of the operations by the Bank is endangered.

The Bank also prepares consolidated financial statements in accordance with IFRS. mBank S.A. Group Consolidated Financial Statements for the year 2013 were published on 3 March 2014.

2.2. Interest income and expenses

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

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

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

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

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

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

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

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

2.3. Fee and commission income

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

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

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

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

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

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

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

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

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

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

2.5. Financial assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Interest income/expense on financial assets/financial liabilities designated at fair value (Note 2.2), except for derivatives the recognition of which is discussed in Note 2.11, is recognised in net interest income. The valuation and result on disposal of financial assets/financial liabilities designated at fair value is recognised in trading income.

Loans and receivables

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

Held to maturity investments

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

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

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

Available for sale investments

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

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

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

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

The fair value of quoted investments in active markets is based on current market prices. If the market for a given financial asset is not an active one, the Bank determines the fair value by applying valuation techniques. These comprise recently conducted transactions concluded according to normal market principles, reference to other instruments, discounted cash flow analysis, as well as valuation models for options and other valuation methods generally applied by market participants (see Note 19).

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

2.6. Offsetting financial instruments

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

2.7. Impairment of financial assets

Assets carried at amortised cost

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

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

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

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

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

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

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

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

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

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

Assets measured at fair value

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

Renegotiated agreements

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

2.8. Financial guarantee contracts

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

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

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

2.9. Cash and cash equivalents

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

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

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

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

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

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

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

2.11. Derivative financial instruments and hedge accounting

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

The best fair value indicator for a derivative instrument at the time of its initial recognition is the price of the transaction (i.e., the fair value of the paid or received consideration). If the fair value of the particular instrument may be determined by comparison with other current market transactions concerning the same instrument (not modified) or relying on valuation techniques based exclusively on market data that are available for observation, then the Bank recognises the respective gains or losses from the first day in accordance with the principles described under Note 2.12.

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

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

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

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

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

- The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

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

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

<u>Fair value hedges</u>

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

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

<u>Cash flow hedges</u>

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

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

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

<u>Derivative instruments not fulfilling the criteria of hedge accounting</u>

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

The Bank holds the following derivative instruments in its portfolio:

Market risk instruments:

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

Interest rate risk instruments:

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

Foreign exchange risk instruments:

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

2.12. Gains and losses on initial recognition

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

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

2.13. Borrowings and deposits taken

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

2.14. Intangible assets

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

Computer software

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

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

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

Development costs

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

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

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

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

2.15. Tangible fixed assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.17. Deferred income tax

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

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

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

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

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

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

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

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

2.18. Assets repossessed for debt

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

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

2.19. Prepayments, accruals and deferred income

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

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

2.20. Leasing

mBank S.A. as a Lessee

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

2.21. Provisions

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

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

2.22. Post-employment employee benefits and other employee benefits

Post-employment employee benefits

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

Benefits based on shares

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

2.23. Equity

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

Registered share capital

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

- Own shares

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

Share premium

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

- Share issue costs

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

Retained earnings

Retained earnings include:

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

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

Moreover, other reserve capital comprises valuation of employee options.

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

Other components of equity

Other components of equity result from:

- valuation of available for sale financial instruments,
- exchange differences on translation of foreign operations.
- actuarial gains and losses relating to post-employment employee benefits.

2.24. Valuation of items denominated in foreign currencies

Functional currency and presentation currency

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

Transactions and balances

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

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

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

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

2.25. Trust and fiduciary activities

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

2.26. New standards, interpretations and amendments to published standards

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

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

Published Standards and Interpretations which have been issued and binding for the Bank for annual periods starting on 1 January 2013:

Standards and interpretations approved by the European Union:

- IFRS 10, *Consolidated Financial Statements*, published by the International Accounting Standards Board on 12 May 2011, binding for annual periods beginning on or after 1 January 2013. The standard was endorsed by the European Union on 11 December 2012.

  IFRS 10 supersedes those parts of IAS 27 *Consolidated and Separate Financial Statements* that address when and how an investor should prepare consolidated financial statements, and eliminates interpretation SIC-12 *Consolidation - Special purpose entities* in its entirety.

  The objective of IFRS 10 is to have a single basis for consolidation for all entities, regardless of the nature of the investee. It was decided that control is such a basis. The principle of control sets out the following three elements of control: power over the entity in which the investment was made, exposure or rights to variable returns from involvement with the investee, and the ability to use power over the investee to affect the amount of the investor's return. IFRS 10 provides detailed guidance on how to apply the control principle in a number of situations, including agency relationships and holdings of potential voting rights. An investor should reassess whether it controls an investee if there is a change in facts and circumstances.

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

- IFRS 11, *Joint Arrangements*, published by the International Accounting Standards Board on 12 May 2011, binding for annual periods beginning on or after 1 January 2013. The standard was endorsed by the European Union on 11 December 2012.

  IFRS 11 supersedes IAS 31 *Interests in Joint Ventures and interpretation* SIC-13 *Jointly Controlled Entities - Non-Monetary Contributions by Ventures*. The new standard classifies joint agreements as either joint operations (joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities) or joint ventures (joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement).

  IFRS 11 requires the use of the equity method of accounting for interests in joint arrangements, thereby eliminating the proportionate consolidation method. The existence of a separate legal vehicle is no longer the key factor of classification. Transitional provisions vary depending on the joint arrangements classification under IAS 31.

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

- IFRS 12, *Disclosure of Interests in Other Entities*, published by the International Accounting Standards Board on 12 May 2011, binding for annual periods beginning on or after 1 January 2013. The standard was endorsed by the European Union on 11 December 2012.

  The new standard requires extensive disclosures relating to a reporting entity's interests in subsidiaries, associates, joint arrangements, and unconsolidated structured entities.

  An entity is also required to disclose information that enables users of its financial statements to evaluate the nature of and risks associated with its interests in other entities and the effects of those interests on its financial statements.

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

- IFRS 13, *Fair Value Measurement*, published by the International Accounting Standards Board on 12 May 2011, binding for annual periods beginning on or after 1 January 2013. The standard was endorsed by the European Union on 11 December 2012.

  The new standard clarifies the definition of fair value, sets out a framework for measuring fair value and requires disclosures on fair value measurements. The standard does not specify requirements on when fair value measurement is required. It only prescribes the various valuation techniques that can be used to determine fair value, if required by other standards. The standard applies to both financial and non-financial items measured at fair value.

  The application of the standard had no significant impact on the financial statements in the period of its initial application. Additional disclosures where it is required, are included in the individual notes relating to the assets and liabilities whose fair values were determined. The fair value hierarchy is presented under Note 3.10.

- IAS 19 (Amended), *Employee Benefits*, published by the International Accounting Standards Board on 16 June 2011, binding for annual periods beginning on or after 1 January 2013. The standard was endorsed by the European Union on 5 June 2012.

  The amendments modify the settlement methods for defined benefit plans and termination benefits. The amendments aim at improving the quality of financial reporting of employee benefits through: introducing a more comprehensible form of presenting changes in liabilities relating to defined benefits and fair value of the plan assets, eliminating certain presentation methods allowed under *IAS 19*, thus improving comparability, clarifying the requirements which previously led to differences in the practices applied, and improving the quality of disclosures about risks arising from defined benefit plans.

  The amended standard requires immediate recognition of all estimated changes in liabilities relating to defined benefits and plan assets, which eliminates the corridor method and accelerates the recognition of past service costs.

  The Bank has applied retrospectively IAS 19 Employee benefits (changes in 2011) in accordance with the transitional provisions of this standard.

- IAS 27, *Separate Financial Statements*, published by the International Accounting Standards Board on 12 May 2011, binding for annual periods beginning on or after 1 January 2013. The standard was endorsed by the European Union on 11 December 2012.

  IAS 27 and IFRS 10 supersede IFRS 27 *Consolidated and Separate Financial Statements*. The name of the standard was changed. The amended standard applies only to separate financial statements. The previous guidance and the required disclosures relating to separate financial statements remain unchanged.

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

- IAS 28, *Investments in Associates and Joint Ventures*, published by the International Accounting Standards Board on 12 May 2011, binding for annual periods beginning on or after 1 January 2013. The standard was endorsed by the European Union on 11 December 2012.

  It supersedes IAS 28 *Investments in Associates*. The standard was amended to reflect the requirements of IFRS 11 and IFRS 12.

  The standard sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. Moreover, the standard incorporates SIC-13 (jointly controlled entities - non-monetary contributions by ventures).

  The disclosure requirements have been removed from the standard and specified in IFRS 12.

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

- Amendments to IAS 1, *Presentation of Items of Other Comprehensive Income*, published by the International Accounting Standards Board on 16 June 2011, binding for annual periods beginning on or after 1 July 2012. The amendments were endorsed by the European Union on 5 June 2012.

  The amendments address the grouping of items of other comprehensive income (OCI). The amendments require that items of OCI be divided into:

  - items that would be reclassified into profit or loss in future periods,
  - items that would not be reclassified into profit or loss in future periods.

  The standard allows an entity to present items of OCI either before tax or net of tax. However, if the items are presented before tax then the tax related to each of the two groups of OCI items (those that might be reclassified and those that will not be reclassified) must be shown separately. The amendments leave entities the possibility to present their profit or loss and other comprehensive income in a single statement (Statement of profit or loss and other comprehensive income) or in two separate statements.

  The Bank made retrospective changes to the presentation of other comprehensive income in the financial statements. The adoption of these changes had no impact on the financial position or the comprehensive income of the Bank.

- Amendments to IFRS 7, *Disclosures - Offsetting Financial Assets and Financial Liabilities*, published by the International Accounting Standards Board on 16 December 2011, binding for annual periods beginning on or after 1 January 2013. The amendments were endorsed by the European Union on 13 December 2012.

The standard sets out the required disclosures to include information that will enable investors and other users of financial statements to evaluate the effect or potential effect of offsetting financial assets and liabilities on an entity's financial position. The standard requires quantitative and qualitative disclosures on the financial assets and liabilities subject to offsetting. At the reporting date, the entity is obliged to disclose detailed quantitative information, separately for financial assets and financial liabilities, in tabular format.

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

- Improvements to IFRS 2009 - 2011, modifying 5 standards, published by the International Accounting Standards Board on 17 May 2012, in majority binding for annual periods starting on or after 1 January 2013.

  The amendments are aimed at simplifying the process of transition to IFRS, as well as explanation or elimination accidental inconsistencies in the published standards.

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

  IAS 1 Clarification of the requirement for comparative data (change)

  These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. The Bank must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statements of the financial position / balance sheet at the beginning of the comparative period (as at 1 January 2012 for the Bank) presented as a result of retrospective restatement or reclassification of items in statement of financial position / stand-alone balance does not have to be accompanied by comparative information in the related notes. As a result, the Bank has not included comparative information in respect of the opening position of the opening statement financial position as at 1 January 2012. The amendments affect presentation only and have no impact on the Bank's financial position or performance.

- Amendments to IAS 36, *Recoverable Amount Disclosures for Non-Financial Assets*, published by the International Accounting Standards Board on 29 May 2013, binding for annual periods starting on or after 1 January 2014.

  The Standard introduces for non-financial assets the requirement of disclosure the recoverable amount for each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit is significant in comparison with the total carrying amount of goodwill or intangible assets with indefinite useful lives, i.e. not only for unit, for which an impairment loss has been recognized or reversed during the period.

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

- *Government Loans* (Amendments to IFRS 1) concerning government loans, were published in March 2012 by the International Accounting Standards Board (IASB) and apply to annual periods starting on 1 January 2013 or after that date.

  Amendments concerning government loans and borrowings granted to an entity on preferential terms (interest rate below the market rate) allow releasing those who are adopting the IFRS in financial statements for the first time from presenting full accounting records of these transactions. Therefore, these amendments implement the same exemption for those who are adopting the IFRS in financial statements for the first time as applicable to other.

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

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

Standards and interpretations approved by the European Union:

- Amendments to IAS 32, *Offsetting Financial Assets and Financial Liabilities*, published by the International Accounting Standards Board on 16 December 2011, binding for annual periods beginning on or after 1 January 2014. The amendments were endorsed by the European Union on 13 December 2012.

The amendments aim to eliminate inconsistencies identified in applying some of the offsetting financial assets and liabilities criteria.

The amendments clarify the criteria that must be met by an entity planning to offset financial assets and financial liabilities in the balance sheet, by:

- clarifying the meaning of 'currently has a legally enforceable right to set off', and
- explaining when some gross settlement systems may be considered equivalent to net settlement of financial assets and liabilities.

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

- Amendments to IAS 39, *Novation of Derivatives and Continuation of Hedge Accounting*, published by the International Accounting Standards Board on 27 June 2013, binding for annual periods starting on or after 1 January 2014.

  The amended IAS 39 provided relief from discontinuing the hedge accounting for a derivative that has been designated as a hedging instrument in an existing hedging relationship if the derivative is novated to a central counterparty following the introduction of a new law or regulation and it meets certain criteria.

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

- Amendments to IFRS 10, IFRS 12 and IAS 27, *Investment Entities*, published by the International Accounting Standards Board on 31 October 2012, binding for annual periods starting on or after 1 January 2014. The amendments were endorsed by the European Union on 20 November 2013.

  The amendments define an investment entity and introduce an exception to consolidating particular subsidiaries for investment entities. These amendments require an investment entity to measure those subsidiaries at fair value through profit or loss in accordance with IFRS 9 Financial Instruments in its consolidated and separate financial statements. The amendments also introduce new disclosure requirements for investment entities in IFRS 12 and IAS 27.

  The Bank does not meet the definition of an investment entity, therefore the use of the standard will not have a significant impact on the financial statements.

Standards and interpretations not yet approved by the European Union:

- IFRS 9, Financial Instruments Part 1: *Recognition and Measurement*, published by the International Accounting Standards Board on 12 November 2009, supersedes the parts of IAS 39 addressing classification and measurement of financial assets. On 28 October 2010, new requirements addressing classification and measurement of financial liabilities were added to IFRS 9. The new standard is binding for annual periods beginning on or after 1 January 2015.

  The standard introduces a single approach to classification of financial assets in only two categories: measurement at amortised cost or fair value. The classification is made on initial recognition and is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial instruments.

  The majority of requirements of IAS 39 addressing the classification and measurement of financial liabilities have been transferred to IFRS 9 unchanged. The key change is the obligation imposed on entities to present the effects of changes in the entity's own credit risk in respect of financial liabilities measured at fair value through income statement, in other comprehensive income.

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

  The real impact of the IFRS 9 application will be possible to estimate after the publication of the final, complete version of the standard.

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

  The Standard permits an entity that adopts IFRS to continue to use, in its first and subsequent IFRS financial statements, its previous accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances. The Standard requires to present regulatory deferral account balances as separate line items in the statement of financial position and to present movements in those account balances as separate line items in the statement of profit and loss and other comprehensive income. The disclosures to identify the nature of, and risks associated with, the rate regulation that has resulted in the recognition of regulatory deferral account balances are also required.

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

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

  The amendment relates only to contributions for defined benefit plans from employees or third parties. The amendment of the Standard is aimed at clarification and simplification the accounting requirements for contributions independent of the number of years of service, i.e. contributions that are a fixed percentage of the employee's salary, a fixed amount throughout the service period or dependent on the employee's age. In accordance with the amendment of the Standard such contributions should be recognized as a reduction in the service cost in the period in which the related service is rendered, instead of attributing the contributions to the periods of service.

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

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

  The published interpretation is aimed at defining the moment of recognition of a liability to pay a levy if that liability is within the scope of IAS 37 or whose timing and amount is certain not addressing whether the recognition of a liability to pay a levy gives rise to an asset or an expense.

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

- Amendments to IFRS 10, IFRS 11 and IFRS 12 *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance*, published by the International Accounting Standards Board on 31 October 2012, binding for annual periods starting on or after 1 January 2014.

  The amendments clarify the date of initial application of IFRS 10 as the beginning of the annual reporting period in which IFRS 10 is applied for the first time. They precise also there is no requirement to adjust comparative periods, if the consolidation conclusion reached at the date of initial application is the same when applying IAS 27/SIC 12. Moreover, the amendments clarify additional relief from adjustment of comparative information for periods prior to the immediately preceding period in transition to IFRS 10, IFRS 11 and IFRS 12.

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

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

  The improvements to the following standards were implemented during the cycle: IFRS 2 in terms of changing definitions: 'vesting condition', 'market condition' and adding definitions: 'service condition' and 'performance condition', IFRS 3 in terms of clarification of classification a contingent consideration by an acquirer, IFRS 8 in terms of disclosure requirement of judgments made by management in applying the aggregation criteria for operating segments and disclosure of reconciliation of the total of the reportable segments' assets to the total assets, IFRS 13 in terms of clarification of doubts for the possibility of simplified measurement of short-term receivables and payables without discounting, when the effect of not discounting is immaterial, IAS 16 and IAS 38 in terms of proportionate restatement of accumulated depreciation or amortization, respectively, when an item of property, plant and equipment or intangible asset, respectively is revalued, IAS 24 in terms of identifying related party which provides key management personnel services to the reporting entity or to the parent of the reporting entity.

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

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

The improvements to the following standards were implemented during the cycle: IFRS 1 in terms of clarification of using the IFRSs that are effective by the first-time adopter, IFRS 3 in terms of the elimination from its scope the accounting for the formation of joint arrangement defined in IFRS 11 in the financial statements of the joint arrangement itself, IFRS 13 in terms of the clarification of the exception for measuring the fair value of a group of financial assets and financial liabilities based on price that would have been achieved for sale of net long position or transfer net short position in case of exposure to a specific risk, IAS 40 in terms of the clarification the reference between IFRS 3 and IAS 40 related to classification of property as investment property or owner-occupied property.

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

2.27. Comparative data

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

a) Actuarial gains and losses

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

The restatement of comparative data for the year 2012 due to this change resulted in a reduction of net profit for the year 2012 by the amount of PLN 225 thousand and an increase in actuarial gains or losses relating to post-employment benefits, presented in other components of equity, by the same amount. The adjustment had no impact on the total amount of equity as at 31 December 2012.

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

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

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

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

The restatement of comparative data for the year 2012 due to this change resulted in a decrease of net profit for the year 2012 by the amount of PLN 5 684 thousand and a decrease of the total equity as at 31 December 2012 by the amount of PLN 91 063 thousand. The changes in accounting policy caused a decrease of a total amount of equity as at 31 December 2013 by the amount of PLN 88 708 thousand compared to the level of equity that would have been recognised if the accounting approach applied to the end of 2012 will be still valid.

The following tables present the impact of the changes in accounting policies introduced in 2013 on comparative data for respective reporting periods presented in these financial statements.

IFRS Financial Statements 2013 PLN (000's)

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

ASSETS	31.12.2012 before restatement	Restatement	31.12.2012 after restatement	01.01.2012 before restatement	Restatement	01.01.2012 after restatement
Loans and advances to customers	62 100 314	(112 424)	61 987 890	61 663 992	(105 406)	61 558 586
Deferred income tax assets	127 505	21 361	148 866	63 194	20 027	83 221
Other items of assets	35 921 157	-	35 921 157	32 168 246	-	32 168 246
Total assets	**98 148 976**	**(91 063)**	**98 057 913**	**93 895 432**	**(85 379)**	**93 810 053**
LIABILITIES AND EQUITY						
Total liabilities	**88 985 119**	**-**	**88 985 119**	**86 284 526**	**-**	**86 284 526**
Equity						
Share capital	**3 501 633**	**-**	**3 501 633**	**3 493 812**	**-**	**3 493 812**
Retained earnings:	**5 175 884**	**(91 288)**	**5 084 596**	**3 972 711**	**(85 379)**	**3 887 332**
- Profit for the previous year	3 976 400	(85 379)	3 891 021	3 972 711	(85 379)	3 887 332
- Net profit for the current year	1 199 484	(5 909)	1 193 575	-	-	-
Other components of equity	**486 340**	**225**	**486 565**	**144 383**	**-**	**144 383**
Total equity	**9 163 857**	**(91 063)**	**9 072 794**	**7 610 906**	**(85 379)**	**7 525 527**
Total liabilities and equity	**98 148 976**	**(91 063)**	**98 057 913**	**93 895 432**	**(85 379)**	**93 810 053**

Adjustments in the mBank S.A. income statement.

the period	from 01.01.2012 to 31.12.2012 before restatement	Restatement	from 01.01.2012 to 31.12.2012 after restatement
Interest income	4 089 597	46 317	4 135 914
Interest expense	(2 073 614)	(352)	(2 073 966)
Net interest income	**2 015 983**	**45 965**	**2 061 948**
Fee and commission income	1 068 839	(57 074)	1 011 765
Fee and commission expense	(378 429)	3 740	(374 689)
Net fee and commission income	**690 410**	**(53 334)**	**637 076**
Dividend income	35 663	-	35 663
Net trading income	344 897	-	344 897
Gains less losses from investment securities, investments in subsidiaries and associates	149 850	-	149 850
Other operating income	75 029	-	75 029
Net impairment losses on loans and advances	(383 735)	-	(383 735)
Overhead costs	(1 206 956)	74	(1 206 882)
Amortisation	(168 589)	-	(168 589)
Other operating expenses	(96 205)	-	(96 205)
Operating profit	**1 456 347**	**(7 295)**	**1 449 052**
Profit before income tax	**1 456 347**	**(7 295)**	**1 449 052**
Income tax expense	**(256 863)**	**1 386**	**(255 477)**
Net profit	**1 199 484**	**(5 909)**	**1 193 575**
Basic earnings per share (in PLN)	**28.48**		**28.34**
Diluted earnings per share (in PLN)	**28.45**		**28.31**

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

the period	from 01.01.2012 to 31.12.2012 before restatement	Restatement	from 01.01.2012 to 31.12.2012 after restatement
Net profit	**1 199 484**	**(5 909)**	**1 193 575**
Other comprehensive income net of tax, including:	**341 957**	**225**	**342 182**
Items that may be reclassified subsequently to the the income statement			
Exchange differences on translation of foreign operations (net)	555	-	555
Change in valuation of available for sale financial assets (net)	341 402	-	341 402
Items that will not be reclassified to the income statement			
Actuarial gains and losses relating to post-employment benefits (net)	-	225	225
Total comprehensive income net of tax, total	**1 541 441**	**(5 684)**	**1 535 757**

IFRS Financial Statements 2013 PLN (000's)

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

the period	from 01.01.2012 to 31.12.2012 before restatement	Restatement	from 01.01.2012 to 31.12.2012 after restatement
A. Cash flows from operating activities	**3 290 233**	**-**	**3 290 233**
Profit before income tax	**1 456 347**	**(7 295)**	***1 449 052***
Adjustments:	***1 833 886***	***7 295***	***1 841 181***
Income taxes paid	(375 975)	-	(375 975)
Amortisation	168 589	-	168 589
Foreign exchange (gains) losses on financing activities	(1 732 912)	-	(1 732 912)
(Gains) losses on investing activities	(115 842)	-	(115 842)
Impairment of investments in subsidiaries	105	-	105
Dividends received	(35 663)	-	(35 663)
Interest income (income statement)	(4 089 597)	(46 317)	(4 135 914)
Interest expenses (income statement)	2 073 614	352	2 073 966
Interest received	4 285 726	53 334	4 339 060
Interest paid	(1 675 793)	(74)	(1 675 867)
Changes in loans and advances to banks	19 640	-	19 640
Changes in trading securities	(135 599)	-	(135 599)
Changes in assets and liabilities on derivative financial instruments	361 801	-	361 801
Changes in loans and advances to customers	(548 995)	-	(548 995)
Changes in investment securities	1 403 530	-	1 403 530
Changes in other assets	146 020	-	146 020
Changes in amounts due to other banks	(1 706 762)	-	(1 706 762)
Changes in amounts due to customers	3 883 872	-	3 883 872
Changes in debt securities in issue	-	-	-
Changes in provisions	56 511	-	56 511
Changes in other liabilities	(148 384)	-	(148 384)
Net cash generated from operating activities	**3 290 233**	**-**	**3 290 233**
B.Cash flows from investing activities	**(133 420)**	**-**	**(133 420)**
C. Cash flows from financing activities	**296 936**	**-**	**296 936**
Net increase / decrease in cash and cash equivalents (A+B+C)	**3 453 749**	**-**	**3 453 749**
Effects of exchange rate changes on cash and cash equivalents	(42 994)	-	(42 994)
Cash and cash equivalents at the beginning of the reporting period	4 583 895	-	4 583 895
Cash and cash equivalents at the end of the reporting period	**7 994 650**	**-**	**7 994 650**

The above described and presented changes of comparative data are included in these financial statements in all the notes to which such changes regarded.

2.28. Business segments

Data concerning business segments was presented in the Consolidated Financial Statements of mBank S.A. Group for the year 2013, prepared in compliance with the International Financial Reporting Standards and published on 3 March 2014.

3. Financial risk management

The mBank S.A. manages risks on the basis of regulatory requirements and best market practice, by developing risk management strategies, policies and guidelines. The risk management functions and roles are released on all of the levels of the organizational structure, starting at the level of the Supervisory Board down to each business unit. Risk management is streamlined in unified process run by specialized organizational units.

3.1. Division of responsibilities in the risk management process

According to the Group's Strategy 2012-2016 "One Bank for Clients and Employees", 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 risks.

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

- **Underlying 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 over the "underlying responsibility of the Bank for risk";
- **Role of the internal audit function** – defined as providing independent assessment of Business and Risk.

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

- **CLIENT-CENTRIC** – understanding Risk clients' needs;
- **ONE RISK** – integrated approach on risk management and accountability to clients for all risks defined in the Risk Catalogue;
- **RISK VS. RETURN RATE** – supporting Business in the decision-making process and defining the Bank's risk appetite based on the long-term relation of risk to the return rate.

A new initiative of the Risk Area was added in 2013 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 2014. 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).

<u>Authorities of the Bank:</u>

- **Supervisory Board,** through its **Risk Committee,** exercises constant supervision over the Bank's operations in the risk taking area, which includes approving the Risk Management Strategy and supervising its execution.
- **Management Board of the Bank** develops the Risk Management Strategy of mBank S.A. Group and is responsible for establishing and implementing the principles of managing individual risk types and for their coherence with the Risk Management Strategy. Moreover, the Management Board defines the organisational structure of the Bank, ensuring the separation of roles, and allocates the tasks and responsibility to individual units.

<u>Directors of the Bank:</u>

- **Board Member, Chief Risk Officer** is responsible for organising, developing and implementing the process of identifying, measuring, monitoring and controlling credit risk, market risk, operational risk and liquidity risk in mBank Group.

<u>Committees:</u>

- **Risk Committee of mBank S.A. (till 31.12.2013)** was responsible, in particular, for establishing the principles of identifying, measuring, monitoring and controlling risk and for setting strategic risk limits.

From 01.01.2014, responsibilities of the Risk Committee of mBank S.A. have been forwarded to the Business and Risk Forum of mBank Group, playing the role of a decision and communication platform for the risk management area and individual business lines, consisting of:

- **Retail Banking Risk Committee,**
- **Corporate and Investment Banking Risk Committee,**
- **Financial Markets Risk Committee.**

In particular, the committees listed above perform the following tasks:

- taking decisions and making recommendations concerning:
  - rules for managing the risk of products offered or planned to be offered by business lines and particular client segments,
  - risk appetite of business lines, the definitions and the risk limits levels in relation to the activities of the business line;
- setting priorities and directions of changes in the organization of the processes and tools for risk assessment;
- based on the provided reports and information, the assessment of:
  - the quality and efficiency of transaction portfolios or customer segments,
  - the operational risk and other non-financial risks and approving/initiating the recovery plans,
  - the quality of the data used to assess the risk and to calculate the capital requirement,
  - the early risk symptoms and approving/initiating remedial actions.

- **Assets and Liabilities Committee of the mBank Group (ALCO)** is responsible, in particular, for developing the Bank's strategy on the structure of assets and liabilities, obligations, and off-balance sheet items, with the aim of optimizing funds allocation.

- **Capital Management Committee** is responsible, in particular, for managing capital, which includes also issuing recommendations for the Management Board of the Bank on measures in respect of capital management, capital level and structure, and on increasing the effectiveness of capital utilisation, and recommendations on the Bank's internal procedures related to capital management and capital planning.

- **Data Quality Management Committee for the purpose of calculating the Bank's regulatory capital requirement (AIRB; till 31.12.2013)** was responsible, in particular, for creating conditions for the implementation and development of an effective system for managing the quality of credit portfolio data in order to ensure compliance with the requirements of the advanced internal ratings based approach (AIRB), used to calculate the capital requirement for credit risk. From 2014, all tasks of this committee have been forwarded to the Retail Banking Risk Committee, the Corporate and Investment Banking Risk Committee, the Financial Markets Risk Committee and the Data Quality and IT Systems Development Committee.

- **Data Quality and IT Systems Development Committee (from 01.01.2014),** is responsible for the tasks and decision making process in scope of principles and structure of operation of the data quality management system, approving operational standards of data management, assessing the effectiveness of the data quality management system, initiating actions aimed at improving data quality at the Bank, in particular, taking into account the needs related with calculating the regulatory capital requirements of the Bank under the AIRB approach.

- **Credit Committee of the Bank's Management Board (KKZB)** is responsible, in particular, for:
  - making credit decisions concerning companies in accordance with the decision-making matrix, depending on the rating and amount of exposure,
  - making decisions on debt conversion into shares, stocks, etc.,
  - making decisions on taking over properties in return for debts,
  - making any other decisions going beyond the jurisdiction of the lower-level decision-making authorities.

- **Credit Policy Committee of the Retail Banking (KPK; till 31.12.2013)** was responsible, in particular, for:

- approving or amending the decision-making methodology for granting credit products of the retail banking,
- making decisions on admitting credit products to or withdrawing them from sale,
- monitoring the quality and profitability of the credit products portfolio, and making decisions on measures to be taken in the case of negative occurrences related with the quality or profitability of that portfolio.

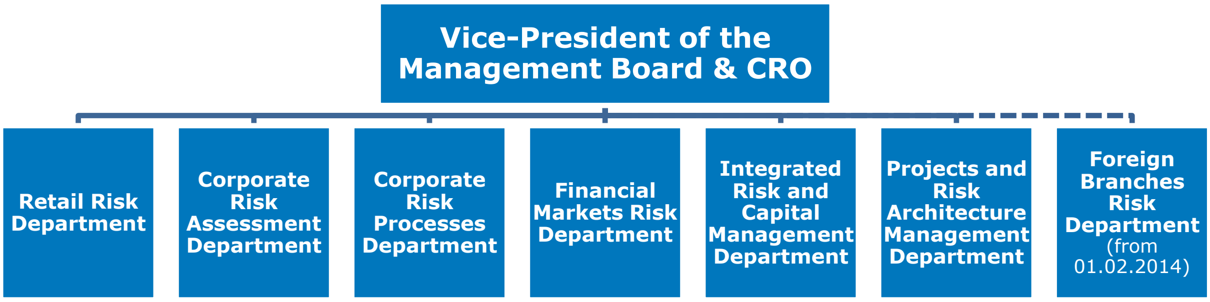
From 01.01.2014, all tasks of KPK have been forwarded to the Retail Banking Risk Committee being a part of the Business and Risk Forum of mBank Group.

- **Credit Committee of the Retail Banking (KKD)** is responsible, in particular, for:
  - making individual credit decisions concerning retail clients in the case when the total exposure to such a client, the transaction amount or the AIRB risk parameters (PD/LGD/EL) defined for the client/transaction reach a specified threshold set for this decision-making level,
  - making decisions on granting decision-making powers to individual employees of the Bank, or on changing or revoking those powers.

<u>Other units:</u>

1. **Organisational units of the Risk Area**

The function of management at the strategic level and the function of control of credit, market, liquidity and operational risks and risk of models used to quantify the aforesaid risk types are performed in the Risk Area supervised by the Chief Risk Officer. The chart below presents the organisational structure of this area.



The roles played by particular units in the process of identifying, measuring, monitoring and controlling risk, which also includes assessing individual credit risk posed by clients and establishing the client selection rules, have been strictly defined. Within the scope of their powers, the units develop methodologies and systems supporting the aforesaid areas. Furthermore, the risk control units also report on risk and support the major authorities of the Bank.

Retail Risk Department:

- development of risk management principles and processes,
- acceptance of retail banking products, including the impact on the different types of risk and capital requirements,
- development of reports for monitoring of risk management policies,
- development and management of systems supporting the risk assessment and decision-making process,
- setting up decision-making rules,
- making credit decisions (for private individuals and micro-business clients),
- administration of the loan portfolio,
- collection, restructuring and development of policies for these processes,

- credit fraud prevention and operational risk control in the credit process.

Corporate Risk Assessment Department:

- developing and implementing the credit policy (excluding the retail banking),
- controlling and managing credit risk of the Bank and the Group, excluding the retail banking area, including the scope of exposures subject to supervision, restructuring and debt collection carried out by the Debt Restructuring and Collection Department,
- early identification of non-default clients at risk of losing their creditworthiness.

Corporate Risk Processes Department:

- organising corporate credit process and supervision over its realisation by the Bank and mBank Group entities,
- creating Bank's credit policy in the scope of Industry-based Risk Appetite,
- analysing and reporting within active management of corporate credit risk,
- creating the methodology - and monitoring the quality – of rating models for corporate, financial and retail clients,
- administrating non-standard credits within corporate banking area.

Financial Markets Risk Department:

- identifying, measuring and controlling market risk, liquidity risk, and interest rate risk of the banking book, in particular preparing of limits proposal for above mentioned risk types,
- developing methods for measuring particular risk types, and integrating the control of market risk, liquidity risk, and interest rate risk of the banking book at the Bank and mBank Group,
- measuring and controlling counterparty risk due to transactions assigned to financial markets area and derivatives transactions with bank customers, as well as preparing and developing the methods for determining credit exposure due to derivatives transactions,
- ensuring methodological adequacy of the techniques of valuing financial instruments included in the portfolios of the Financial Markets Department, the Treasury Department, the Brokerage Bureau, the Financial Markets Sales Department and the mezzanine finance transactions of the Structured and Mezzanine Finance Department,
- organising the following processes:
  - process of admitting to trading the financial instruments concluded by organisational units of the financial markets area,
  - process of assessing the adequacy of internal capital (ICAAP) with respect to market risk, liquidity risk, and interest rate risk of the banking book,
  - process of measuring economic capital for market risk,

  and supervising their execution,
- calculating and monitoring of P&L of business units from financial markets area,
- independent operational control of the risk generated by the Financial Markets Department, the Treasury Department and the Financial Markets Sales Department in the scope of trading in financial instruments in particular control of:
  - stop-loss limits utilisation,
  - market conformity of the transactions concluded by business units of financial markets area,

  and reporting in this respect to the Management Board of the Bank and to respective collegial bodies of the Bank.

Integrated Risk and Capital Management Department:

- integration of risk and capital within the ICAAP,
- control of capital adequacy as well as planning and limiting risk capital,
- integration of risk valuation (economic capital, reserves, stress tests),
- integration of non-financial risks, including operational risk,
- validation of quantitative models,
- the Internal Control System,
- Supervisory Review and Evaluation Process,
- measuring of the effectiveness capital based on risk adjusted capital measures

Projects and Risk Architecture Management Department:

- Risk Projects Portfolio Management,
- competence centre in the area of process management,
- development and optimization of the architecture of Risk processes,
- management of the IT applications of Risk (maintenance and development),
- risk data management and cooperation with the Finance Division within the scope of centralized management information system.

Foreign Branches Risk Department:

- credit risk managing in the retail banking, supporting the credit risk assessment process and taking part in the decision making process regarding credits for the foreign branches,
- credits managing / settling in the foreign branches,
- handling the vindication process and performing the control in scope of the operational risk in the credit process for the credit products in foreign branches.

2. **Organizational units outside the Risk Area** are in charge of the management and control of other risks identified in mBank Group's activity (business risk, strategic risk, capital risk, reputational risk, insurance risk, legal risk, IT system risk, personnel and organisational risk, security risk and compliance risk).
3. **Business units** take part in managing particular risk types by means of taking risk into account in business decisions, in preparing the product offer and in the client acquisition process. The units assume the ultimate responsibility for taking risk within the set limits and for developing the Bank's results.

Control units:

- **Internal Audit Department (DAW)** carries out independent review of the process of identifying, taking, measuring, monitoring and controlling risk as part of its internal control and audit function.
- **Compliance Department (DC)** is responsible for establishing standards of managing the risk of non-compliance of internal regulations and standards of the Bank's operation with applicable law.

3.2. Structure of the risk management process documentation

The risk management strategy implemented by mBank Group is documented accordingly and linked to the Strategy of mBank Group and Mid-term Plan of mBank Group. The documentation of the risk management strategy is an important component of the documentation of the internal capital adequacy assessment process at the Bank and mBank Group (ICAAP).

Strategies and policies for managing particular risk types:

1. Risk Management Strategy of the mBank S.A. Group

The document was approved by the Management Board and the Supervisory Board. It is associated with the mBank Group Strategy as well as with the Mid-Term Plan for the mBank Group.

2. Credit Risk Management Strategy in mBank S.A. and the mBank Group (ICAAP)

The document describes the credit risk management process in the Bank and the Group, including its organisation, and the principles of setting the acceptable risk level, both in the retail and corporate area.

3. Strategy and Policy of Operational Risk Management in mBank S.A.

The document describes the organisation of the operational risk management process in the Bank, and the Bank's policy in respect of individual areas of operational risk.

4. Market Risk Strategy

The document describes the market risk management process in the Bank, in particular the setting of the acceptable level and structure of market risk.

5. Liquidity Risk Management Strategy in mBank S.A.

The document describes the liquidity risk management process (both at the strategic and operational level), the principles of limiting risk, and the emergency plans of the Bank.

6. Compliance Policy in mBank S.A.

The document describes the process of organising compliance risk management, including the role of the Bank's authorities in the process, the role of the Compliance Department, and obligations of the Bank's employees in implementing the policy.

7. Capital Management Policy of the mBank S.A. Group

The document describes the capital strategy of mBank Group, including the capital goals, the preferred capital structure, the capital plan for the coming years, and the emergency capital plan.

The documents listed above are subject to annual review in accordance with the principles laid down in "Review of the internal capital adequacy assessment process (ICAAP) in the mBank S.A. Group".

8. Limit Book in mBank S.A.

The document features a description of standardized frameworks both for the process and limits system, which are widely used in managing and controlling risk all over the mBank Group. The frameworks ensure fine application of the risk appetite to the certain risk limiting in the particular areas, and guarantee fulfilling the regulatory requirements.

ICAAP documentation:

1. Internal Capital Adequacy Assessment Process (ICAAP) in mBank S.A.

The document describes the internal capital adequacy assessment process taking place in the Bank and the course of the individual process components, including:

- identification and assessment of risk relevance,
- principles of calculating and aggregating internal capital,
- stress tests,
- limits on risk capital, and
- principles of reviewing the process.

2. Rules for estimating capital for hard to quantify risks

3. The concept of Risk Coverage Potential in mBank S.A. Group

4. Principles of Prudent and Stable Management of mBank S.A.

The document describes the principles of prudent and stable management of the Bank within the framework of the strategic planning process, risk management system, internal control system, and capital management.

3.3. Management of Different Types of Risk

Credit risk management is an integrated and continuous operational process involving actions and decisions concerning individual transactions and exposures as well as portfolios. The Group actively manages credit risk in order to optimise risk level. For this purpose, uniform credit risk management rules are applied across the Bank's structure and its subsidiaries; they are based, among others, on separation of the credit risk rating function and the sales function at all levels up to the Management Board. A similar approach is applied to administration of credit risk exposures as this function is performed in the risk area and the operating area and is independent from sales functions. The model of Group-wide risk management assumes participation in the process of Bank's Risk Area organizational units. The segregation of responsibilities in the process is as follows:

- **The Retail Risk Department (DRY)** is responsible for management of credit risk and other risk types in mBank's retail banking on the domestic markets and in foreign branches (Czech Republic and Slovakia). The main operational responsibilities of DRY include: credit risk rating and credit decision-making for individual exposures and transactions, mitigation of operational risk (credit frauds), supervision over the automated credit process, administration of credit agreements concluded with retail clients and their monitoring, collection of credit receivables via telephone and legal collection of credit receivables. Furthermore, DRY develops rules of credit risk rating and principles of calculating the creditworthiness of retail clients. Moreover, the Department is responsible for implementing the assessment principles in the tools supporting the credit decision-making process, reports on the quality of the credit portfolio, and monitors the quality of data used in the risk assessment process. To the extent permitted by external regulations DRY participates in the credit risk management process of the subsidiaries having credit risk bearing retail products in the offer.
- **The Corporate Risk Assessment Department (DOR)** is responsible for management of the quality of the corporate loans portfolio of the Bank and subsidiaries of mBank Group and also responsible for restructured exposures and subject to a restructuring. DOR's key functions include: decisions on and recommendations for individual exposures and transactions of companies and groups of companies which are clients of the Bank, assessment of and recommendations for large exposures accepted by subsidiaries of mBank Group, monitoring the structure of exposures in the risk portfolio, in particular by sector, and the related concentration risk, calculation of the clients' probability of default (PD) and expected loss (EL) ratings for banks and international financial institutions and related exposure limits and monitoring their utilisation, management of credit risk of exposures by country (setting and monitoring the utilisation of limits). The more extensive scope of credit risk controlling functions at Group level is performed by a dedicated organizational unit: the mBank Group Credit Risk Division at the Corporate Risk Assessment Department. The main functions of the Division include: analysis of credit risk of new exposures of subsidiaries, monitoring credit risk of the largest exposures, analysis of the quality of the risk portfolio, participation in development and modification projects of the risk management strategy, policies and rules in subsidiaries, supervision over plans and methodologies of establishing and releasing provisions, as well as audits of the largest exposures for all liabilities of the Group
- **Corporate Risk Processes Department (DPR)** responsible for: compiling the corporate credit risk strategy, shaping the credit policy within the corporate banking area, creating through portfolio analyses, including industry-based division, products and concentration; compiling reports and statements for financial supervision bodies, the Bank's governing bodies and the Bank's organisational units, from the scope of credit-warranty portfolio of Bank and mBank Group entities. DPR compiles and introduces rules governing corporate risk process, monitors its efficiency, manages applications supporting credit process and provides support for their users. Within the area of the Department's responsibilities lies development and quality control of the rating models for corporate, financial and individual clients of mBank and mBank Group entities. Additionally, DPR manages the reserves for credit risk in the area of corporate banking, conducts settlement and accounting service of credits and guarantees issued by Structured and Mezzanine Finance Department (DFS) and collected debts from Restructuring and Debt Collection Department portfolio**.**
- **Integrated Risk & Capital Management Department (DKR)** – is responsible for the portfolio provision for loans and advances to corporates and retail, integration of risk valuation (economic capital, stress tests, RWA) and validation of quantitative models.

Decision-making for credit exposures in the corporate area. Credit decisions are consistent with rules accepted by the Corporate Risk Policy. Levels of decision-making competences are determined by a decision-making matrix. The determination of level of decision-making authority for credit decision is based on EL rating and total exposure on client/group of affiliated entities. The total exposure takes into account the client/group of affiliated entities exposures in the whole mBank Group. Additionally, based on obtained CVaR, the decision-making authority level can be raised all the way to the Management Board.

Decision-making for credit exposures in the retail banking area. Due to a different profile of retail banking clients, the accepted amount of exposure per client and standardisation of products offered to those clients, the credit decision-making process differs from that applied to corporate clients. The decision-making process is automated to a large extent, both in terms of acquiring data on the borrower from internal and external data sources, and in terms of risk assessment by means of scoring techniques and with the application of standardised decision-making criteria. The tasks, which are not automated concern mainly the verification of credit documentation and potential derogations when a decision is made with the escalation to the appropriate decision-making level in accordance with the applicable rules. In addition, in case of mortgage loans, the present value of the collateral is established and its compliance with the binding credit policy including acceptable LtV (Loan to Value) is assessed. These functions are performed by operating units located within the Retail Risk Department, i.e., in the Risk Area, in complete separation from sales functions.

Market risk management is performed in a single process by the Financial Markets Risk Department (DRR).

- **The Financial Markets Risk Department (DRR)** is responsible for measurement of exposures to market risk of the Bank's front-office units portfolios by the use of market risk measures: Value at Risk (VaR) and stress tests. DRR controls and monitors on a daily basis utilisation of the limits for these risk measures established by the Management Board and the Risk Committee of mBank S.A. (since 01.01.2014 - Financial Markets Risk Committee) and provides daily and periodical reporting on the market risk exposure to managers of the Bank's front-office units, to the Risk Committee of mBank S.A. (since 01.01.2014 - Financial Markets Risk Committee), and directly to the Vice-president of the Management Board - Chief Risk Officer. Moreover, DRR develops market risk measurement methodologies, pre-settlement counterparty risk of derivative transactions, and establishes valuation models for financial instruments.
  Moreover the Financial Markets Risk Department calculates and reconciles daily financial results on transactions carried out by the front-office units and provides daily valuation of financial instruments to the Finance Area. The valuation of derivative transactions with the Bank's clients is also delivered to the business units responsible for managing clients (investment and corporate area). Valuations prepared by DRR are the basis for managing collaterals for concluded transactions on derivative instruments. DRR is responsible for the administration of the front-office IT systems, i.e. administration of users' access rights to the systems, parameterization in the systems of financial instruments, as well as counterparties and issuers and is responsible for market data input to the systems. DRR monitors utilization of counterparty limits (pre-settlement, settlement, issuer and country risk limits) and escalates if limits are exceeded. Moreover, DRR verifies the market conformity of the transactions concluded by the front-office units and supervises the process of modification and deletion of deals in the front-office systems.

Liquidity risk management aims at ensuring and maintaining the Bank's and the Group's ability to fulfil both current and future liabilities taking into account the cost of liquidity. The liquidity management process consists of procedures that aim at identification, measurement, controlling, monitoring, reducing and defining the acceptable level of exposure to risks. This process can be divided into two main elements in the operational sense: the part involving all forms of liquidity management and the part of controlling and monitoring liquidity risk. The Assets and Liabilities Management Committee, the Risk Committee of mBank S.A. (since 01.01.2014 - Financial Markets Risk Committee) and the Management Board of the Bank are responsible for liquidity management on the strategic level. Below mentioned organisational units are responsible for liquidity management and control.

- **The Financial Markets Settlement and Services Department (DOF)** – is responsible for operational supervision over cash flows in accounts.

- **The Treasury Department (DS)** is responsible for providing necessary funds for settlements in the Bank's accounts, implementing strategic recommendations made by the mBank Group Assets and Liabilities Management Committee, calibrating the structure of the future cash flows within the limits imposed by the Management Board and the Risk Committee of mBank S.A. (since 01.01.2014 - Financial Markets Risk Committee), maintaining defined securities portfolios kept to secure liquidity within the limits imposed by the Management Board, the Risk Committee of mBank S.A. (since 01.01.2014 - Financial Markets Risk Committee) and the mBank Group Assets and Liabilities Management Committee. The Treasury Department is supported in these functions by the Financial Institutions Department, in relation to funding from domestic and foreign banks and international financial institutions, and the Financial Markets Department, in relation to issues of the Bank's debt securities.

- **The Financial Markets Risk Department (DRR)** is in charge of controlling and monitoring liquidity risk of the Bank on the strategic level and reporting to the Vice-president of the Management Board - Chief Risk Officer, the Risk Committee of mBank S.A. (since 01.01.2014 - the Financial Markets Risk Committee) and the mBank Group Assets and Liabilities Management Committee. The Department monitors financial liquidity on a daily basis using methods based on cash flow analysis. Liquidity risk measurement is based on the regulatory model and an internal model, which has been established taking into consideration the specific character of the Bank, the volatility of the deposit base, the level of funding concentration, and the projected development of particular portfolios.

Operational risk management is performed in mBank and, at the consolidated level, in mBank Group.

- **The Integrated Risk and Capital Management Department (DKR)** is responsible for operational risk controlling and monitoring in the Bank and in mBank Group. Operational risk is understood at mBank as the risk of losses resulting from inadequate or faulty internal processes, systems, errors or actions of a Bank employee, and from external events; in particular, operational risk covers legal risk.
- As a part of the operational risk control activities, mBank collects data about operational risk events and losses of the Group, regularly carries out the operational risk self-assessment process within organisational units, collects and monitors key risk indicators, and develops and performs operational scenario analyses in order to identify exposure to potential high-severity events. At the same time, the function maintains communication channels with all areas of the Bank (business and support areas) for remedial action once the systems spot critical patterns of operational risk in any area. Within the scope of its operational risk control function, the Integrated Risk and Capital Management Department closely co-operates with other units and projects within the Bank involved in operational risk, in particular with the Compliance Department, the Legal Department, the Internal Audit Department and the security area. The results of operational risk controlling and monitoring are regularly reported to the Risk Committee of the Supervisory Board, the Management Board of the Bank, the Risk Committee of mBank S.A. (since 01.01.2014 - Business and Risk Forum of mBank Group), and the Chief Risk Officer.

3.4. Credit risk management

3.4.1 Credit policy

mBank manages credit risk based on supervisory requirements and market best practises. Credit policy, established separately for retail banking and corporate banking, plays the key role in the credit risk management process. It includes i.a.:

- product groups and target customer groups,
- acceptance criteria together with cut-off levels,
- criteria for acceptance of financed subjects and collaterals,
- rules for avoiding concentration risk,
- rules for selected industries and customers segments.

3.4.2 Collateral accepted

Collateral accepted for granted credit products. The collateral policy is an important part of the credit policy. It provides that, in making a decision about granting a credit risk bearing product, the Bank strives to obtain collateral that would be adequate to the accepted risk. The quality of the proposed tangible collateral is assessed according to its liquidity and market value while the quality of personal collateral is assessed according to the financial situation of the guarantor. The quality of accepted collateral is correlated to the amount of the product bearing credit risk and the level of risk related to granting such a product. The collateral most frequently accepted by the Bank includes:

- mortgage on real estate,
- cession of receivables (cession of rights),
- registered pledge,
- transfer of ownership to collateral (partial or conditional),
- monetary deposit,

- guarantee deposit or cash blocked,
- bill of exchange,
- guarantees and warranties,
- a letter of comfort issued by a company whose reliability and fairness is known on the international financial markets.

In the case of personal collateral (e.g. warranty, guarantee), the situation and reliability of the entity issuing such collateral is evaluated against the standards applicable to the assessment of borrowers.

In the case of tangible collateral, the internal Group rules are applied. The value of fixed assets taken as collateral is determined on the basis of an estimate prepared by a certified expert. These estimates submitted to the Bank is verified by a team of specialists situated in the Risk Area, who verify the correctness of the market value assumptions and assess the liquidity of the collateral from the Bank's point of view. The following factors are taken into account in the verification process:

a) for collateral on real estate:
  - type of real estate,
  - legal status,
  - designation in the local land development plan,
  - technical description of buildings and structures,
  - description of land,
  - situation on the local market,
  - other price-making factors,

b) for collateral on plant and machinery:
  - general application and function in the technological process/possibilities of alternative use,
  - technical description and parameters,
  - exploitation and maintenance conditions,
  - availability of similar devices and machinery,
  - current market situation,
  - forecasts of demand for specific machinery in connection with the situation in the industrial sectors applying such machinery.

c) for collateral on inventories:
  - formal and legal requirements related to specific products (e.g., a security certificate 'CE' for electrical equipment, certificates issued by National Institute of Public Health, etc.),
  - saleability,
  - warehousing conditions required (e.g., for paper materials sensitive to humidity, precise materials sensitive to pollution, etc.),
  - security and insurance of both the warehouse and the goods stored therein.

Collateral accepted for transactions in derivative instruments. The Bank manages the risk of derivative instruments. Credit exposures arising from concluded derivative transactions are managed as a part of clients' general credit limits, taking into account potential impact of changes in market parameters on the value of the exposure. Existing master agreements with contractors obligate the Bank to monitor the value of exposure to the client on a daily basis and provide for additional collateral against the exposure to be contributed by the client if the exposure value increases or the limit is exceeded. In case of default, the master agreements provide for early settlement of the transaction with the client.

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Collateral on securities resulting from buy-sell-back transactions. The Bank accepts collateral in the form of securities in connection with the buy-sell-back transactions concluded. Depending on the agreement such collateral may be sold or repledged.

Hedge Accounting. The Bank has been applying fair value hedge accounting. The interest rate risk is the only type of risk hedged under hedge accounting. At the end of each month, the Bank evaluates effectiveness of the applied hedging by carrying out analysis of changes in fair value of the hedged and hedging instruments in respect of the hedged risk. The Bank hedges against the risk of change in fair value of a part of the portfolio of mortgage loans for a fixed interest rate granted by foreign branches of mBank in Czech Republic and fair value hedge accounting of Eurobonds issued BRE Finance France (BFF). The hedged risk results from changes in interest rates. The hedged items are respectively: a part of the portfolio of mortgage loans for a fixed interest rate denominated in CZK and granted by the foreign branches of mBank in Czech Republic and security deposit given by BRE Finance France in the amount of: EUR 497 770 thousand, CHF 198 967 thousand and CZK 500 000 thousand. IRS is the hedging instrument swapping the fixed interest rate for a variable interest rate. Adjustment to the fair value of the hedged assets and the valuation of hedging instruments is recognised in the profit and loss account in the income from trading operation.

3.4.3 Rating system. The rating system is a key element of the credit risk management process in the corporate area. It consists of two main elements:

- customer rating (PD-rating) – describes the probability of default (PD),
- credit rating (EL-rating) – describes expected loss (EL) and takes into consideration both customer risk (PD) and transaction risk (LGD, Loss Given Default – loss resulting from default). EL can be described as PD*LGD. EL indicator is used mainly at the credit decision-making stage.

The rating produces relative credit risk measures, both as percentages (PD%, EL%) and on a conventional scale from 1.0 to 6.5 (PD-rating, EL-rating) for corporations (sales over PLN 30 million) and SMEs (sales below PLN 30 million). PD rating calculation is a strictly defined process, which comprises seven steps including: financial analysis of annual reports, financial analysis of interim figures, assessment of timeliness of presenting financial statements, analysis of qualitative risks, warning indicators, level of integration of the debtor's group, and additional discretionary criteria. Credit rating based on expected loss (EL) is created by combining customer risk rating and transaction risk rating, which results from the value of exposure (EAD, Exposure at Default) and the character and coverage with collateral for transactions concluded with the client (LGD). EAD represents actual balance sheet exposure increased by the expected level of off-balance sheet items of the Bank to be converted to balance sheet items at the date of default. LGD, described as % of EAD, is a function of possibly executed value of tangible and financial collateral and depends on the type and the value of the collateral, the type of transaction and the ratio of recovery from sources other than collateral.

The rating system generates the borrower's probability of default directly in the form of a PD ratio, expressed as a percentage on a continuous scale. Rating classes are calculated on the basis of procedures of dividing percentage PD into groups based on geometric stepladder. In external reporting, the Bank maps the internal PD rating scale onto external ratings. The table below presents the mapping system.

Sub-portfolio	1				2			3		4			5			6	7		8	
PD-Rating	1.0 - 1.2	1.4	1.6	1.8	2	2.2	2.4 - 2.6	2.8	3	3.2 - 3.4	3.6	3.8	4	4.2 - 4.6	4.8	5	5.2 - 5.4	5.6 - 5.8	No rating	6.1 - 6.5
S&P	AAA	AA+	AA, AA-	A+, A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B+	B	B-	B-	CCC+	CCC down to CC-	n/a	C, D-I, D-II
	Investment Grade								Non-Investment Grade											Default

The following models comprised by the rating system are used in the retail banking area:

- Loss Given Default (LGD) model, which covers the entire retail portfolio. In the model, loss is defined as a function dependent on the level of recovery from clients' own payments and possible value of collateral using real estate collected in enforcement procedures.
- Credit Conversion Factor (CCF) model, which covers the entire retail banking portfolio. The model is based on historical data. The Credit Conversion Factor is an integral part of EAD (CCF as a level of off-balance sheet items converted to balance sheet items at the date of default).
- PD model with a modular structure, which integrates application and behavioural models in the retail banking area as well as models which use Credit Information Bureau (BIK) data.

All models are subject to periodical reviews and a process of validation as well as compliance checks with applicable regulations.

3.4.4 Method of calculating the portfolio provision (IBNI – Incurred But Not Identified Losses) for loans and advances to corporates and retail, based on the rating systems

3.4.4.1 Corporate portfolio

The portfolio provision is formed on the credit portfolio of customers not classified to the default category. The amount of provisions is an estimate of incurred losses resulting from arisen economic events which haven't been identified by Bank at the provisions calculation date.

The probability of disclosure of a loss is modeled by logistic regression based on financial indicators and qualitative data. The model is calibrated on the Bank's internal data, comprising a several years' period of observation of the corporate portfolio. On the basis of the monitoring period existing in the Bank, it was estimated that 6-8 months (depending on the size of the company) is the average period between the loss event occurrence and the possibility of its identification by the Bank (loss identification period 'LIP'). Therefore, the Bank performs calculations on the basis of 6-8-month horizon for probability of default obtained via scaling the original 12-month PD-rating coming from the corporate PD model. The value of incurred loss is assumed at the level of the expected value of exposure in case of default (EAD) multiplied by LGD (parameter describing the loss resulting from the lack of loan repayment), calculated by corporate LGD/EAD model and multiplied by PD.

In the opinion of the Management Board, the profile of the corporate rating system as a model sensitive to changes in economic cycle (Point-in-Time) as well as recognition of interim financial data and warning indicators as rating assessment drivers should ensure adequate reflection of the amounts of the calculated portfolio provision to the changing market environment.

3.4.4.2 Retail portfolio

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

1. Earlier recognition of impaired status that gave larger amount of impaired portfolio,
2. Higher estimated recoveries from such a defined portfolio due to naturally higher rate of return to a normal situation for customers that have previously recognized impairment.

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

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

The LLP impact of the methodology alignment is not material, however it translates into higher volume of impaired loans, which leads to a lower adjusted provisioning coverage ratio.

3.4.4.3 Measurement of impairment of corporate portfolio

The Bank measures impairment of loan exposures in accordance with the International Accounting Standards 39. The intranet application IMPAIRMENT-KORPO is a tool used to calculate impairment losses for impaired exposures granted to corporate customers and banks. The classification of customers to default portfolio and calculation of impairment write-off is as follows:

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

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

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

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

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

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

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

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

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

3.4.4.4 Measurement of impairment of retail portfolio

In the Bank's retail division losses for impaired exposures are calculated, similarly to the corporate division, with the usage of the IMPAIRMENT application. Retail exposures are considered impaired when the natural person with the given product obligation is in default status in accordance with the AIRB methodology implemented in the Bank, i.e.:

a) the total sum of overdue exposures for all products exceeds PLN 500 and the eldest delay is more than 90 days,
b) one of the contracts has been identified as fraudulent,
c) one of the contracts is restructured,

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d) the Bank applies for instigating enforcement proceedings, bankruptcy proceedings or reorganisation proceedings (resulting in a potential discontinuation of or delay in payments) against the debtor,

e) the debtor intends to challenge his credit obligation in court.

The estimate of provision for impaired contracts is made based on the LGD model for default customers. On the basis of historical data, the model estimates the future discounted recovery being contingent upon the type of contract, collateral level and the period of customers' default.

The table below shows the percentage of the Bank's balance sheet and off-balance sheet items relating to loans and advances and the coverage of the exposure with impairment provision for each of the Bank's internal rating categories (description of the rating model is given above).

Sub-portfolio	31.12.2013		31.12.2012	
	Exposure (%)	Provision coverage (%)	Exposure (%)	Provision coverage (%)
1	7.46	-	37.03	0.09
2	37.80	0.08	30.41	0.13
3	22.10	0.13	9.09	0.25
4	15.93	0.39	9.85	0.46
5	4.53	1.30	2.64	1.51
6	0.39	2.65	0.05	1.96
7	2.05	5.04	0.26	5.51
8	4.81	0.05	5.96	0.66
Default category	4.93	44.81	4.71	54.81
Total	**100.00**	**2.51**	**100.00**	**2.81**

45.26% of the loans and advances portfolio for balance sheet and off-balance sheet exposures is categorized in the top two grades of the internal rating system (31 December 2012: 67.44%).

In view of the loans and advances without impairment loss, the Bank presents the situation of the portfolio as of December 2012 and December 2013 in accordance with two different scales of measurement of PD parameter which are consistent with the methodologies of calculating impairment losses at the given dates. The differences in the portfolio distributions in particular rating categories as of the two given dates are resulting directly from the way of data presentation which are in line to the methodologies effective at the end of 2013 and 2012 Bank does not record material deterioration of the quality of the loan portfolio in IBNR category and the presented results include only the effect of scaling arising from the extension of the default definition. The change is immaterial and results directly from methodological changes which are described in Note 3.4.4.2.

In order to reflect the credit risk embedded in derivative instruments the Bank uses correction to fair value that takes into account the element of credit risk of the counterparty. Write off due to credit risk of contractor is based on expected loss until maturity of the contract and is calculated on customer level. The value of the write off affects income statements and is reported as a correction to the total value of derivatives.

The table below presents the percentage of derivatives which constitute the component of financial assets and percentage of correction to fair value due to credit risk of the counterparty in the total carrying value for each of the Bank's internal rating categories (description of the rating model is given above).

Sub-portfolio	31.12.2013		31.12.2012	
	Fair value	Provision coverage (%)	Fair value	Provision coverage (%)
1	34.23	0.02	44.67	0.01
2	29.59	0.07	17.34	0.15
3	33.72	0.42	35.73	0.31
4	0.82	7.68	1.85	2.82
5	1.16	3.56	0.24	0.65
6	0.03	0.14	0.05	0.15
7	-	7.69	0.03	0.11
8	0.45	-	0.09	-
Total	**100.00**	**0.27**	**100.00**	**0.19**

3.4.5 Maximum exposure to credit risk

The Bank has no financial instruments which maximum exposure to credit risk would differ from their net carrying amounts with the exception of off-balance sheet exposures, which are described under Note 35.

3.4.6 Loans and advances to customers and banks

Loans and advances to customers	31.12.2013		31.12.2012	
	exposure in PLN '000	share/ coverage (%)	exposure in PLN '000	share/ coverage (%)
Neither past due nor impaired	60 194 165	91.41	58 616 047	91.28
Past due but not impaired	1 721 509	2.61	2 463 128	3.83
Impaired	3 933 995	5.97	3 144 876	4.89
Total, gross	**65 849 669**	**100.00**	**64 224 051**	**100.00**
Provision (provision for impaired loans and advances as well as IBNI provision)	(2 092 989)	3.18	(2 236 161)	3.48
Total, net	**63 756 680**	**96.82**	**61 987 890**	**96.52**

The table below shows amounts due from banks:

Loans and advances to banks	31.12.2013		31.12.2012	
	exposure in PLN '000	share/ coverage (%)	exposure in PLN '000	share/ coverage (%)
Neither past due nor impaired	4 489 154	100.00	5 053 188	100.00
Past due but not impaired	-	-	-	-
Impaired	-	-	-	-
Total, gross	**4 489 154**	**100.00**	**5 053 188**	**100.00**
Provision (provision for impaired loans and advances as well as IBNI provision)	(289)	0.01	(559)	0.01
Total, net	**4 488 865**	**99.99**	**5 052 629**	**99.99**

The total amount of recognized provision for loans and advances is PLN 2 093 278 thousand (as at 31 December 2012: PLN 2 236 720 thousand) of which PLN 1 863 436 thousand (as at 31 December 2012: PLN 2 066 654 thousand) represents the individually impaired loans and advances to customers and the remaining amount of PLN 229 842 thousand represents the portfolio provision (as at 31 December 2012 PLN 170 066 thousand). Further information on the impairment allowance for loans and advances to banks and to customers is provided in Notes 17 and 21.

91.41% of the loans and advances portfolio is considered to be neither past due nor impaired (31 December 2012: 91.28%).

Loans and advances neither past due nor impaired

31 December 2013	Individuals			Corporate entities								
			including:		Term loans							
Sub-portfolio	Current accounts	Term loans	housing and mortgage loans	Current accounts	corporate & institutional enterprises	medium & small enterprises	Reverse repo / buy-sell-back transactions	Other	Public sector	Other receivables	Total - Loans and advances to customers	Loans and advances to banks
1	38 137	1 809 133	1 765 851	61 830	89 334	281 795	-	-	315 625	-	2 595 854	3 132 355
2	697 256	15 982 385	15 335 382	683 148	7 706 614	889 086	-	62 504	1 181 787	-	27 202 780	881 110
3	736 917	6 843 621	5 779 251	851 317	1 064 658	2 315 573	-	-	285 853	-	12 097 939	202 769
4	1 247 564	3 749 737	2 352 295	1 541 740	469 054	2 747 777	-	-	134 253	-	9 890 125	230 093
5	738 397	1 306 710	714 315	261 663	57 956	697 375	-	-	1 232	-	3 063 333	42 827
6	40 410	142 453	98 376	7 968	-	64 853	-	-	-	-	255 684	-
7	200 440	585 078	429 435	13 818	-	37 669	-	-	-	-	837 005	-
8	150 459	101 802	30 656	1	-	-	3 287 066	-	-	620 619	4 159 947	-
Default category	-	6 300	2 179	12 908	7 919	64 371	-	-	-	-	91 498	-
Total	**3 849 580**	**30 527 219**	**26 507 740**	**3 434 393**	**9 395 535**	**7 098 499**	**3 287 066**	**62 504**	**1 918 750**	**620 619**	**60 194 165**	**4 489 154**

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31 December 2012	Individuals			Corporate entities								
			including:		Term loans							
Sub-portfolio	Current accounts	Term loans	housing and mortgage loans	Current accounts	corporate & institutional enterprises	medium & small enterprises	Reverse repo / buy-sell-back transactions	Other	Public sector	Other receivables	Total - Loans and advances to customers	Loans and advances to banks
1	699 317	26 287 713	26 034 920	14 492	-	259 860	-	-	204 810	-	27 466 192	2 385 328
2	2 062 372	4 486 836	1 245 537	914 285	6 210 203	1 056 228	-	-	1 521 217	-	16 251 141	1 832 615
3	743 067	-	-	723 014	1 601 307	1 513 606	-	-	366 180	-	4 947 174	635 199
4	35 645	-	-	1 747 885	537 908	2 985 338	-	-	253 701	-	5 560 477	52 954
5	-	-	-	245 461	577 563	614 891	-	-	18 362	-	1 456 277	106 266
6	-	-	-	6 655	-	19 350	-	-	-	-	26 005	-
7	-	-	-	13 119	7 501	93 850	-	-	-	-	114 470	-
8	-	-	-	-	-	10	2 024 380	-	-	666 434	2 690 824	40 826
Default category	3 056	11 047	3 972	7 227	9 969	72 188	-	-	-	-	103 487	-
Total	**3 543 457**	**30 785 596**	**27 284 429**	**3 672 138**	**8 944 451**	**6 615 321**	**2 024 380**	**-**	**2 364 270**	**666 434**	**58 616 047**	**5 053 188**

Differences in the portfolio distributions in each category of the rating model for two presented dates arise directly from the method of presentation described above in Note 3.4.4.4.

Loans and advances past due but not impaired

Gross amounts of loans and advances, which were past due but not impaired are presented below by classes of assets. No impairment is recognised in respect of loans and advances past due for less than 90 days, unless other available information indicates their impairment.

31 December 2013	Individuals			Corporate entities							
			including:		Term loans						
	Current accounts	Term loans	housing and mortgage loans	Current accounts	corporate & institutional enterprises	medium & small enterprises	Reverse repo / buy-sell-back transactions	Public sector	Other receivables	Total - Loans and advances to customers	Loans and advances to banks
Past due up to 30 days	316 856	919 235	716 895	559	2 800	26 335	-	21 018	-	1 286 803	-
Past due 31 - 60 days	31 433	155 214	116 547	405	2 456	21 270	-	-	-	210 778	-
Past due 61 - 90 days	11 304	41 537	31 198	84	-	885	-	-	-	53 810	-
Past due over 90 days	23 657	72 022	20 928	11 590	332	49 611	-	12 906	-	170 118	-
Total	**383 250**	**1 188 008**	**885 568**	**12 638**	**5 588**	**98 101**	**-**	**33 924**	**-**	**1 721 509**	**-**

31 December 2012	Individuals			Corporate entities							
			including:		Term loans						
	Current accounts	Term loans	housing and mortgage loans	Current accounts	corporate & institutional enterprises	medium & small enterprises	Reverse repo / buy-sell-back transactions	Public sector	Other receivables	Total - Loans and advances to customers	Loans and advances to banks
Past due up to 30 days	341 145	1 059 690	854 944	7 405	-	63 983	-	-	-	1 472 223	-
Past due 31 - 60 days	44 433	326 126	254 801	514	-	11 950	-	-	-	383 023	-
Past due 61 - 90 days	16 634	108 310	87 656	382	-	7 309	-	-	-	132 635	-
Past due over 90 days	70 709	93 128	39 591	11 096	-	288 772	-	11 542	-	475 247	-
Total	**472 921**	**1 587 254**	**1 236 992**	**19 397**	**-**	**372 014**	**-**	**11 542**	**-**	**2 463 128**	**-**

Loans and advances individually impaired

Loans and advances individually impaired amounted to PLN 2 070 559 thousand (as at 31 December 2012: PLN 1 078 222 thousand). Gross amounts of loans and advances individually impaired (i.e., before taking into consideration the cash flows from collateral held and expected repayments) are presented below by classes of assets.

	Individuals			Corporate entities							
			including:		Term loans						
	Current accounts	Term loans	housing and mortgage loans	Current accounts	corporate & institutional enterprises	medium & small enterprises	Reverse repo / buy-sell-back transactions	Public sector	Other receivables	Total - Loans and advances to customers	Loans and advances to banks
31 December 2013											
Loans and advances with impairment	746 024	1 606 996	1 203 834	251 417	267 235	1 062 323	-	-	-	**3 933 995**	-
Provisions for loans and advances with impairment	(388 617)	(606 151)	(409 487)	(215 575)	(170 440)	(482 653)	-	-	-	**(1 863 436)**	-
31 December 2012											
Loans and advances with impairment	584 167	716 226	474 477	324 630	484 560	1 035 293	-	-	-	**3 144 876**	-
Provisions for loans and advances with impairment	(542 771)	(437 885)	(267 082)	(260 248)	(285 783)	(539 967)	-	-	-	**(2 066 654)**	-

The Bank is characterized by a conservative approach in the area of verification of collateral value and setting of acceptable LtV levels. The policy, in this respect, imposes particularly significant restrictions in case of transactions with probability of default higher than average (non-purpose loans and consolidation loans) and/or secured on low-liquid real estate (localized on not well developed markets).

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Financial effect of collaterals

As at 31 December 2013	Gross amount	Provisions created	Provisions without cash flow from collaterals	Financial effect of collaterals
Balace sheet data				
Loans and advances to banks	**4 489 154**	**(289)**	**-**	**(289)**
Loans and advances to customers, including:	**65 849 669**	**(2 092 989)**	**(3 354 157)**	**1 261 168**
Loans to individuals:	38 301 077	(1 152 570)	(1 480 071)	327 501
− Current accounts	4 978 854	(444 214)	(468 880)	24 666
− Term loans, including:	33 322 223	(708 356)	(1 011 191)	302 835
housing and mortgage loans	28 597 142	(467 230)	(665 600)	198 370
Loans to corporate clients:	21 625 729	(928 689)	(1 856 493)	927 804
− Current accounts	3 698 448	(234 414)	(321 643)	87 229
− Term loans:	17 927 281	(694 275)	(1 534 850)	840 575
corporate & institutional enterprises	9 668 358	(180 681)	(299 011)	118 330
medium & small enterprises	8 258 923	(513 594)	(1 235 839)	722 245
Loans and advances to public sector	1 952 674	(11 730)	(17 593)	5 863
Total balance sheet data	**70 338 823**	**(2 093 278)**	**(3 354 157)**	**1 260 879**
Off-balance sheet data:				
Loan commitments and other commitments	16 770 032	(34 720)	(58 792)	24 072
Guarantees, banker's acceptances, documentary and commercial letters of credit	6 113 125	(21 348)	(36 775)	15 427
Total off-balance sheet data:	**22 883 157**	**(56 068)**	**(95 567)**	**39 499**

As at 31 December 2012	Gross amount	Provisions created	Provisions without cash flow from collaterals	Financial effect of collaterals
Balace sheet data				
Loans and advances to banks	**5 053 188**	**(559)**	**(3 998)**	**3 439**
Loans and advances to customers, including:	**64 224 051**	**(2 236 161)**	**(3 636 041)**	**1 399 880**
Loans to individuals:	37 689 621	(1 056 576)	(1 456 110)	399 534
− Current accounts	4 600 545	(586 189)	(616 467)	30 278
− Term loans, including:	33 089 076	(470 387)	(839 643)	369 256
housing and mortgage loans	28 995 898	(282 791)	(542 648)	259 857
Loans to corporate clients:	21 467 804	(1 167 356)	(2 157 934)	990 578
− Current accounts	4 016 165	(277 918)	(339 693)	61 775
− Term loans:	17 451 639	(889 438)	(1 818 241)	928 803
corporate & institutional enterprises	9 429 011	(311 280)	(353 432)	42 152
medium & small enterprises	8 022 628	(578 158)	(1 464 809)	886 651
Loans and advances to public sector	2 375 812	(12 229)	(21 997)	9 768
Total balance sheet data	**69 277 239**	**(2 236 720)**	**(3 640 039)**	**1 403 319**
Off-balance sheet data:				
Loan commitments and other commitments	13 944 261	(25 614)	(47 509)	21 895
Guarantees, banker's acceptances, documentary and commercial letters of credit	4 633 495	(20 848)	(35 438)	14 590
Total off-balance sheet data:	**18 577 756**	**(46 462)**	**(82 947)**	**36 485**

Other financial assets

	31.12.2013	31.12.2012
Gross other financial assets, including:	**173 129**	**96 881**
- Not past due	164 899	87 218
- Past due over 90 days	8 230	9 663
- Provisions for impaired assets (negative amount)	(7 953)	(13 780)
Net other financial assets (Note 26)	**165 176**	**83 101**

The above note presents quality of other financial assets included in Note 26 'Other assets'.

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3.4.7 Debt Instruments: treasury bonds and other eligible debt securities

31 December 2013	Trading securities			Investment debt securities	Total
Rating	Government bonds	Treasury bills	Other debt securities		
AAA	-	-	-	47 525	47 525
AA- to AA+	-	-	-	797 207	797 207
A- to A+	287 768	-	297 817	23 902 347	24 487 932
BBB+ to BBB-	-	-	181 457	25 222	206 679
BB+ to BB-	-	-	112 784	60 294	173 078
B+ to B-	-	-	23 480	-	23 480
Lower than B-	-	-	-	-	-
Unrated	-	-	-	-	-
Total	**287 768**	**-**	**615 538**	**24 832 595**	**25 735 901**

31 December 2012	Trading securities			Investment debt securities	Total
Rating	Government bonds	Treasury bills	Other debt securities		
AAA	-	-	-	-	-
AA- to AA+	-	-	-	491 500	491 500
A- to A+	707 657	319	355 338	18 873 831	19 937 145
BBB+ to BBB-	-	-	362 858	103 226	466 084
BB+ to BB-	-	-	94 284	20 673	114 957
B+ to B-	-	-	-	-	-
Lower than B-	-	-	-	-	-
Unrated	-	-	-	2	2
Total	**707 657**	**319**	**812 480**	**19 489 232**	**21 009 688**

98.43% of the investments in debt securities is rated at least on A- credit rating (31 December 2012: 97.23%).

Information about impairment allowance for investment debt securities occurs under Note 22.

3.4.8 Repossessed collateral

The Bank classifies repossessed collaterals as assets repossessed for debt and measures them in accordance with the adopted accounting policies described in paragraph 2.18. Repossessed collaterals classified as assets held for sale shall be put up for sale on an appropriate market and sold at the soonest possible date. The process of selling collaterals repossessed by the Bank is arranged in line with the policies and procedures specified by the units managing the collection process for individual types of repossessed collaterals.

The policy of the Bank is to sell repossessed assets. Cases in which the repossessed collateral is used for own needs are rare – such a step must be economically justified and reflect the Banks' urgent need, and must at each time be approved by the Management Board. In 2013 and 2012, the Bank did not have any repossessed collaterals that were difficult to sell.

3.5. Concentration of assets, liabilities and off-balance sheet items

Geographic concentration risk

In order to actively manage the risk of concentration by country, the Bank:

- complies with the formal procedures aimed at identifying, measurement and monitoring this risk,
- complies with the formal limits mitigating the risk by country and the procedures to be followed when the limits are exceeded,
- uses a management reporting system, which enables monitoring the risk level by country and supports the decision-making process related to management,
- maintains contacts with a selected group of the largest banks with good ratings, which are active in handling foreign transactions. On some markets, where the risk is difficult to estimate, the Bank

avails itself of the services of its foreign correspondent banks, e.g. Commerzbank, and insurance in the Export Credit Insurance Corporation ('KUKE'), which covers the economic and political risk.

Sector concentration risk

If the exposure of the Bank is concentrated in a specific sector, the Bank monitors its share in the financing of the whole sector and the standing of each customer of the Bank vs. the rest of the sector. For this purpose, the Bank uses a statistical database, in which each financial parameter of each of the Bank's customers is mapped onto a decile grid of the parameter for the whole industry. This enables the Bank to monitor its industry-related risk to its portfolio when the standing of the whole industry undergoes rapid changes under the influence of external factors.

Sector limits are set for sectors defined by the Bank in accordance with the internal Bank's regulations, in quarterly reporting periods. Monitoring and analysis covers all the sectors in which the Bank's exposure exceeds 5% of the total amount of exposures at the end of a given reporting period, the so-called "sensitive sectors" and sectors additionally indicated by the Chief Risk Officer. Unless the Bank's Management Board Credit Committee decides otherwise, an exposure limit is set for the Bank in any sector on a level not higher than:

- 12% of the gross loan portfolio in the prior reporting period for low risk sectors;
- 10% of the gross loan portfolio in the prior reporting period for medium risk sectors;
- 5% of the gross loan portfolio in the prior reporting period for high risk sectors.

In the case of exceeding any sector limit or an expectation that such a limit may be exceeded in the next reporting period, activities preventing the exceeding of limits are implemented.

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

The structure of concentration of carrying amounts of exposure of mBank S.A.

No.	Sectors	Principal exposure (in PLN million)	%	Principal exposure (in PLN million)	%
		31.12.2013		31.12.2012	
1.	Household customers	38 301 077	58.16%	37 689 621	58.68%
2.	Leasing and renting	4 451 755	6.76%	3 810 393	5.93%
3.	Real estate management	2 018 166	3.06%	1 707 603	2.66%
4.	Power industry and heat engineering	1 654 021	2.51%	1 459 905	2.27%
5.	Public administration	1 591 729	2.42%	1 962 122	3.06%
6.	Transport and travel agencies	1 115 602	1.69%	787 841	1.23%
7.	Financial intermediation	1 098 770	1.67%	1 048 015	1.63%
8.	Motorization	989 227	1.50%	685 843	1.07%
9.	Metals	804 331	1.22%	909 610	1.42%
10.	Chemistry and plastic processing	772 293	1.17%	561 959	0.87%
11.	Building materials	718 381	1.09%	596 344	0.93%
12.	Wood and furniture	672 099	1.02%	553 372	0.86%
13.	Liquid fuels and natural gas	653 248	0.99%	1 146 606	1.79%
14.	Groceries	631 264	0.96%	659 707	1.03%
15.	Other wholesale trade	629 214	0.96%	447 771	0.70%
16.	Meat processing industry	514 790	0.78%	523 537	0.82%
17.	Other wholesale trade	514 658	0.78%	721 711	1.12%
18.	Building industry	505 587	0.77%	876 171	1.36%
19.	Telecomunication	482 367	0.73%	596 637	0.93%
20.	Pharmaceuticals and health care	408 925	0.62%	535 348	0.83%
21.	Stimulants	318 158	0.48%	318 438	0.50%
22.	Management, consulting, advertising	207 817	0.32%	293 537	0.46%

In 2013, the total exposure of the Bank in the above sectors (excluding household customers) amounts to 31.50% of the credit portfolio (2012: 31.47%).

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The risk of investing in these sectors (in a 3-point scale, i.e., low, medium, high) estimated by the Bank's credit risk advisors as at the end of 2013 and 2012, was assessed as follows:

No.	Sectors	31.12.2013	31.12.2012
1.	Leasing and renting	medium	medium
2.	Real estate management	medium	medium
3.	Power industry and heat engineering	medium	medium
4.	Public administration	low	low
5.	Transport and travel agencies	medium	medium
6.	Financial intermediation	low	low
7.	Motorization	high	high
8.	Metals	high	high
9.	Chemistry and plastic processing	medium	medium
10.	Building materials	medium	medium
11.	Wood and furniture	medium	high
12.	Liquid fuels and natural gas	medium	medium
13.	Groceries	medium	medium
14.	Other wholesale trade	medium	medium
15.	Meat processing industry	medium	medium
16.	Other wholesale trade	medium	medium
17.	Building industry	high	high
18.	Telecomunication	medium	medium
19.	Pharmaceuticals and health care	medium	medium
20.	Stimulants	medium	medium
21.	Management, consulting, advertising	medium	n/a

Large exposures concentration risk

The purpose of management of the risk of concentration of large exposures is to regularly monitor and control exposures for compliance with the legal limits. In order to ensure safety against the risk of exceeding the regulatory limits in companies of the Bank:

- internal limits are set, which are lower than those specified in the Banking Law,
- for customers whose exposures exceed 5% of equity a process of bookings (permits) is introduced in respect of exposure limits,
- a weekly large exposure report is maintained for participants of the lending and investment processes.

These activities have a direct impact on the decisions of the Bank concerning the approval of increase and undertaking of exposures to customers.

The exposure related to each borrower (including banks and brokers) is additionally limited by application of detailed balance sheet and off-balance sheet exposure limits and daily risk limits for transactions such as forward currency contracts. The actual exposure is compared to the maximum limits on a daily basis.

The level of exposure to credit risk is managed by regular reviews of the existing and potential borrowers' ability to repay principal and interest; if necessary, credit limits are changed. The level of exposure to credit risk is also managed by accepting collaterals and guarantees.

3.6. Market risk

In the process of organisation of the market risk management, mBank follows rules and requirements set forth in Polish Financial Supervision Authority (KNF) regulations and recommendations, in particular in Recommendations A and I.

The fundamental principle applied in the organisation of the market risk management in the Bank is the separation of risk control and monitoring functions from structures undertaking and operationally managing Bank's risk positions. Monitoring and controlling of the market risk is performed by the Financial Markets Risk Department in the Risk Area of the Bank under supervision of the Chief Risk Officer, while the market risk positions are operationally managed by Financial Markets Department, Brokerage Bureau and Treasury Department reporting to the Management Board member in charge of financial markets. The Brokerage Bureau is an organisational unit of the Bank separated from the Financial Markets Department focusing its activity on financial instruments subject to trading on the

Warsaw Stock Exchange (WSE). Moreover, the investment positions sensitive to market risk factors (e.g. prices of shares listed on the WSE) are managed in the Structured and Mezzanine Finance Department (DFS) operating in the Corporate & Investment Banking area.

In the course of Bank's operations, the Bank is exposed to market risk, which is defined as a risk resulting from unfavourable change of the current valuation of the Bank's open positions in interest rate, foreign currency and equity instruments due to changes of the appropriate market risk factors, in particular interest rates, foreign exchange rates, stock share prices and indices, implied volatilities of relevant options and credit spreads. The Bank identifies market risk primarily on the trading book positions valuated at fair value (either directly to market prices or via models) and as such may lead to losses reported in Bank's financial results. Furthermore, the Bank assigns market risk to its banking positions independently of the accounting rules of calculating financial results on these positions. In particular, in order to reflect the interest rate risk of the retail and corporate banking products with unspecified interest revaluation dates or rates administered by the Bank, the Bank uses the so-called replicating portfolio models. In 2013 there was implemented in the Bank the concept of capital modelling which was reflected in market risk measurement at the level of business units portfolios of the Bank. Market risk measures applicable to interest rate banking book positions are based on net present value (NPV) models. Exposure to market risk is quantified by measurement of the value at risk (VaR) and by stress tests scenario analyses.

Market risk, in particular interest rate risk of the banking book is also quantified by calculation of the earnings at risk (EaR) measure for the banking portfolio.

In order to mitigate market risk exposure, by decision of Management Board (with respect to mBank portfolio) and mBank the Risk Committee of mBank S.A. (since 01.01.2014 - Financial Markets Risk Committee; with respect to business lines portfolios) VaR limits and stress tests limits (management action triggers) are established.

Value at Risk

In 2013, Bank's market risk exposure, as measured by the value at risk (VaR, for one day holding period, at 97.5% confidence level), was in relation to the established limits on moderate level. The average utilisation of VaR limit for Financial Markets Department, 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), while for the Treasury Department, whose positions are classified solely to the banking book, it was 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 accounted for 74% (PLN 5.6 million). In 2013, the VaR figures for mBank's portfolio were driven mainly by portfolios of instruments sensitive to interest rates – the banking book T-bonds portfolios managed by Treasury Department and the trading book portfolios and interest rate exchange positions managed by Financial Markets Department. Second most significant portfolio having impact on the Bank's risk profile were positions of DFS, where crucial risk factor remains the rate of PZU shares, due to holding significant position in shares of the company. The DFM portfolios of instruments sensitive to changes in exchange rates like FX spots, currency options, as well as the exposure of BM to equity price risk and risk of implied volatility of options traded on the Warsaw Stock, had a relatively low impact on the Bank's risk profile.

mBank VaR

The tables below present VaR statistics from two perspectives. The first table compares the 2013 data with 2012 figures (the values presented in the table were calculated for the Bank's portfolio excluding the DFS positions).

PLN 000's	2013				2012			
	31.12.2013	Mean	Maximum	Minimum	31.12.2012	Mean	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	-
VaR	**15 460**	**16 142**	**22 633**	**7 043**	**6 171**	**11 241**	**14 885**	**6 131**

VaR IR – interest rate risk
VaR FX – currency risk
VaR EQ – equity 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 on November 2012.

PLN 000's	2013				2012			
	31.12.2013	Mean	Maximum	Minimum	31.12.2012	Mean	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	7 268	5 659	7 451	4 551	4 750	925	4 801	1
VaR	**16 910**	**17 622**	**23 556**	**10 840**	**9 879**	**11 588**	**14 779**	**8 059**

Stress testing

Stress tests are additional measures of market risk, supplementing the measurement of the value at risk, which show the hypothetical changes in the current valuation of the Bank's portfolios, which would take place as a result of realisation of the so-called stress scenarios – i.e. market situations at which the risk factors would reach specified extreme values in a one-day period.

In February 2013 there were implemented significant changes in the methodology of stress tests, which was subsequently modified in August 2013. Standard stress test designated for standard risk factors: currency exchange rates, interest rates, stock prices and their volatility, as well as a stress test, which involves changes in credit spreads, were defined. In this way, there was addressed among others, the need for covering in stress tests analysis the independent effect of basis risk (the spread between interest rates on government bonds and IRS), which the Bank is exposed to, due to maintaining a portfolio of Treasury bonds.

Average utilisation of stress test limits in mBank in 2013 amounted to 59% (PLN 921,4 million). The average utilisation of the limits in 2013 for the Treasury Department portfolio without capital modelling was 75% (PLN 785.2 million) and 86% (PLN 814 million) including capital modelling. For the Financial Markets Department portfolio the average utilisation was 26% (PLN 114.3 million) and for BM portfolio 8% (PLN 0.9 million).

3.7. Currency risk

The Bank is exposed to changes in currency exchange rates. The following tables present the exposure of the Bank's currency risk as at 31 December 2013 and 31 December 2012. The tables present assets and liabilities of the Bank at balance sheet carrying amount, for each currency:

31.12.2013	PLN	EUR	USD	CHF	CZ	Other	Total
ASSETS							
Cash and balances with the Central Bank	1 513 599	59 638	6 767	596	57 478	4 995	**1 643 073**
Loans and advances to banks	1 709 488	1 737 673	847 016	2 126	109 431	83 131	**4 488 865**
Trading securities	903 912	-	-	-	-	-	**903 912**
Derivative financial instruments	2 221 073	84 843	39 164	(5 331)	8 538	1 255	**2 349 542**
Loans and advances to customers	31 444 286	9 977 024	1 107 350	19 355 418	1 689 604	182 998	**63 756 680**
Hedge accounting adjustments related to fair value of hedged items	-	-	-	-	970	-	**970**
Investment securities	24 057 072	223 830	-	-	800 388	-	**25 081 290**
Investments in subsidiaries	726 595	1 006	-	-	29 658	-	**757 259**
Intangible assets	408 015	336	-	-	433	-	**408 784**
Tangible fixed assets	432 147	3 734	-	-	6 845	-	**442 726**
Other assets, including tax assets	330 166	9 482	39 850	273	19 243	17	**399 031**
Total assets	**63 746 353**	**12 097 566**	**2 040 147**	**19 353 082**	**2 722 588**	**272 396**	**100 232 132**
LIABILITIES							
Amounts due to the Central Bank	-	-	-	-	-	-	**-**
Amounts due to other banks	4 092 010	344 928	408 585	13 791 309	226 953	69	**18 863 854**
Derivative financial instruments and other trading liabilities	2 373 170	77 984	26 756	12 669	(18 436)	207	**2 472 350**
Amounts due to customers	46 708 616	11 149 325	1 703 947	1 104 238	3 167 558	174 690	**64 008 374**
Hedge accounting adjustments related to fair value of hedged items	-	(4 256)	-	156	(249)	-	**(4 349)**
Debt securities in issue	451 916	-	-	-	-	-	**451 916**
Other liabilities including tax liabilities	813 935	56 896	43 345	1 459	38 841	8 474	**962 950**
Provisions	132 522	7 137	597	8	789	7	**141 060**
Subordinated liabilities	501 879	-	-	3 260 878	-	-	**3 762 757**
Total liabilities	**55 074 048**	**11 632 014**	**2 183 230**	**18 170 717**	**3 415 456**	**183 447**	**90 658 912**
Net on-balance sheet position	**8 672 305**	**465 552**	**(143 083)**	**1 182 365**	**(692 868)**	**88 949**	**9 573 220**
Loan commitments and other commitments	**14 667 841**	**1 708 190**	**190 337**	**3 043**	**200 621**	**-**	**16 770 032**
Guarantees, banker's acceptances, documentary and commercial letters of credit	**2 445 188**	**2 771 903**	**97 848**	**677 250**	**111 258**	**9 678**	**6 113 125**

31.12.2012	PLN	EUR	USD	CHF	CZK	Other	Total
ASSETS							
Cash and balances with the Central Bank	3 718 905	1 060 999	7 342	174	25 968	2 707	**4 816 095**
Loans and advances to banks	1 716 223	1 925 360	597 386	2 468	619 607	191 585	**5 052 629**
Trading securities	1 528 994	-	-	-	-	-	**1 528 994**
Derivative financial instruments	2 639 399	120 777	33 561	63	-	2 742	**2 796 542**
Loans and advances to customers	29 564 134	8 435 036	1 434 680	20 909 586	1 436 073	208 381	**61 987 890**
Hedge accounting adjustments related to fair value of hedged items	-	-	-	-	2 439	-	**2 439**
Investment securities	19 232 864	415	10 353	-	-	497 220	**19 740 852**
Investments in subsidiaries	906 672	1 006	-	-	29 658	-	**937 336**
Intangible assets	388 740	209	-	-	-	376	**389 325**
Tangible fixed assets	468 105	4 017	-	-	-	8 525	**480 647**
Other assets, including tax assets	311 343	6 880	32	1	6 886	22	**325 164**
Total assets	**60 475 379**	**11 554 699**	**2 083 354**	**20 912 292**	**2 120 631**	**911 558**	**98 057 913**
LIABILITIES							
Amounts due to the Central Bank	-	-	-	-	-	-	**-**
Amounts due to other banks	2 366 173	512 476	856 547	16 424 292	81 500	526	**20 241 514**
Derivative financial instruments and other trading liabilities	3 328 535	119 937	29 366	-	-	3 456	**3 481 294**
Amounts due to customers	44 773 107	10 528 170	1 349 359	82 405	2 976 541	172 336	**59 881 918**
Hedge accounting adjustments related to fair value of hedged items	-	4 220	-	-	-	-	**4 220**
Debt securities in issue	659 048	-	-	-	-	-	**659 048**
Other liabilities including tax liabilities	1 204 440	66 588	32 628	1 602	53 069	7 688	**1 366 015**
Provisions	108 810	9 821	10 128	-	-	56	**128 815**
Subordinated liabilities	-	-	-	3 222 295	-	-	**3 222 295**
Total liabilities	**52 440 113**	**11 241 212**	**2 278 028**	**19 730 594**	**3 111 110**	**184 062**	**88 985 119**
Net on-balance sheet position	**8 035 266**	**313 487**	**(194 674)**	**1 181 698**	**(990 479)**	**727 496**	**9 072 794**
Loan commitments and other commitments	**12 450 229**	**1 134 413**	**198 063**	**-**	**161 544**	**12**	**13 944 261**
Guarantees, banker's acceptances, documentary and commercial letters of credit	**1 945 538**	**2 504 938**	**71 897**	**-**	**100 466**	**10 656**	**4 633 495**

3.8. Interest rate risk

In the process of managing interest rate risk of the banking book, the risk monitoring and control functions are performed by the Financial Markets Risk Department supervised by the Vice-president of the Board - Chief Risk Officer, whereas operational management of risk positions takes place in the Treasury Department supervised by the Vice-president of the Board, Head of Financial Markets. This way the Bank ensures independence of risk measurement, monitoring and control functions from operational activity, which gives rise to the positions taken by the bank.

Interest rate risk of the banking book results from the exposure to the bank's interest income and capital art risk, due to adverse change in the levels of interest rates. Guided by the KNF recommendations, in particular Recommendation G, the Bank monitors the banking book structure in terms of repricing gap as well as basis risk, yield curve risk and customer option risk.

The basic measures used to control interest rate risk in the banking book are the repricing gap and the net interest earnings exposed to risk (EaR - Earnings at Risk). Moreover, the Bank performs also stress test analyses aimed to estimate the impact of adverse interest rate fluctuations on net interest earnings and the economic value of the banking portfolio. Interest rate risk of the banking book is also quantified using market risk measures: Value at Risk and stress tests.

Exposure to interest rate risk is limited for the banking portfolio by means of repricing gap limits (management action triggers) and market risk limits imposed on the value at risk (VaR) and stress tests. The utilisation of all those limits is monitored and controlled on a daily basis.

Interest income subject to risk

As of 31 December 2013 and 31 December 2012, a sudden, permanent and unfavorable shift of market interest rates by 100 basis points for all maturities would result in decrease in the interest within 12 months after the year-end date by the following amounts:

31.12.2013		31.12.2012	
in PLN million	currency	in PLN million	currency
70.86	PLN	90.26	PLN
7.18	EUR	10.89	EUR
1.02	USD	2.17	USD
0.52	CHF	14.45	CHF
4.63	CZK	8.30	CZK

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To calculate these values, the Bank assumed that the structure of financial assets and liabilities disclosed in the financial statements as of above indicated dates would be fixed during the year and the Bank would not take any measures to change related exposure to interest rate change risk. In calculation there were included positions resulted from modelling of repricing period according to replicating portfolio method.

Since January 2013 changes in methodology of EaR calculations have been applied, which had considerable influence on differences in this measure values between 2012 and 2013. Applied changes, due to low level of interest rates in some currencies – particularly in CHF, introduced rational restrictions in interest rates values used in EaR calculations, which has been reflected in EaR final results. Moreover the methodology of EaR calculation has been developed by including parameters reflecting interest rates elasticity of particular product groups on market rates changes as well as including in EaR calculations specifics of interest rate formula of particular products.

Stress tests

The Bank runs also other analyses of the changes of the economic value of the banking book under stress test scenarios. Under the stress test, which assumes unfavourable shift of the interest rates for respective currencies by 200 bps, the economic value of the banking book at the end of 2013 would change by PLN 273 million (at the end of 2012: PLN 58 million). During the calculation of these values no correlation between currencies was taken into account and it was assumed that taking into account small interest rate values after the negative shift cannot become less than or equal to zero.

Important position in banking portfolio, in respect of fair value calculations, is debt securities portfolio in PLN (NBP bills, Polish Treasury bonds and bills). Interest rate risk of this portfolio is calculated additionally using stress test methodology implemented in 2013 (described above in p. 3.5). The methodology includes changes of market interest rates scenarios as well as credit spread, which in case of treasury debt securities may reflect basis risk (spread changes between government and swap curve). As of the end of 2013, calculated change in fair value of potential stress test realization in respect of above-mentioned debt securities amounted to 655 million PLN (comp. to nominal value of the portfolio – 22 239 million PLN).

The following tables present the Bank's exposure to interest rate risk. The tables present the Bank's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

31.12.2013	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
ASSETS							
Cash and balances with the Central Bank	1 643 073	-	-	-	-	-	**1 643 073**
Loans and advances to banks	3 149 296	844 965	292 884	-	-	201 720	**4 488 865**
Securities (trading securities, investment securities and pledged assets)	12 457 957	166 332	1 370 606	11 474 450	267 162	1 005 954	**26 742 461**
Loans and advances to customers	55 218 299	4 064 290	1 899 905	1 949 646	3 921	620 619	**63 756 680**
Other assets and derivative financial instruments	331 509	382 458	1 005 874	531 558	26 840	330 483	**2 608 722**
Total assets	**72 800 134**	**5 458 045**	**4 569 269**	**13 955 654**	**297 923**	**2 158 776**	**99 239 801**
LIABILITIES							
Amounts due to the Central Bank	-	-	-	-	-	-	**-**
Amounts due to other banks	10 810 860	8 050 078	-	-	-	2 916	**18 863 854**
Amounts due to customers	51 779 003	4 971 933	4 160 954	2 565 201	374 527	156 756	**64 008 374**
Debt securities in issue	-	-	451 916	-	-	-	**451 916**
Subordinated liabilities	621 287	2 639 591	501 879	-	-	-	**3 762 757**
Other liabilities and derivative financial instruments	312 581	404 256	1 194 314	554 063	28 330	941 676	**3 435 220**
Total liabilities	**63 523 731**	**16 065 858**	**6 309 063**	**3 119 264**	**402 857**	**1 101 348**	**90 522 121**
Total interest repricing gap	**9 276 403**	**(10 607 813)**	**(1 739 794)**	**10 836 390**	**(104 934)**		

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31.12.2012	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
ASSETS							
Cash and balances with the Central Bank	1 854 213	-	-	-	-	2 961 882	**4 816 095**
Loans and advances to banks	3 944 609	531 066	413 420	-	-	163 534	**5 052 629**
Securities (trading securities, investment securities and pledged assets)	14 726 219	263 723	1 472 840	3 915 805	639 639	1 188 956	**22 207 182**
Loans and advances to customers	57 115 498	2 721 047	1 123 511	359 703	1 697	666 434	**61 987 890**
Other assets and derivative financial instruments	339 958	507 817	1 339 188	500 820	25 034	260 023	**2 972 840**
Total assets	**77 980 497**	**4 023 653**	**4 348 959**	**4 776 328**	**666 370**	**5 240 829**	**97 036 636**
LIABILITIES							
Amounts due to the Central Bank	-	-	-	-	-	-	**-**
Amounts due to other banks	10 219 870	9 847 354	173 021	-	-	1 269	**20 241 514**
Amounts due to customers	44 216 798	5 700 142	9 585 420	78 425	266 207	34 926	**59 881 918**
Debt securities in issue	206 105	-	452 943	-	-	-	**659 048**
Subordinated liabilities	578 765	2 643 530	-	-	-	-	**3 222 295**
Other liabilities and derivative financial instruments	418 525	637 848	1 761 101	612 815	31 088	1 167 913	**4 629 290**
Total liabilities	**55 640 063**	**18 828 874**	**11 972 485**	**691 240**	**297 295**	**1 204 108**	**88 634 065**
Total interest repricing gap	**22 340 434**	**(14 805 221)**	**(7 623 526)**	**4 085 088**	**369 075**		

3.9. Liquidity risk

The objective of liquidity risk management is to ensure and maintain the Bank's ability to fulfil both current and future commitments. The Bank achieves this objective by diversifying stable funding sources in terms of client group (from whom acquires deposits), product and currency groups, and at the same time, optimizes its balance sheet in terms of profitability. Long-term activities of mBank in this scope are carried out taking into account conditions on funding capacity and business profitability.

In 2013, the liquidity situation was closely monitored and kept at a level adequate to the Bank's needs by adjusting the deposit base and securing additional funding sources depending on the development of lending activity and other funding needs.

The strategic assumptions concerning the diversification of funding sources and profitable structure of the balance sheet are reflected in the financial plan of mBank Group defined by appropriate measures, e.g. L/D ratio (Loans to Deposits). The Bank measures a specific relation of loans to deposits in order to maintain a stable structure of its balance sheet. In 2013, L/D ratio improved from 103.5% to 99.6% The Bank aims at building a stable deposit base by offering to clients deposit and investment products, regular and specific-purpose savings offerings, as well as operating deposits of the subsidiaries. Means acquired from the Bank's clients constitute the major funding source for the business activity. The second largest funding source is the portfolio of long-term loans from banks (with maturities over 1 year), in particular from Commerzbank (Note 27). The loans together with subordinated loans (Note 30) are the core funding source for the portfolio of mortgage loans in CHF. According to the suspension of granting new mortgage loans in CHF, Bank's receivables in this currency have been decreasing successively along with credit repayments. The funds obtained from the repayment of the said loans are used to reduce the Bank's debt in CHF owed mBank's main shareholder. In 2013, the debt to Commerzbank A.G. was reduced by CHF 830 million.

Moreover, in order to acquire funding (also in foreign currencies) the Bank uses mid-term and long-term instruments, including credit line facilities within Commerzbank Group and on the international market (debts from EBI) as well as FX swap transactions. In H2 of 2013, under the Euro Medium Term Note Program (EMTN), the Bank acquired new funds amounted to CHF 200 million and CZK 500 million.

When making funding-related decisions, in order to match the term structure of its funding sources with the structure of long-term assets, the Bank takes into consideration the supervisory liquidity measures and limits, as well as the internal liquidity risk limits..

In order to ensure that the liquidity risk management process is effective, the Management Board of the Bank lies down an adequate organizational structure and delegates powers to dedicated units and Committees. The existing process covers the liquidity risk management area at both the strategic and operational level, and the liquidity risk measurement and control area.

As part of liquidity risk management, a range of risk measures are being analysed. The basic measure reflecting the Bank's liquidity situation is the mismatch account of future cash flows, and the mismatch gap related with it. It covers all the assets, liabilities and off-balance sheet items of the Bank in all the currencies and time-bands set by the Bank. The aim to secure liquidity is carried out by active management of the structure of future cash flows and in maintaining sufficient liquidity buffer. In 2013, the Bank held liquidity surplus, adequate to Bank's business activity and current market situation, in the form of a portfolio of liquid treasury and money market securities that may be pledged or sold at any time without any considerable loss in value. In accordance with KNF Resolution No. 386/2008 on establishing liquidity measures binding on banks, the Bank calculates the supervisory liquidity measures. In 2013, the supervisory limits on short-term and long-term liquidity measures were not exceeded. Moreover, in line with the Resolution, the Bank conducts an in-depth analysis of long-term liquidity and sets internal limits (management action triggers) on involvement in long-term assets. Relevant analysis of the stability and structure of the funding sources, including the core and concentration level of term deposits and current accounts are performed. Additionally, the Bank analyses the variability of the balance sheet and off-balance sheet items, in particular the open credit line facilities and current account and overdrafts limits utilisation.

The ongoing analysis covers not only liquidity under normal conditions, but also on the assumption of a potential liquidity loss. In order to determine the Bank's resistance to major unfavourable events, the Bank conducts scenario analyses covering extreme assumptions on the operation of financial markets and behavioral events relative to the Bank's clients. The Bank has also adequate procedures in case mBank is threatened with financial liquidity loss.

For the purpose of current monitoring of liquidity, the Bank establishes values of realistic, cumulated gap of cash flows misfit. The gap is calculated on the basis of contractual cash flows (Note 3.9.1). Cash flows in portfolios of non-banking customers' deposits, overdrafts and term loans are mainly amended. In the calculation of the liquidity measures the Bank takes into account the possibilities of raising the funds by selling or pledging the debt securities from Bank's Liquidity Reserves.

Value of realistic, cumulative gap of cash flows misfit (in PLN million)		
Time range	**31.12.2013**	**31.12.2012**
up to 3 working days	7 073	11 559
up to 7 calendar days	7 073	11 425
up to 15 calendar days	6 973	10 478
up to 1 month	7 426	11 500
up to 2 months	7 935	12 488
up to 3 months	7 113	13 399
up to 4 months	7 203	13 767
up to 5 months	7 320	14 048
up to 6 months	7 166	13 849
up to 7 months	6 655	13 072
up to 8 months	6 804	13 029
up to 9 months	6 784	12 798
up to 10 months	6 873	12 332
up to 11 months	6 885	11 239
up to 12 months	6 964	11 292

The above values should be interpreted as liquidity surplus in relevant time buckets. Decrease of values noticed in year 2013 resulted mainly from repayment of the Bank's debt owed to Commerzbank, mBank's main shareholder, in amount equivalent to 3 153 million PLN, which has been mainly covered by liquid assets and partially replaced by new own bonds issue, by simultaneous taking into account in the ANL Gap as of the end of 2013, outstanding debt towards Commerzbank to be repaid in 2014 in amount equal to the equivalent of 3 175 million PLN. Additional factor, that negatively influenced liquidity gap was the increase of customer loans portfolio exceeding funds acquired from term deposits and current accounts (loans portfolio increase in relation to funds raised on deposits amounted to 880 million PLN - with fixed exchange rate as of 31 December 2013 used in calculations).

3.9.1 Cash flows from transactions in non-derivative financial instruments

The table below shows cash flows the Bank is required to settle, resulting from financial liabilities. The cash flows have been presented as at the year-end date, categorised by the remaining contractual maturities. The amounts denominated in foreign currencies were converted to Polish zloty at the average rate of exchange announced by the National Bank of Poland at the year-end date. The amounts disclosed in maturity dates analysis are undiscounted contractual cash flows.

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Liabilities (by contractual maturity dates) as at 31.12.2013

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Amounts due to the Central Bank	-	-	-	-	-	**-**
Amounts due to other banks	4 547 555	2 252 217	1 452 890	11 126 369	-	**19 379 031**
Amounts due to customers	52 318 148	3 992 065	3 720 960	3 911 543	2 124 892	**66 067 608**
Debt securities in issue	1 916	-	-	450 000	-	**451 916**
Subordinated liabilities	28 676	33 369	50 624	2 251 561	1 773 562	**4 137 792**
Other liabilities	713 386	-	-	-	-	**713 386**
Total liabilities	**57 609 681**	**6 277 651**	**5 224 474**	**17 739 473**	**3 898 454**	**90 749 733**
Assets (by remaining contractual maturity dates)						
Total assets	**15 955 599**	**3 427 583**	**15 319 977**	**39 550 761**	**37 639 475**	**111 893 395**
Net liquidity gap	**(41 654 082)**	**(2 850 068)**	**10 095 503**	**21 811 288**	**33 741 021**	**21 143 662**

Liabilities (by contractual maturity dates) as at 31.12.2012

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Amounts due to the Central Bank	-	-	-	-	-	**-**
Amounts due to other banks	2 702 379	62 044	3 426 517	11 510 182	2 540 100	**20 241 222**
Amounts due to customers	43 503 128	4 732 049	7 614 541	2 378 192	1 670 468	**59 898 378**
Debt securities in issue	209 048	-	-	450 000	-	**659 048**
Subordinated liabilities	4 878	-	-	1 761 136	1 456 324	**3 222 338**
Other liabilities	910 072	-	-	-	-	**910 072**
Total liabilities	**47 329 505**	**4 794 093**	**11 041 058**	**16 099 510**	**5 666 892**	**84 931 058**
Assets (by remaining contractual maturity dates)						
Total assets	**19 436 271**	**3 972 358**	**15 877 308**	**24 675 360**	**45 606 588**	**109 567 885**
Net liquidity gap	**(27 893 234)**	**(821 735)**	**4 836 250**	**8 575 850**	**39 939 696**	**24 636 827**

The assets which ensure the payment of all the liabilities and lending commitments comprise cash in hand, cash at the Central Bank, cash in transit and treasury bonds and other eligible bonds; amounts due from banks; loans and advances to customers.

In the normal course of business, some of the loans granted to customers with the contractual repayment date falling due within the year, will be prolonged.

Moreover, a part of debt securities, were pledged as collateral for liabilities. The Bank could ensure cash for unexpected net outflows by selling securities and availing itself of other sources of financing, such as the market of securities secured with assets.

3.9.2 Cash flows from derivatives

Derivative financial instruments settled in net amounts

Derivative financial instruments settled in net amounts by the Bank comprise:

- Futures,
- Forward Rate Agreements (FRA),
- Options,
- Warrants,
- Interest rate swaps (IRS),
- Cross currency interest rate swaps (CIRS),
- Security forwards.

The table below shows derivative financial liabilities of the Bank, which will be settled on a net basis, grouped by appropriate remaining maturities as at the balance sheet date. The amounts denominated in foreign currencies were converted to Polish zloty at the average rate of exchange announced by the National Bank of Poland at the balance sheet date.

The amounts disclosed in the table are discounted contractual outflows for transactions with negative valuations as at the end of 2013.

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31.12.2013

Derivatives settled on a net basis	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Forward Rate Agreements (FRA)	24 579	42 585	36 516	10 367	-	**114 047**
Overnight Index Swaps (OIS)	1 486	6 502	2 031	-	-	**10 019**
Interest Rate Swaps (IRS)	118 386	238 008	487 471	1 057 379	226 265	**2 127 509**
Cross Currency Interest Rate Swaps (CIRS)	638	-	-	18 122	-	**18 760**
Options	4 575	11 625	37 252	7 836	1 023	**62 311**
Futures contracts	-	96	-	-	-	**96**
Other	67	21	-	-	-	**88**
Total derivatives settled on a net basis	**149 731**	**298 837**	**563 270**	**1 093 704**	**227 288**	**2 332 830**

31.12.2012

Derivatives settled on a net basis	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Forward Rate Agreements (FRA)	10 668	48 145	125 781	49 644	-	**234 238**
Overnight Index Swaps (OIS)	247	999	4 417	-	-	**5 663**
Interest Rate Swaps (IRS)	265 516	304 016	599 312	1 456 714	396 415	**3 021 973**
Cross Currency Interest Rate Swaps (CIRS)	-	8 870	130 793	1 039	-	**140 702**
Options	479 988	3 456	90 410	8 812	19	**582 685**
Other	2 211	734	1 172	83	-	**4 200**
Total derivatives settled on a net basis	**758 630**	**366 220**	**951 885**	**1 516 292**	**396 434**	**3 989 461**

Derivative financial instruments settled in gross amounts

Derivative financial instruments settled in gross amounts by the Bank comprise foreign exchange derivatives: currency forwards and currency swaps.

The table below shows derivative financial liabilities/assets of the Bank, which will be settled on a gross basis, grouped by appropriate remaining maturities as at the Balance Sheet date. The amounts denominated in foreign currencies were converted to Polish zloty at the average rate of exchange announced by the National Bank of Poland at the balance sheet date.

31.12.2013

Derivatives settled on a gross basis	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Currency derivatives:						
-outflows	9 254 959	1 862 257	3 207 646	165 784	-	**14 490 646**
-inflows	9 268 026	1 849 091	3 230 070	156 595	-	**14 503 782**

31.12.2012

Derivatives settled on a gross basis	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Currency derivatives:						
-outflows	9 744 590	2 698 607	1 909 498	159 335	-	**14 512 030**
-inflows	9 769 996	2 769 493	1 916 536	157 772	-	**14 613 797**

The amounts disclosed in the table are undiscounted contractual outflows/inflows.

The amounts presented in the table above are nominal cash flows of currency derivatives, which have not been settled, while the Note 19 shows nominal values of all open derivative transactions.

Detailed data concerning liquidity risk related to off-balance sheet items are presented in the Note 35.

3.10. Fair value of financial assets and liabilities

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

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

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

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

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

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

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

	31.12.2013		31.12.2012	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Loans and advances to banks	**4 488 865**	**4 509 817**	**5 052 629**	**5 059 232**
Loans and advances to customers	**63 756 680**	**63 004 639**	**61 987 890**	**60 874 022**
Loans and advances to individuals	**37 148 507**	**36 408 613**	**36 633 045**	**35 759 098**
current accounts	4 534 640	4 567 052	4 014 356	4 047 187
term loans including:	32 613 867	31 841 561	32 618 689	31 711 911
- housing and mortgage loans	28 129 912	27 309 083	28 713 107	27 793 422
Loans and advances to corporate entities	**24 046 610**	**24 059 232**	**22 324 828**	**22 155 902**
current accounts	3 464 034	3 462 161	3 738 247	3 718 882
term loans	17 233 006	17 247 501	16 562 201	16 412 640
- corporate & institutional enterprises	9 487 677	9 514 284	9 117 731	9 070 137
- medium & small enterprises	7 745 329	7 733 217	7 444 470	7 342 503
reverse repo / buy sell back transactions	3 287 066	3 287 066	2 024 380	2 024 380
other	62 504	62 504	-	-
Loans and advances to public sector	**1 940 944**	**1 916 175**	**2 363 583**	**2 292 588**
Other receivables	**620 619**	**620 619**	**666 434**	**666 434**
Financial liabilities				
Amounts due to other banks	**18 863 854**	**18 878 937**	**20 241 514**	**19 709 735**
Amounts due to customers	**64 008 374**	**64 052 528**	**59 881 918**	**59 883 198**
Debt securities in issue	**451 916**	**455 856**	**659 048**	**660 022**
Subordinated liabilities	**3 762 757**	**3 764 754**	**3 222 295**	**3 247 390**

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

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

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

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

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

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

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

The table below presents the fair value hierarchy of financial assets and liabilities measured at fair value in accordance with the assumptions and methods described above, exclusively for disclosure as at 31 December 2013.

31.12.2013	Including:	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
VALUATION ONLY FOR PURPOSES OF DISCLOSURE				
FINANCIAL ASSETS				
Loans and advances to banks	4 509 817	-	-	4 509 817
Loans and advances to customers	63 004 639	-	-	63 004 639
FINANCIAL LIABILITIES				
Amounts due to other banks	18 878 937	-	14 358 996	4 519 941
Amounts due to customers	64 052 528	-	4 866 251	59 186 277
Debt securities in issue	455 856	-	-	455 856
Subordinated liabilities	3 764 754	-	3 764 754	-
Total financial assets	**67 514 456**	**-**	**-**	**67 514 456**
Total financial liabilities	**87 152 075**	**-**	**22 990 001**	**64 162 074**

Level 1

In the Bank there are no assets and financial liabilities at fair value only for the purpose of disclosure that would be included in level 1.

Level 2

Level 2 includes the fair value of long-term loans received from banks, the fair value of long-term deposits placed by customers and the fair value of the loan received from the EIB (Note 28). In addition, at level 3, the Bank has presented subordinated liabilities.

The fair value of financial liabilities with more than 1 year to maturity is based on principle and interest cash flows discounted using appropriate interest rates. For received loans in EUR the Bank used the swap curve amended by the spread determined based on observable Commerzbank CDS quotations in EUR for various maturities and a fixed spread which represents the assumed credit spread differential for Bank risk (derived from market quotation of bond issued under the EMTN program). For the loans in other currencies, the above spreads for EUR were applied and cross currency swaps quotations to EUR. In case of the loans received from European Investment Bank in EUR, the Bank used EIB yield curve and the value of margin which was agreed upon the last contract for the loan in December 2013. Based on the assumption of fixed margin (irrespectively from maturity), the spread of Bank to market swap curve was estimated. In case of deposits the Bank used the curve based on overnight rates, term cash rates, as well as FRA contracts up to 1 year and IRS contracts over 1 year for appropriate currencies and maturities. For debt securities in issue the Bank used the prices directly from the market for these securities. For the purpose of measurement of subordinated liabilities the Bank used obtained primary market spreads of subordinated bonds issued by the Bank and if required corresponding cross-currency basis swap levels for the respective maturities.

Level 3

Level 3 includes the fair value of loans and advances to banks and loans and advances to customers. The fair value for loans and advances to banks and loans and advances to customers is disclosed as the present value of future cash flows using current interest rates including appropriate credit spreads and is based on the expected maturity of the respective loan agreements. The level of credit spread was determined based on market quotation of median credit spreads for Moody's rating grade. Attribution of a credit spread to a given credit exposure is based on a mapping between Moody's rating grade and internal rating grades of mBank. To reflect the fact that the majority of the Bank's exposures is collateralised whereas the median of market quotation is centred around unsecured issues, the Bank performed appropriate adjustments.

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The following tables present fair value hierarchy of financial assets and liabilities recognised in the statement of financial position of the Bank at their fair values.

31.12.2013	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS				
TRADING SECURITIES	**903 912**	**288 467**	**-**	**615 445**
Debt securities	903 306	287 867	-	615 439
- government bonds	287 768	287 768	-	-
- deposit certificates	37 787	-	-	37 787
- mortgage bonds	72 523	-	-	72 523
- banks bonds	421 665	99	-	421 566
- corporate bonds	83 563	-	-	83 563
Equity securities	**606**	**600**	**-**	**6**
- listed	600	600	-	-
- unlisted	6	-	-	6
DERIVATIVE FINANCIAL INSTRUMENTS	**2 349 542**	**153**	**2 348 982**	**407**
Derivative financial instruments held for trading	**2 349 542**	**153**	**2 348 982**	**407**
- interest rate derivatives	2 103 034	-	2 103 034	-
- foreign exchange derivatives	232 733	-	232 733	-
- market risks derivatives	13 775	153	13 215	407
INVESTMENT SECURITIES	**25 081 290**	**18 762 112**	**5 800 579**	**518 599**
Debt securities	**24 832 595**	**18 531 623**	**5 798 768**	**502 204**
- government bonds	18 493 240	18 493 240	-	-
- money bills	5 798 768	-	5 798 768	-
- mortgage bonds	369 162	-	-	369 162
- banks bonds	25 136	-	-	25 136
- corporate bonds	107 906	-	-	107 906
- communal bonds	38 383	38 383	-	-
Equity securities	**248 695**	**230 489**	**1 811**	**16 395**
- listed	229 617	229 617	-	-
- unlisted	19 078	872	1 811	16 395
TOTAL FINANCIAL ASSETS	**28 334 744**	**19 050 732**	**8 149 561**	**1 134 451**

31.12.2013	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
FINANCIAL LIABILITIES				
Derivative financial instruments	**2 472 350**	**12**	**2 471 931**	**407**
Derivative financial instruments held for trading	**2 464 594**	**12**	**2 464 175**	**407**
- interest rate derivatives	2 253 612	-	2 253 612	-
- foreign exchange derivatives	196 216	-	196 216	-
- market risks derivatives	14 766	12	14 347	407
Derivative financial instruments held for trading	**7 756**	**-**	**7 756**	**-**
- derivatives designated as fair value hedges	7 756	-	7 756	-
Total financial liabilities	**2 472 350**	**12**	**2 471 931**	**407**
TOTAL RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS	**28 334 744**	**19 050 732**	**8 149 561**	**1 134 451**
FINANCIAL LIABILITIES	**2 472 350**	**12**	**2 471 931**	**407**

In case of financial instruments valuated in repetitive way to fair value, classified as level 1 and 2 in hierarchy of fair value in year 2013 there were no movements observed between 1 and 2 level. The bank's Financial Market Risk Department observes a potential migration between the different fair value levels on the basis of internal guidelines. There are two cases which allow for a reclassification: change of availability of market parameters used to marked-to-market valuation for T-bonds or a change in liquidity of option on WIG20 index market. In case of T-bonds, if there is no market price for more than 2 business days, the methods of valuation is changed, i.e. change from marked-to-market valuation to marked-to-model valuation under the assumption that the valuation model for the respective type of fixed income securities has been already approved. Return to marked-to-market valuation takes place after 5 business days in which market prices are continuously available.

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

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In 2013 a reclassification of exotic options embedded in investment deposits (options on basket of underlyings such as commodities or indexes) within the fair hierarchy was observed from level 2 to level 3. The Fair value of reclassified instruments as of 31.12.2013 was equal to PLN 0.5 thousand (the value contains transactions with clients and opposite back-to-back transactions on interbank market, for transactions with clients as of 31 December 2013 the fair value was PLN 404 thousand). The presented in note value of PLN 407 thousand applies to options sold (liabilities) and purchased (assets). The reclassification was made due to a review of valuation methods, in which there was identified that variables such as volatilities of underlyings and their correlations, which are estimated in internal model due to lack of quotations for this variables, have significant impact on their fair value.

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

Assets Measured at Fair Value Based on Level 3 - changes in 2013	Debt trading securities	Equity trading securities	Derivative financial instruments	Debt investment securities	Equity investment securities
As at the beginning of the period	**812 480**	**17**	**-**	**539 082**	**13 557**
Gains and losses for the period:	**14 624**	**(11)**	**-**	**(6 738)**	**2 768**
Recognised in profit or loss:	14 624	(11)	-	-	-
- Net trading income	*14 624*	*(11)*	-	-	-
Recognised in other comprehensive income:	-	-	-	*(6 738)*	*2 768*
- Available for sale financial assets	-	-	-	*(6 738)*	*2 768*
Purchases	1 275 008	-	-	967 999	70
Redemptions	(891 337)	-	-	-	-
Sales	(13 952 837)	-	-	(1 533 757)	-
Issues	13 357 501	-	-	535 776	-
Settlements	-	-	-	(158)	-
Transfers into Level 3	-	-	*407*	-	-
As at the end of the period	**615 439**	**6**	**407**	**502 204**	**16 395**

31.12.2012	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
Financial assets				
Trading securities	**1 528 994**	**716 497**	**-**	**812 497**
Debt	1 520 456	707 976	-	812 480
Equity	8 538	8 521	-	17
Derivative financial instruments, including	**2 796 542**	**1 307**	**2 795 235**	**-**
Investment securities	**19 740 852**	**11 679 148**	**7 509 065**	**552 639**
Debt	19 489 232	11 453 224	7 496 926	539 082
Equity	251 620	225 924	12 139	13 557
Total financial assets	**24 066 388**	**12 396 952**	**10 304 300**	**1 365 136**
Financial liabilities				
Derivative financial instruments	**3 481 294**	**150**	**3 481 144**	**-**
- Derivative financial instruments held for hedging	**6 198**	**-**	**6 198**	**-**
Total financial liabilities	**3 487 492**	**150**	**3 481 144**	**-**

Assets Measured at Fair Value Based on Level 3 - changes in 2012	Debt trading securities	Equity trading securities	Debt investment securities	Equity investment securities
As at the beginning of the period	**748 130**	**-**	**934 886**	**1 265**
Gains and losses for the period:	7 679	-	4 581	927
Recognised in profit or loss	*7 679*	-	-	-
Recognised in other comprehensive income	-	-	*4 581*	*927*
Purchases	1 957 938	17	153 220	12 198
Redemptions	(2 313 966)	-	(314 000)	-
Sales	(14 969 149)	-	(1 016 896)	-
Issues	15 356 065	-	773 900	-
Settlements	25 783	-	3 391	(833)
As at the end of the period	**812 480**	**17**	**539 082**	**13 557**

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

- Level 1: prices quoted on active markets for the same instrument (without modification);
- Level 2: valuation techniques based on observable market data;

- Level 3: valuation methods for which at least one significant input data is not based on observable market data.

Level 1

As at 31 December 2013, at Level 1 of the fair value hierarchy, the Bank has presented the fair value of held for trading government bonds in the amount of PLN 287 768 thousand (see Note 18) and the fair value of investment government bonds in the amount of PLN 18 493 240 thousand (31 December 2012 respectively: PLN 707 976 thousand and PLN 11 415 436 thousand). Level 1 also includes the fair value of local government bonds in the amount of PLN 38 383 thousand (31 December 2012: PLN 37 788 thousand) and fair value of bonds issued by one bank in the amount of PLN 99 thousand (31 December 2012: 0).

In addition, as at 31 December 2013 level 1 includes the value of the shares of listed companies in the amount of PLN 230 489 thousand, including the value of shares in PZU S.A. in the amount of PLN 211 532 thousand (31 December 2012, respectively: PLN 233 629 thousand and PLN 206 775 thousand).

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

Level 2

Level 2 of the fair vale hierarchy includes the fair values of short term bills issued by NBP in the amount of PLN 5 798 768 thousand (31 December 2012: PLN 7 496 926 thousand), whose valuation is based on a NPV model (discounted future cash flows) fed with interest rate curves generated by transformation of quotations taken directly from active and liquid financial markets.

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

As at 31 December 2013 and 31 December 2012, level 2 also includes the value of options referencing on the WIG 20 index, listed on the Stock Exchange due to changes in the valuation of these options from market quotations towards the application of the Bank's own valuation model. Change in valuation was due to the limited liquidity of the market in which these options are listed, hence using the Bank's valuation model provides for a higher quality of fair values compared to the previous approach.

Level 3

Level 3 of the hierarchy presents the fair values of commercial debt securities issued by local banks and companies (bonds, mortgage bonds and deposit certificates) in the amount of PLN 1 117 643 thousand (31 December 2012: PLN 1 351 562 thousand).

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

In case of corporate and municipal bonds valuated to fair value in repetitive way, classified on level 3 the average credit spread used as of 31 December 2013 is 46,4 b.p. In case of exotic option on the basket of underlyings, considering the Bank's limited exposure in terms of fair value and the fact that these positions only have an immaterial impact on the Bank's P/L, we disclose information concerning the drivers potentially causing uncertainty in the estimation of unobservable variables: volatilities and correlations between underlyings in a given basket (commodities and indexes) used for valuation as of end of 2013 were calculated on the basis of available historical quotations of underlyings.

If the credit spread used in the valuation increases by 20 basis points, the value of commercial debt securities would decrease by PLN 3.9 million.

Moreover, level 3 covers mainly the fair value of equity securities amounting to PLN 16 401 thousand valuated using the market multiples method. The market multiples method, consists of valuating the equity capital of a company by using a relation between the market values of the own equity capital or market values of the total capital invested in comparable companies (goodwill) and selected economic and financial figures.

3.11. Other activities

The Bank provides custody, trustee, corporate administration, investment management and advisory services to third parties. In connection with these, the Bank makes decisions concerning the allocation, purchase and sale of a wide variety of financial instruments. Assets held in a fiduciary capacity are not included in these financial statements.

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

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

Impairment of loans and advances

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

Fair value of derivative instruments

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

Impairment of available for sale investments

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

Deferred tax assets

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

Revenue and expenses from sale of insurance products bundled with loans

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

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

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

Liabilities due to post-employment employee benefits

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

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5. Net interest income

	Year ended 31 December	
	2013	2012
Interest income		
Loans and advances including the unwind of the impairment provision discount	2 535 588	2 894 652
Investment securities	882 734	886 704
Cash and short-term placements	86 416	123 372
Trading debt securities	55 511	82 706
Interest income on derivatives classified into banking book	62 399	139 659
Interest income on derivatives concluded under the hedge accounting	181	-
Other	9 139	8 821
Total interest income	**3 631 968**	**4 135 914**
Interest expense		
Arising from amounts due to banks	(241 876)	(295 855)
Arising from amounts due to customers	(1 204 906)	(1 638 349)
Other borrowed funds	(63 926)	(62 177)
Arising from issue of debt securities	(23 102)	(44 594)
Interest expense on derivatives concluded under the hedge accounting	-	(945)
Interest expense related to post-employment benefits	(300)	(352)
Other	(76 528)	(31 694)
Total interest expense	**(1 610 638)**	**(2 073 966)**

In 2013, interest income related to impaired financial assets amounted to PLN 168 089 thousand (for the period ended 31 December 2012: PLN 184 199 thousand).

Net interest income per client groups is as follows:

	Year ended 31 December	
	2013	2012
Interest income		
From banking sector	445 541	573 116
From clients, including:	3 186 427	3 562 798
- individual clients	1 520 311	1 576 441
- corporate clients	911 976	1 155 580
- public sector	754 140	830 777
Total interest income	**3 631 968**	**4 135 914**
Interest expense		
From banking sector	(306 753)	(358 983)
From clients, including:	(1 280 783)	(1 670 389)
- individual clients	(672 444)	(827 449)
- corporate clients	(523 124)	(806 451)
- public sector	(85 215)	(36 489)
From debt securities in issue	(23 102)	(44 594)
Total interest expense	**(1 610 638)**	**(2 073 966)**

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6. Net fee and commission income

	Year ended 31 December	
	2013	2012
Fee and commission income		
Payment cards-related fees	413 729	393 837
Commission for agency service regarding selling products of external financial entities	159 208	143 493
Credit-related fees and commissions	152 986	147 100
Commissions from bank accounts	151 475	124 634
Commissions from money transfers	87 970	88 380
Commissions due to guarantees granted and trade finance commissions	36 890	36 069
Commissions on trust and fiduciary activities	19 393	17 469
Other	62 529	60 783
Fee and commission income	**1 084 180**	**1 011 765**
Fee and commission expense		
Payment cards-related fees	(217 668)	(182 739)
Commissions paid to external entities for sale of the Bank's products	(76 935)	(75 651)
Discharged brokerage fees	(6 872)	(6 350)
Other discharged fees	(117 090)	(109 949)
Total fee and commision expense	**(418 565)**	**(374 689)**

7. Dividend income

	Year ended 31 December	
	2013	2012
Trading securities	-	101
Securities available for sale	61 861	35 562
Total dividend income	**61 861**	**35 663**

8. Net trading income

	Year ended 31 December	
	2013	2012
Foreign exchange result	**274 978**	**316 404**
Net exchange differences on translation	238 943	220 106
Net transaction gains/(losses)	36 035	96 298
Other net trading income and result on hedge accounting	**51 380**	**28 493**
Interest-bearing instruments	44 026	24 241
Equity instruments	(1 988)	889
Market risk instruments	1 342	2 024
Result on hedge accounting, including:	8 000	1 339
- Net profit on hedged items	7 101	(3 705)
- Net profit on hedging instruments	899	5 044
Total net trading income	**326 358**	**344 897**

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

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The Bank applies fair value hedge accounting for part of the portfolio of fixed interest rate mortgage loans granted by foreign branches of the Bank in the Czech Republic. An Interest Rate Swap is the hedging instrument changing the fixed interest rate to a variable interest rate.

In addition, the Bank applies fair value hedge accounting for a fixed interest rate security deposits submitted by BRE Finance France (BFF), subsidiary of mBank, with funds derived from the three tranche issue of Eurobonds issued in 2012 and 2013. An Interest Rate Swap is the hedging instrument changing the fixed interest rate to a variable interest rate.

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

9. Other operating income

	Year ended 31 December	
	2013	**2012**
Income from services provided	26 386	28 896
Income due to release of provisions for future commitments	34 595	10 625
Income from sale or liquidation of fixed assets, intangible assets and assets held for sale	1 171	2 641
Compensations, penalties and fines received	153	452
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	1 106	61
Release of impairment provisions for tangible fixed assets and intangible assets	-	12 300
Other	17 072	20 054
Total other operating income	**80 483**	**75 029**

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

10. Overhead costs

	Year ended 31 December	
	2013	**2012**
Staff-related expenses	(636 138)	(631 396)
Material costs	(511 568)	(491 342)
Taxes and fees	(25 973)	(20 187)
Contributions and transfers to the Bank Guarantee Fund	(56 502)	(58 605)
Contributions to the Social Benefits Fund	(5 391)	(5 352)
Total overhead costs	**(1 235 572)**	**(1 206 882)**

'Material costs' consist of tangible assets operating lease payment costs (mainly real estate) of PLN 27 562 thousand (2012: PLN 27 433 thousand).

Staff-related expenses in 2013 and 2012 are presented below.

	Year ended 31 December	
	2013	**2012**
Wages and salaries	(512 314)	(512 269)
Social security expenses	(78 727)	(74 812)
Expenses related to post-employment benefits	(857)	(938)
Remuneration concerning share-based payments, including:	(15 759)	(11 898)
- share-based payments settled in mBank S.A. shares	(15 759)	(11 365)
- cash-settled share-based payments	-	(533)
Other staff expenses	(28 481)	(31 479)
Staff-related expenses, total	**(636 138)**	**(631 396)**

Cash-settled share-based payments relate to the cost of 2008 incentive programme for the Management Board Members of the Bank in its part based on Commerzbank shares. Detailed information regarding incentive programmes to which share-based payments relate, is included under the Note 43 'Share-based incentive programmes'.

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11. Other operating expenses

	Year ended 31 December	
	2013	**2012**
Provisions for future commitments	(41 798)	(50 619)
Costs arising from impairment provisions created for other receivables (excluding loans and advances)	(3 916)	(4 600)
Donations made	(2 659)	(2 682)
Costs arising from sale or liquidation of fixed assets, intangible assets and assets held for resale	(5 024)	(664)
Compensations, penalties and fines paid	(715)	(996)
Costs arising from receivables and liabilities recognised as prescribed, remitted and uncollectible	(478)	(4)
Costs arising from impairment provisions created for tangible fixed assets and intangible assets	-	(15 326)
Other operating costs	(27 265)	(21 314)
Total other operating expenses	**(81 855)**	**(96 205)**

In 2012, as a result of the analysis of tangible fixed assets the Bank had made write-offs of investments in real estate and leasehold improvements and reversal of write-offs created in the previous reporting periods (Note 9). The total impact of write-offs and reversal of write-offs was negative and amounted to PLN 3 087 thousand.

12. Net impairment losses on loans and advances

	Year ended 31 December	
	2013	**2012**
Net impairment losses on amounts due from other banks (Note 17)	282	437
Net impairment losses on loans and advances to customers (Note 21)	(405 523)	(368 215)
Changes in provisions on off-balance sheet items (Note 32)	(9 575)	(15 957)
Total net impairment losses on loans and advances	**(414 816)**	**(383 735)**

13. Income tax expense

	Year ended 31 December	
	2013	**2012**
Current tax	(209 661)	(368 910)
Deferred income tax (Note 33)	(60 678)	113 433
Total income tax	**(270 339)**	**(255 477)**

Profit before tax	**1 340 645**	**1 449 052**
Tax calculated at Polish current tax rate (19%)	(254 723)	(275 320)
Income not subject to tax *)	12 172	32 639
Costs other than tax deductible costs **)	(39 412)	(22 255)
Other positions affecting income tax	-	10 993
Deferred tax losses incurred by mBank branch in the Czech Republic in 2009-2011	13 334	-
Losses of branches of mBank S.A. in Slovakia	(1 710)	(1 534)
Income tax expense	**(270 339)**	**(255 477)**

Effective tax rate calculation		
Profit before income tax	1 340 645	1 449 052
Income tax	(270 339)	(255 477)
Effective tax rate	**20.16%**	**17.63%**

*) includes i.a. Czech Branch incomes (excluded from taxation in Poland) and tax exempted dividends on the basis of Article 20 item 3 of Corporate Income Tax Act from 15 February 1992 (Journal of Laws No 21, item 86),

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**) includes non-deductible costs according to Article 16 item 1 of Corporate Income Tax Act from 15 February 1992 (Journal of Laws No 21, item 86), i.a. non-deductible costs concerning permanent differences on several transactions of sale of retail and corporate impaired loan portfolios in the Bank resulting in tax expense in amount about PLN 19 800 thousand and provisions on an incentive programme for the Management Board Members of the Bank resulting in tax expense in amount about PLN 2 269 thousand.

Information about deferred income tax is presented in Note 33. The tax on the Bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the parent as presented above.

14. Earnings per share

Earnings per share for 12 months

	Year ended 31 December	
	2013	**2012**
Basic:		
Net profit	1 070 306	1 193 575
Weighted average number of ordinary shares	42 155 456	42 118 904
Net basic profit per share (in PLN per share)	**25.39**	**28.34**
Diluted:		
Net profit applied for calculation of diluted earnings per share	1 070 306	1 193 575
Weighted average number of ordinary shares	42 155 456	42 118 904
Adjustments for:		
- share options	12 035	39 728
Weighted average number of ordinary shares for calculation of diluted earnings per share	42 167 491	42 158 632
Diluted earnings per share (in PLN per share)	**25.38**	**28.31**

According to IAS 33, the Bank prepares a calculation of the 'diluted earnings per share' taking into account contingently issuable shares as part of the incentive programme is described in the Note 43. The calculations did not include those elements of the incentive programmes, which were antidilutive for the presented periods that could potentially dilute basic earnings per share in the future.

The basic earnings per share are computed as the quotient of the Bank stockholders' share of the profit and the weighted average number of ordinary shares during the year.

The diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares as if all possible ordinary shares causing the dilution were replaced with shares. The Bank has one category of potential ordinary shares causing the dilution: share options. The number of diluting shares is computed as the number of shares that would be issued if all share options were executed at the market price, determined as the average annual closing price of the Bank's shares.

15. Other comprehensive income

Disclosure of tax effects relating to each component of other comprehensive income	Year ended 31 December 2013			Year ended 31 December 2012		
	Before-tax amount	Tax (expense) benefit	Net amount	Before-tax amount	Tax (expense) benefit	Net amount
Items that may be reclassified subsequently to the the income statement	**(208 511)**	**44 896**	**(163 615)**	**389 694**	**(47 737)**	**341 957**
Exchange differences on translation of foreign operations	1 266	-	1 266	555	-	555
Change in valuation of available for sale financial assets	(209 777)	44 896	(164 881)	389 139	(47 737)	341 402
Items that will not be reclassified to the income statement	**(918)**	**174**	**(744)**	**278**	**(53)**	**225**
Actuarial gains and losses relating to post-employment benefits	(918)	174	(744)	278	(53)	225
Total other comprehensive income	**(209 429)**	**45 070**	**(164 359)**	**389 972**	**(47 790)**	**342 182**

The table below presents detailed information concerning other comprehensive income for the years 2013 and 2012.

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	Year ended 31 December	
	2013	**2012**
Items that may be reclassified subsequently to the the income statement	**(163 615)**	**341 957**
Exchange differences on translating foreign operations	**1 266**	**555**
Unrealised gains (positive differences) arising during the year (net)	9 768	2 678
Unrealised losses (negative differences) arising during the year (net)	(8 502)	(2 123)
Available-for-sale financial assets	**(164 881)**	**341 402**
Unrealised gains on debt instruments arising during the year (net)	30 451	398 748
Unrealised losses on debt instruments arising during the year (net)	(157 685)	(23 979)
Reclassification adjustments of gains (losses) on debt instruments to the income statement (net)	(37 794)	(26 818)
Unrealised gains on equity instruments arising during the year (net)	9 718	88 743
Unrealised losses on equity instruments arising during the year (net)	-	(1 021)
Reclassification adjustments of gains (losses) on equity instruments to the income statement (net)	(9 571)	(94 271)
Items that will not be reclassified to the income statement	**(744)**	**225**
Actuarial gains and losses relating to post-employment benefits	**(744)**	**225**
Actuarial gains	-	225
Actuarial losses	(744)	-
Total other comprehensive income (net)	**(164 359)**	**342 182**

In 2013 and 2012, a change in the valuation of government bonds had a considerable impact on other components of equity.

Negative change in the valuation of debt instruments in 2013 compared to 2012 was driven by an increase in the bond market yield curve provoking reduction in the valuation of bonds held by the Bank at the end of 2012 and bonds purchased in 2013. Furthermore, the Bank made a profit on the sale of bonds classified as available for sale, held as at the end of 2012, in the gross amount of PLN 46 793 thousand.

In 2012, the reclassification adjustments of gains on equity instruments in the net amount of PLN 94 271 thousand from other comprehensive income to the income statement was related to the gain realized in connection with the restructuring of mBank's holding in PZU SA shares.

16. Cash and balances with central bank

	31.12.2013	**31.12.2012**
Cash in hand	250 680	197 596
Current account	1 392 393	4 618 499
Total cash and balances with the Central Bank (Note 42)	**1 643 073**	**4 816 095**

On the basis of the Act on the National Bank of Poland of 29 August 1997, mBank S.A. holds a mandatory reserve deposit. The arithmetic mean of daily balances of the mandatory reserve that the Bank is obliged to maintain during a given period in the current account with NBP amounts to:

- PLN 1 845 188 thousand for the period from 31 December 2013 to 30 January 2014,
- PLN 1 854 007 thousand for the period from 31 December 2012 to 30 January 2013.

As at 31 December 2013, the former part of the reserve bore 2.48% interest (31 December 2012: 4.05%).

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17. Loans and advances to banks

	31.12.2013	31.12.2012
Current accounts	258 967	224 355
Placements with other banks (up to 3 months)	1 618 083	2 246 224
Included in cash equivalents (Note 42)	**1 877 050**	**2 470 579**
Loans and advances	665 723	518 982
Term placements with other banks	293 438	383 683
Reverse repo / buy-sell-back transactions	1 249 936	887 433
Other receivables	403 007	792 511
Total (gross) loans and advances to banks	**4 489 154**	**5 053 188**
Provisions created for loans and advances to banks (negative amount)	(289)	(559)
Total (net) loans and advances to banks	**4 488 865**	**5 052 629**
Short-term (up to 1 year)	3 947 661	4 903 972
Long-term (over 1 year)	541 204	148 657

The following table presents receivables from Polish and foreign banks:

	31.12.2013	31.12.2012
Loans and advances to Polish banks (gross)	2 147 975	2 715 749
Provisions created for loans and advances to Polish banks	(118)	(79)
Loans and advances to foreign banks (gross)	2 341 179	2 337 439
Provisions created for loans and advances to foreign banks	(171)	(480)
Total (net) loans and advances to banks	**4 488 865**	**5 052 629**

As at 31 December 2013, the variable rate loans to banks amounted to PLN 656 109 thousand and the fixed rate loans to banks amounted to PLN 9 614 thousand (as at 31 December 2012 – variable rate loans to banks amounted to PLN 516 588 thousand and fixed rate loans to PLN 2 394 thousand).

As at 31 December 2013 and 31 December 2012, the term placements with other banks were fixed rated and amounted to PLN 1 911 521 thousand and PLN 2 629 607 thousand respectively.

An average deposit interest rate for deposits in other banks and loans granted to banks amounted to 1.42% (31 December 2012: 2.16%).

The following table presents the changes in provisions for losses on amounts due from banks:

	31.12.2013	31.12.2012
Provisions for loans and advances to banks as at the beginning of the period	**(559)**	**(1 027)**
- provisions created (Note 12)	(1 664)	(3 793)
- release of provision (Note 12)	1 946	4 230
- foreign exchange differences	(12)	31
Provisions for loans and advances to banks as at the end of the period	**(289)**	**(559)**

As at 31 December 2013, provisions for loans and advances to banks relates to the loans without impairment.

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18. Trading securities

	31.12.2013			31.12.2012		
	Trading securities without pledge	Pledged trading securities	Total trading securities	Trading securities without pledge	Pledged trading securities	Total trading securities
Debt securities:	**651 028**	**252 278**	**903 306**	**960 812**	**559 644**	**1 520 456**
Issued by government	35 490	252 278	287 768	148 332	559 644	707 976
- government bonds	35 490	252 278	287 768	148 013	559 644	707 657
- treasury bills	-	-	-	319	-	319
Other debt securities	615 538	-	615 538	812 480	-	812 480
- bank's bonds	421 665	-	421 665	547 753	-	547 753
- deposit certificates	37 787	-	37 787	26 459	-	26 459
- corporate bonds	83 563	-	83 563	158 284	-	158 284
- communal bonds	72 523	-	72 523	79 984	-	79 984
Equity securities:	**606**	**-**	**606**	**8 538**	**-**	**8 538**
- listed	600	-	600	8 521	-	8 521
- unlisted	6	-	6	17	-	17
Total debt and equity securities:	**651 634**	**252 278**	**903 912**	**969 350**	**559 644**	**1 528 994**

Trading securities include securities used to secure sell-buy-back transactions with customers, the market value of which as at 31 December 2013 amounted to PLN 252 278 thousand (31 December 2012: PLN 559 644 thousand).

19. Derivative financial instruments

The Bank has the following derivative instruments:

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

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

Due to the application of fair value hedge accounting for a part of the portfolio of fixed interest rate mortgage loans granted by foreign branches of the Bank in the Czech Republic and fair value hedge accounting for a fixed interest rate security deposit given by BRE Finance France (BFF), subsidiary of mBank, from funds derived from the issuance of Eurobonds, the Bank distinguished instruments that hedge the risk of changes in interest rate within interest rate swaps. Result from valuation of the hedged item and hedging instruments is presented in this financial statement in item 'Net income from other trading operations and hedge accounting' in the Note 8.

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

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

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

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The following table presents the fair values of the derivatives held by the Bank:

	Contract amount		Fair value	
	Purchase	Disposal	Assets	Liabilities
As at 31 December 2013				
Derivatives held for trading				
Foreign exchange derivatives				
- Currency forwards	8 434 192	8 503 881	33 158	98 114
- Currency swaps	8 703 864	8 617 054	120 125	39 249
- Cross-currency interest rate swaps	2 207 359	2 204 651	24 041	17 232
- OTC currency options bought and sold	2 352 502	2 506 977	55 409	41 621
Total OTC derivatives	**21 697 917**	**21 832 563**	**232 733**	**196 216**
- Currency futures	60 449	60 728	-	-
Total foreign exchange derivatives	**21 758 366**	**21 893 291**	**232 733**	**196 216**
Interest rate derivatives				
- Interest rate swap, OIS	183 206 804	183 206 804	1 976 546	2 133 421
- Forward rate agreements	97 450 000	89 025 000	121 700	115 818
- OTC interest rate options	428 843	453 606	4 788	4 373
Total OTC interest rate derivatives	**281 085 647**	**272 685 410**	**2 103 034**	**2 253 612**
- Interest rate futures	10 335	10 373	-	-
Total interest rate derivatives	**281 095 982**	**272 695 783**	**2 103 034**	**2 253 612**
Market risk transactions	**745 048**	**727 958**	**13 775**	**14 766**
Total derivative assets / liabilities held for trading	**303 599 396**	**295 317 032**	**2 349 542**	**2 464 594**
Derivatives held for hedging				
Derivatives designated as fair value hedges	2 869 300	2 869 300	-	7 756
- Interest rate swaps	2 869 300	2 869 300	-	7 756
Total derivatives held for hedging	**2 869 300**	**2 869 300**	**-**	**7 756**
Total recognised derivative assets/ liabilities	**306 468 696**	**298 186 332**	**2 349 542**	**2 472 350**
Total recognised derivative assets/ liabilities and other trading liabilities	**306 468 696**	**298 186 332**	**2 349 542**	**2 472 350**
Short-term (up to 1 year)	168 777 791	161 289 752	1 029 666	1 147 043
Long-term (over 1 year)	137 690 905	136 896 580	1 319 876	1 325 307

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	Contract amount		Fair value	
	Purchase	Disposal	Assets	Liabilities
As at 31 December 2012				
Derivatives held for trading				
Foreign exchange derivatives				
- Currency forwards	6 427 429	6 549 214	33 375	44 309
- Currency swaps	10 046 685	9 925 239	155 339	42 199
- Cross-currency interest rate swaps	1 496 784	1 599 126	41 264	140 748
- OTC currency options bought and sold	1 197 331	1 171 726	15 301	13 785
Total OTC derivatives	**19 168 229**	**19 245 305**	**245 279**	**241 041**
- Currency futures	34 638	34 789	-	-
Total foreign exchange derivatives	**19 202 867**	**19 280 094**	**245 279**	**241 041**
Interest rate derivatives				
- Interest rate swap, OIS	175 350 063	175 350 063	2 163 781	2 994 852
- Forward rate agreements	103 150 000	145 700 000	373 249	223 150
- OTC interest rate options	541 564	562 933	6 279	5 534
Total OTC interest rate derivatives	**279 041 627**	**321 612 996**	**2 543 309**	**3 223 536**
Total interest rate derivatives	**279 041 627**	**321 612 996**	**2 543 309**	**3 223 536**
Market risk transactions	**487 969**	**398 752**	**7 954**	**10 519**
Total derivative assets / liabilities held for trading	**298 732 463**	**341 291 842**	**2 796 542**	**3 475 096**
Derivatives held for hedging				
Derivatives designated as fair value hedges	2 148 380	2 148 380	-	6 198
- Interest rate swaps	2 148 380	2 148 380	-	6 198
Total derivatives held for hedging	**2 148 380**	**2 148 380**	**-**	**6 198**
Total recognised derivative assets/ liabilities	**300 880 843**	**343 440 222**	**2 796 542**	**3 481 294**
Total recognised derivative assets/ liabilities and other trading liabilities	**300 880 843**	**343 440 222**	**2 796 542**	**3 481 294**
Short-term (up to 1 year)	194 411 853	230 223 080	1 078 048	1 590 325
Long-term (over 1 year)	106 468 990	113 217 142	1 718 494	1 890 969

In both reporting periods, market risk transactions comprise the fair values of: stock index options, shares and other equity securities, futures for commodities, swap contracts for commodities.

Under financial derivative instruments the Bank presented derivative instruments in the amount of PLN 1 223 thousand (liabilities), which have been separated from the structured investment deposits (31 December 2012: PLN 3 073 thousand).

As at 31 December 2013 and 31 December 2012, the Bank did not hold any financial assets and financial liabilities designated upon initial recognition as at fair value through the income statement.

20. Hedge accounting

The Bank has been applying fair value hedge accounting. The interest rate risk is the only type of risk hedged for which hedge accounting is applied.

At the end of each month, the Bank evaluates effectiveness of the applied hedging by carrying out analysis of changes in fair value of the hedged and hedging instruments in respect of the hedged risk.

<u>Description of the hedging relation</u>

The Bank hedges against the risk of change in fair value:

- a part of the portfolio of mortgage loans for a fixed interest rate granted by foreign branches of mBank in Czech Republic. The hedged risk results from changes in interest rates,
- fixed interest rate security deposit submitted by the BRE Finance France (BFF), a subsidiary of mBank, with funds arising from the issuance of Eurobonds. The hedged risk results from changes in interest rates.

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Hedged items

The hedged items are:

- a part of the portfolio of mortgage loans for a fixed interest rate denominated in CZK and granted by foreign branches of mBank in Czech Republic,
- fixed interest rate security deposit given by BFF in the amount of EUR 497 770,
- fixed interest rate security deposit given by BFF in the amount of CHF 198 967,
- fixed interest rate security deposit given by BFF in the amount of CZK 500 000.

Hedging instruments

IRS is the hedging instrument swapping the fixed interest rate for a variable interest rate.

Presentation of the result from hedged and hedging transactions

Fair value adjustment of the hedged assets and liabilities as well as valuation of the hedging instruments is recognized in the income statement as the income from trading operation.

21. Loans and advances to customers

	31.12.2013	31.12.2012
Loans and advances to individuals:	**38 301 077**	**37 689 621**
- current accounts	4 978 854	4 600 545
- term loans, including:	33 322 223	33 089 076
housing and mortgage loans	28 597 142	28 995 898
Loans and advances to corporate entities:	**24 975 299**	**23 492 184**
- current accounts	3 698 448	4 016 165
- term loans:	17 927 281	17 451 639
corporate & institutional enterprises	9 668 358	9 429 011
medium & small enterprises	8 258 923	8 022 628
- reverse repo / buy-sell-back transactions	3 287 066	2 024 380
- other	62 504	-
Loans and advances to public sector	**1 952 674**	**2 375 812**
Other receivables	**620 619**	**666 434**
Total (gross) loans and advances to customers	**65 849 669**	**64 224 051**
Provisions for loans and advances to customers (negative amount)	(2 092 989)	(2 236 161)
Total (net) loans and advances to customers	**63 756 680**	**61 987 890**
Short-term (up to 1 year)	26 703 463	24 027 284
Long-term (over 1 year)	37 053 217	37 960 606

In 2013, the Bank sold in several transactions, retail and corporate impaired loan portfolios (default portfolios). The nominal value of sales transactions amounted to PLN 852 092 thousand (including corporate portfolio of PLN 642 930 thousand). 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.

As at 31 December 2013, variable rate credits amounted to PLN 65 131 980 thousand and fixed rate credits amounted to PLN 717 689 thousand (as at 31 December 2012: 63 672 018 thousand and PLN 664 457 thousand respectively). The values mentioned above relate to loans granted to individual clients, corporate clients and the budget sector. An average interest rate for loans granted to customers (excluding reverse repos) amounted to 3.96% (31 December 2011: 4.49%).

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Provisions for loans and advances

	31.12.2013	31.12.2012
Incurred but not identified losses		
Gross balance sheet exposure	61 915 674	61 079 175
Impairment provisions for exposures analysed according to portfolio approach	(229 553)	(169 507)
Net balance sheet exposure	**61 686 121**	**60 909 668**

Receivables with impairment		
Gross balance sheet exposure	3 933 995	3 144 876
Provisions for receivables with impairment	(1 863 436)	(2 066 654)
Net balance sheet exposure	**2 070 559**	**1 078 222**

Movements in provisions for loans and advances

MOVEMENTS IN PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS AS OF 2013	Provisions as at 01.01.2013	Provisions created	Release of provisions	Reclassification and foreign exchange differences	Write-offs	Provisions as at 31.12.2013
Loans and advances to individuals	**(1 056 576)**	**(1 250 159)**	**989 687**	**(18 078)**	**182 556**	**(1 152 570)**
Current accounts	(586 189)	(459 141)	518 946	(17 120)	99 290	**(444 214)**
Term loans, including:	(470 387)	(791 018)	470 741	(958)	83 266	**(708 356)**
Housing and mortgage loans	(282 791)	(486 864)	268 119	760	33 546	**(467 230)**
Loans and advances to corporate entities	**(1 167 356)**	**(679 529)**	**533 977**	**2 561**	**381 658**	**(928 689)**
Current accounts	(277 918)	(252 500)	174 579	29 924	91 501	**(234 414)**
Term loans, including:	(889 438)	(427 029)	359 398	(27 363)	290 157	**(694 275)**
Corporate & institutional enterprises	(311 280)	(139 081)	193 890	1 271	74 519	**(180 681)**
Medium & small enterprises	(578 158)	(287 948)	165 508	(28 634)	215 638	**(513 594)**
Loans and advances to public sector	**(12 229)**	**(711)**	**1 212**	**(2)**	**-**	**(11 730)**
Total movements for loans and advances to customers	**(2 236 161)**	**(1 930 399)**	**1 524 876**	**(15 519)**	**564 214**	**(2 092 989)**

MOVEMENTS IN PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS AS OF 2012	Provisions as at 01.01.2012	Provisions created	Release of provisions	Reclassification and foreign exchange differences	Write-offs	Provisions as at 31.12.2012
Loans and advances to individuals	**(860 001)**	**(749 959)**	**514 372**	**14 487**	**24 525**	**(1 056 576)**
Current accounts	(523 086)	(334 510)	245 064	5 757	20 586	**(586 189)**
Term loans, including:	(336 915)	(415 449)	269 308	8 730	3 939	**(470 387)**
Housing and mortgage loans	(199 413)	(254 260)	162 351	8 079	452	**(282 791)**
Loans and advances to corporate entities	**(1 249 414)**	**(705 487)**	**581 286**	**20 386**	**185 873**	**(1 167 356)**
Current accounts	(315 619)	(322 549)	252 259	18 506	89 485	**(277 918)**
Term loans, including:	(933 795)	(382 938)	329 027	1 880	96 388	**(889 438)**
Corporate & institutional enterprises	(337 438)	(114 426)	123 065	17 519	-	**(311 280)**
Medium & small enterprises	(596 357)	(268 512)	205 962	(15 639)	96 388	**(578 158)**
Loans and advances to public sector	**(3 598)**	**(57 415)**	**48 988**	**(204)**	**-**	**(12 229)**
Total movements for loans and advances to customers	**(2 113 013)**	**(1 512 861)**	**1 144 646**	**34 669**	**210 398**	**(2 236 161)**

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22. Investment securities

	31.12.2013			31.12.2012		
	Investment securities without pledge	Pledged investment securities	Total investment securities	Investment securities without pledge	Pledged investment securities	Total investment securities
Debt securities	**19 068 057**	**5 764 538**	**24 832 595**	**16 944 248**	**2 544 984**	**19 489 232**
Issued by government	12 748 698	5 744 542	18 493 240	8 995 401	2 420 035	11 415 436
- government bonds	12 748 698	5 744 542	18 493 240	8 995 401	2 420 035	11 415 436
Issued by central bank	5 778 772	19 996	5 798 768	7 371 977	124 949	7 496 926
Other debt securities	540 587	-	540 587	576 870	-	576 870
- bank's bonds	25 136	-	25 136	123 901	-	123 901
- deposit certificates	369 162	-	369 162	335 050	-	335 050
- corporate bonds	107 906	-	107 906	80 131	-	80 131
- communal bonds	38 383	-	38 383	37 788	-	37 788
Equity securities:	**248 695**	**-**	**248 695**	**251 620**	**-**	**251 620**
Listed	229 617	-	229 617	225 108	-	225 108
Unlisted	19 078	-	19 078	26 512	-	26 512
Total debt and equity securities:	**19 316 752**	**5 764 538**	**25 081 290**	**17 195 868**	**2 544 984**	**19 740 852**
Short-term (up to 1 year)	**6 068 959**	**21 994**	**6 090 953**	**8 307 850**	**154 887**	**8 462 737**
Long-term (over 1 year)	**13 247 793**	**5 742 544**	**18 990 337**	**8 888 018**	**2 390 097**	**11 278 115**

Presented above value of equity securities includes provision for impairment of PLN 125 thousand (31 December 2012: PLN 125 thousand).

As at 31 December 2013, equity securities include fair value of PZU shares in amount of PLN 212 430 thousand (31 December 2012 – PLN 206 775 thousand).

As at 31 December 2013, the carrying values of debt securities with fixed interest rates amounted to PLN 17 377 952 thousand and debt securities with variable interest rates PLN 7 454 643 thousand respectively (31 December 2012 respectively: PLN 12 775 425 thousand and PLN 6 713 807 thousand).

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

In accordance with the BFG Law of 14 December 1994, the Bank held PLN 368 133 thousand, at nominal value PLN 355 000 thousand of government securities (bonds and bills) disclosed in its statement of financial position as at 31 December 2013 (31 December 2012: carrying value - PLN 344 144 thousand, nominal value - PLN 335 000 thousand), which were used as security under the Bank Guarantee Fund and they were deposited in a separate account respectively: money bonds at the National Bank of Poland and bonds at the National Depository of Securities.

Gains and losses from investment securities

	Year ended 31 December	
	2013	2012
Sale/redemption of financial assets available for sale, investments in subsidiaries and associates	79 206	149 955
Impairment of investments in subsidiaries	(452)	(105)
Total gains and losses from investment securities	**78 754**	**149 850**

In 2013, the item 'Sale/redemption of financial assets available for sale, investments in subsidiaries and associates' includes profit on sale of government bonds in the amount of PLN 50 796 (in 2012: PLN 33 557 thousand).

In addition, this item includes profit on sale of equity securities in amount of PLN 25 761 thousand.

In 2012, the biggest impact on the item 'Sale/redemption of financial assets available for sale, investments in subsidiaries and associates' had gains realized in the amount of PLN 116 384 thousand, recognized in connection with the restructuring of mBank's holding in PZU SA shares.

Movements in investment securities

	31.12.2013	31.12.2012
Investment securities		
As at the beginning of the period	**19 740 852**	**20 930 666**
Exchange differences	(35 272)	(23 665)
Additions	411 604 267	248 210 508
Disposals (sale, redemption and forfeiture)	(406 033 995)	(249 829 814)
Gains / (losses) from changes in fair value	(194 562)	453 157
As at the end of the period	**25 081 290**	**19 740 852**

Changes in provisions for impairment losses on investment securities

	31.12.2013	31.12.2012
Provisions for losses on equity securities		
Listed		
As at the beginning of the period	**(125)**	**(125)**
As at the end of the period	**(125)**	**(125)**
Total provisions for investment securities		
As at the beginning of the period	**(125)**	**(125)**
As at the end of the period	**(125)**	**(125)**

23. Investments in subsidiaries

31 December 2013 (in PLN 000's)

No.	Name of the company	Country of registration	Assets	Liabilities	Revenues	Net profit / (loss)	% interest held	Carrying value
1.	**Aspiro Sp. z o.o.**	Poland	158 619	19 005	100 998	209	100.00	51 536
2.	**BDH Development Sp. z o.o.**	Poland	155 789	53 243	15	(243)	100.00	102 778
3.	**BRE Finance France SA**	France	2 833 546	2 832 861	65 854	114	99.98	1 006
4.	**Communication One Consulting Sp. z o.o.**	Poland	26 371	15 814	7 918	371	100.00	10 096
5.	**Dom Maklerski mBanku S.A.**	Poland	1 141 083	1 031 446	116 233	19 409	100.00	26 719
6.	**Garbary Sp. z o.o.**	Poland	44 839	89	159	(2 736)	100.00	66 384
7.	**JMD III Sp. z o.o.**	Poland	4	-	-	(4)	100.00	10
8.	**mBank Hipoteczny S.A.**	Poland	4 785 329	4 280 789	242 886	4 541	24.29	76 388
9.	**mCentrum Operacji Sp. z o.o.**	Poland	51 061	11 682	31 502	312	100.00	26 539
10.	**mCorporate Finance SA**	Poland	1 863	520	3 747	2 574	100.00	5 532
11.	**MLV 35 Sp. z o.o. w likwidacji**	Poland	236	14	-	(8)	100.00	53
12.	**MLV 45 Sp. z o.o.**	Poland	61	31	80	25	100.00	8
13.	**MLV 45 Sp. z o.o. spółka komandytowa (poprzednio BRE Holdnig Sp. z o.o.)**	Poland	551 369	83	243	40 545	100.00	348 121
14.	**mWealth Management SA**	Poland	37 662	6 606	34 749	13 521	100.00	12 000
15.	**Octopus Sp. z o.o.**	Poland	21	1	-	(15)	99.90	50
16.	**Tele -Tech Investment Sp. z o.o.**	Poland	59 676	59 380	2 851	(177)	100.00	381
17.	**TRANSFINANCE a.s.**	Czech Republic	370 224	326 234	25 448	1 705	100.00	29 658
								757 259

31 December 2012 (in PLN 000's)

No.	Name of the company	Country of registration	Assets	Liabilities	Revenues	Net profit / (loss)	% interest held	Carrying value
1.	**Aspiro Sp. z o.o.**	Poland	155 740	20 417	121 947	(1 501)	100.00	51 535
2.	**BRE Bank Hipoteczny SA**	Poland	4 809 712	4 308 817	284 512	9 705	24.29	76 388
3.	**BRE Centrum Operacji Sp. z o.o.**	Poland	58 182	13 115	45 743	8 975	100.00	31 072
4.	**BRE Corporate Finance SA**	Poland	2 451	534	5 715	(1 059)	100.00	3 532
5.	**BRE Finance France SA**	France	2 048 795	2 048 231	13 612	(8)	99.98	1 006
6.	**BRE Holding Sp. z o.o.**	Poland	537 239	27	26 728	26 471	100.00	348 123
7.	**BRE Wealth Management SA**	Poland	28 401	3 737	24 576	8 048	100.00	12 000
8.	**CALL CENTER POLAND SA**	Poland	31 294	27 098	28 628	(11 369)	100.00	4 298
9.	**CONTACTPOINT Sp. z o.o.**	Poland	19 456	13 609	31 643	(2 796)	100.00	5 020
10.	**Dom Inwestycyjny BRE Banku SA**	Poland	754 032	664 386	113 007	16 886	100.00	26 719
11.	**Garbary Sp. z o.o.**	Poland	45 050	7 564	181	(2 938)	100.00	56 384
12.	**MLV 35 Sp. z o.o.**	Poland	42	2	-	(9)	100.00	53
13.	**MLV 35 Sp. z o.o. spółka komandytowo-akcyjna**	Poland	289 770	32	1 808	1 758	100.00	290 965
14.	**Octopus Sp. z o.o.**	Poland	37	2	-	(15)	99.00	50
15.	**Tele -Tech Investment Sp. z o.o.**	Poland	77 470	77 297	3 878	(207)	100.00	533
16.	**TRANSFINANCE a.s.**	Czech Republic	327 983	282 309	25 467	1 786	100.00	29 658
								937 336

Changes in investments in subsidiaries

	31.12.2013	31.12.2012
Investments in subsidiaries		
As at the beginning of the period	**937 336**	**546 430**
Foreign exchange differences	-	106
Increase	125 193	417 308
Decrease	(304 818)	(26 403)
Impairment/release of impairment	(452)	(105)
As at the end of the period	**757 259**	**937 336**

In 2013, the position "Decrease" relates mainly to liquidation of MLV 35 Sp. z o.o. spółka komandytowa.

In 2012, the position 'Increase' relates to the increase of equity in MLV 45 Sp. z o.o. spółka komandytowa (previously BRE Holding Sp. z o.o.), mBank Hipoteczny S.A. (previously BRE Bank Hipoteczny S.A.) and Aspiro S.A. In addition, this item includes the purchase of 100% shares in the company MLV 35 Sp z o.o. spółka komandytowo-akcyjna (MLV 35) for the amount of PLN 50 thousand and subsequent increase of the equity in this company by PLN 1 500 thousand in cash and PLN 279 275 thousand by contribution in kind in the form of all investment certificates of BRE GOLD FIZ held by the Bank. The company MLV 35 was acquired for the purpose of restructuring of mBank's holding in PZU SA shares.

24. Intangible assets

	31.12.2013	31.12.2012
Development costs	376	474
Patents, licences and similar assets, including:	308 171	247 706
- computer software	255 951	196 602
Other intangible assets	7 040	7 940
Intangible assets under development	93 197	133 205
Total intangible assets	**408 784**	**389 325**

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Movements in intangible assets

Movements in intangible assets from 1 January to 31 December 2013	Development costs	Acquired concessions, patents, licences and other similar assets		Other intangible assets	Intangible assets under development	Total intangible assets
			including: acquired computer software			
Gross value of intangible assets as at the beginning of the period: 01.01.2013	**23 251**	**677 375**	**516 156**	**14 886**	**133 205**	**848 717**
Increase (due to)	**-**	**125 870**	**91 641**	**192**	**85 505**	**211 567**
- purchase	-	17 616	21	192	68 558	86 366
- transfer from fixed assets under construction	-	246	-	-	-	246
- transfer from intangible assets under development	-	108 005	91 620	-	-	108 005
- development costs	-	-	-	-	12 530	12 530
- other increases	-	3	-	-	4 417	4 420
Decrease (due to)	**(17 938)**	**(28 543)**	**(7 960)**	**(284)**	**(125 513)**	**(172 278)**
- liquidation	(17 938)	(27 975)	(7 821)	(283)	-	(46 196)
- transfer to intangible assets given to use	-	-	-	-	(108 005)	(108 005)
- other decreases	-	(568)	(139)	(1)	(17 508)	(18 077)
Gross value of intangible assets as at the end of the period: 31.12.2013	**5 313**	**774 702**	**599 837**	**14 794**	**93 197**	**888 006**
Accumulated amortization as at the beginning of the period: 01.01.2013	**(22 777)**	**(429 669)**	**(319 554)**	**(6 946)**	**-**	**(459 392)**
Amortization for the period (due to)	**17 840**	**(36 862)**	**(24 332)**	**(808)**	**-**	**(19 830)**
- amortization	(98)	(64 975)	(32 290)	(1 091)	-	(66 164)
- other increases	-	(15)	(1)	-	-	(15)
- liquidation	17 938	27 975	7 821	283	-	46 196
- other decreases	-	153	138	-	-	153
Accumulated amortization as at the end of the period: 31.12.2013	**(4 937)**	**(466 531)**	**(343 886)**	**(7 754)**	**-**	**(479 222)**
Net value of intangible assets as at the end of the period: 31.12.2013	**376**	**308 171**	**255 951**	**7 040**	**93 197**	**408 784**

Movements in intangible assets from 1 January to 31 December 2012	Development costs	Acquired concessions, patents, licences and other similar assets		Other intangible assets	Intangible assets under development	Total intangible assets
			including: acquired computer software			
Gross value of intangible assets as at the beginning of the period: 01.01.2012	**27 720**	**731 650**	**565 519**	**14 817**	**99 743**	**873 930**
Increase (due to)	**-**	**37 679**	**27 315**	**69**	**80 778**	**118 526**
- purchase	-	8 735	10	69	61 681	70 485
- transfer from fixed assets under construction	-	193	-	-	-	193
- transfer from intangible assets under development	-	28 747	27 305	-	-	28 747
- development costs	-	-	-	-	12 923	12 923
- other increases	-	4	-	-	6 174	6 178
Decrease (due to)	**(4 469)**	**(91 954)**	**(76 678)**	**-**	**(47 316)**	**(143 739)**
- liquidation	(4 469)	(91 766)	(76 678)	-	-	(96 235)
- transfer to intangible assets given to use	-	-	-	-	(28 747)	(28 747)
- other decreases	-	(188)	-	-	(18 569)	(18 757)
Gross value of intangible assets as at the end of the period: 31.12.2012	**23 251**	**677 375**	**516 156**	**14 886**	**133 205**	**848 717**
Accumulated amortization as at the beginning of the period: 01.01.2012	**(27 009)**	**(451 192)**	**(350 912)**	**(5 922)**	**-**	**(484 123)**
Amortization for the period (due to)	**4 232**	**21 523**	**31 358**	**(1 024)**	**-**	**24 731**
- amortization	(237)	(70 342)	(45 320)	(1 024)	-	(71 603)
- liquidation	4 469	91 725	76 678	-	-	96 194
- other decreases	-	140	-	-	-	140
Accumulated amortization as at the end of the period: 31.12.2012	**(22 777)**	**(429 669)**	**(319 554)**	**(6 946)**	**-**	**(459 392)**
Net value of intangible assets as at the end of the period: 31.12.2012	**474**	**247 706**	**196 602**	**7 940**	**133 205**	**389 325**

In 2013, the Bank performed impairment tests of intangible assets under development and of goodwill. As a result of the tests, there was not stated impairment.

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25. Tangible assets

	31.12.2013	31.12.2012
Tangible assets, including:	406 691	442 151
- land	1 033	1 033
- buildings and structures	173 925	177 678
- equipment	97 255	107 094
- vehicles	20 963	24 270
- other tangible assets	113 515	132 076
Tangible assets under construction	36 035	38 496
Total tangible assets	**442 726**	**480 647**

Movements in tangible assets

Movements in tangible assets from 1 January to 31 December 2013	Land	Buildings and structures	Equipment	Vehicles	Other fixed assets	Tangible assets under construction	Total
Gross value of tangible assets as at the beginning of the period: 01.01.2013	**1 033**	**302 995**	**458 896**	**53 625**	**398 965**	**38 632**	**1 254 146**
Increase (due to)	**-**	**1 454**	**36 619**	**4 703**	**24 468**	**36 205**	**103 449**
- purchase	-	-	20 971	-	2 129	32 832	55 932
- transfer from tangible assets under construction	-	1 454	13 276	-	22 216	-	36 946
- other increases	-	-	2 372	4 703	123	3 373	10 571
Decrease (due to)	**-**	**-**	**(15 340)**	**(3 488)**	**(26 523)**	**(38 666)**	**(84 017)**
- sale	-	-	(2 711)	-	(2 016)	-	(4 727)
- liquidation	-	-	(12 027)	-	(23 527)	-	(35 554)
- transfer to tangible assets	-	-	-	-	-	(36 946)	(36 946)
- transfer to intangible assets	-	-	-	-	-	(246)	(246)
- other decreases	-	-	(602)	(3 488)	(980)	(1 474)	(6 544)
Gross value of tangible assets as at the end of the period: 31.12.2013	**1 033**	**304 449**	**480 175**	**54 840**	**396 910**	**36 171**	**1 273 578**
Accumulated depreciation as at the beginning of the period: 01.01.2013	**-**	**(76 047)**	**(351 595)**	**(29 355)**	**(264 194)**	**-**	**(721 191)**
Depreciation for the period (due to)	**-**	**(5 207)**	**(31 325)**	**(4 522)**	**(19 070)**	**-**	**(60 124)**
- depreciation charge	-	(5 207)	(45 333)	(7 039)	(37 770)	-	(95 349)
- sale	-	-	2 461	-	1 854	-	4 315
- liquidation	-	-	11 439	-	17 539	-	28 978
- other decreases	-	-	108	2 517	(693)	-	1 932
Accumulated depreciation as at the end of the period: 31.12.2013	**-**	**(81 254)**	**(382 920)**	**(33 877)**	**(283 264)**	**-**	**(781 315)**
Impairment losses as at the beginning of the period: 01.01.2013	**-**	**(49 270)**	**(207)**	**-**	**(2 695)**	**(136)**	**(52 308)**
- decrease	-	-	207	-	2 564	-	2 771
Impairment losses as at the end of the period: 31.12.2013	**-**	**(49 270)**	**-**	**-**	**(131)**	**(136)**	**(49 537)**
Net value of tangible assets as at the end of the period: 31.12.2013	**1 033**	**173 925**	**97 255**	**20 963**	**113 515**	**36 035**	**442 726**

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Movements in tangible assets from 1 January to 31 December 2012	Land	Buildings and structures	Equipment	Vehicles	Other fixed assets	Tangible assets under construction	Total
Gross value of tangible assets as at the beginning of the period: 01.01.2012	**1 733**	**312 068**	**516 660**	**54 380**	**397 603**	**65 143**	**1 347 587**
Increase (due to)	**-**	**837**	**38 904**	**1 776**	**33 083**	**27 654**	**102 254**
- purchase	-	-	18 895	-	1 777	21 687	42 359
- transfer from tangible assets under construction	-	837	19 166	-	31 082	-	51 085
- other increases	-	-	843	1 776	224	5 967	8 810
Decrease (due to)	**(700)**	**(9 910)**	**(96 668)**	**(2 531)**	**(31 721)**	**(54 165)**	**(195 695)**
- sale	(700)	(9 910)	(8 902)	-	(8 665)	-	(28 177)
- liquidation	-	-	(18 191)	-	(2 208)	-	(20 399)
- transfer to tangible assets	-	-	-	-	-	(51 085)	(51 085)
- transfer to intangible assets	-	-	-	-	-	(193)	(193)
- other decreases	-	-	(69 575)	(2 531)	(20 848)	(2 887)	(95 841)
Gross value of tangible assets as at the end of the period: 31.12.2012	**1 033**	**302 995**	**458 896**	**53 625**	**398 965**	**38 632**	**1 254 146**
Accumulated depreciation as at the beginning of the period: 01.01.2012	**-**	**(73 909)**	**(404 125)**	**(22 964)**	**(252 226)**	**-**	**(753 224)**
Depreciation for the period (due to)	**-**	**(2 138)**	**52 530**	**(6 391)**	**(11 968)**	**-**	**32 033**
- depreciation charge	-	(5 191)	(43 405)	(7 787)	(40 603)	-	(96 986)
- other increases	-	-	(1)	-	-	-	(1)
- sale	-	3 053	8 604	-	6 923	-	18 580
- liquidation	-	-	18 105	-	1 967	-	20 072
- other decreases	-	-	69 227	1 396	19 745	-	90 368
Accumulated depreciation as at the end of the period: 31.12.2012	**-**	**(76 047)**	**(351 595)**	**(29 355)**	**(264 194)**	**-**	**(721 191)**
Impairment losses as at the beginning of the period: 01.01.2012	**-**	**(51 686)**	**-**	**-**	**(131)**	**(136)**	**(51 953)**
- increase	-	(12 500)	(207)	-	(2 619)	-	(15 326)
- decrease	-	14 916	-	-	55	-	14 971
Impairment losses as at the end of the period: 31.12.2012	**-**	**(49 270)**	**(207)**	**-**	**(2 695)**	**(136)**	**(52 308)**
Net value of tangible assets as at the end of the period: 31.12.2012	**1 033**	**177 678**	**107 094**	**24 270**	**132 076**	**38 496**	**480 647**

The entire value of vehicles is related to finance lease agreement.

The recoverable value of impaired tangible assets is the net sale price determined on the basis of market prices for similar assets.

26. Other assets

	31.12.2013	**31.12.2012**
Other, including:	**259 180**	**176 298**
- debtors	161 870	75 714
- interbank balances	3 306	7 387
- other accruals	61 419	68 323
- accrued income	30 573	22 992
- inventories	1 738	1 882
- other	274	-
Total other assets	**259 180**	**176 298**
Short-term (up to 1 year)	169 217	86 707
Long-term (over 1 year)	89 963	89 591

As at 31 December 2013, the above note includes financial assets in amount of PLN 165 176 thousand (31 December 2012: PLN 83 101 thousand).

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27. Amounts due to other banks

	31.12.2013	31.12.2012
Current accounts	1 476 331	1 148 938
Term deposits	445 457	113 426
Loans and advances received	14 343 913	17 461 980
Repo / sell-buy-back transactions	2 391 742	1 295 964
Liabilities in respect of cash collaterals	166 958	197 400
Payables to be settled	2 915	1 269
Other	36 538	22 537
Amounts due to other banks	**18 863 854**	**20 241 514**
Short-term (up to 1 year)	8 099 243	6 191 419
Long-term (over 1 year)	10 764 611	14 050 095

On 31 December 2013, the value of fixed rate deposits from other banks was PLN 445 457 thousand (31 December 2012: PLN 113 426 thousand). There were no deposits with variable interest rates in the both reporting periods.

As at 31 December 2013 and as at 31 December 2012, loans and advances received were variable rate loans.

The average interest rate for loans and deposits obtained from banks in 2013 amounted to 1.29% (31 December 2012: 1.41%).

mBank S.A. did not provide collateral related to loans from other banks. The Bank did not note any violations of contractual terms related to liabilities in respect of loans received.

28. Amounts due to customers

	31.12.2013	31.12.2012
Individual customers:	**33 888 810**	**32 945 390**
Current accounts	23 947 135	20 772 482
Term deposits	9 889 000	12 121 656
Other liabilities:	52 675	51 252
- liabilities in respect of cash collaterals	24 501	32 698
- other	28 174	18 554
Corporate customers:	**29 402 040**	**26 435 364**
Current accounts	12 323 761	11 609 077
Term deposits	6 933 774	8 727 014
Loans and advances received	2 100 331	1 696 404
Repo transactions	4 629 955	1 883 368
Other liabilities:	3 414 219	2 519 501
- liabilities in respect of cash collaterals	3 263 994	2 456 433
- other	150 225	63 068
Public sector customers:	**717 524**	**501 164**
Current accounts	579 319	387 383
Term deposits	129 981	110 765
Other liabilities:	8 224	3 016
- liabilities in respect of cash collaterals	137	152
- other	8 087	2 864
Total amounts due to customers	**64 008 374**	**59 881 918**
Short-term (up to 1 year)	57 094 145	55 639 233
Long-term (over 1 year)	6 914 229	4 242 685

As at 31 December 2013, the majority of the deposits from retail and corporate customers bore fixed interest rates. The average interest rate for amounts due to customers (excluding repos) amounted to 2.02% (31 December 2012: 3.11%).

As at 31 December 2013, the balance of loans and advances received included a loan received from European Investment Bank amounting to PLN 2 100 331 thousand (31 December 2012: PLN 1 696 404 thousand). The loan was collateralized with treasury bonds, which were disclosed in the statement of financial position under Note 23 and Note 36.

29. Debt securities in issue

As at 31 December 2013

Debt securities in issue by category	Nominal value	Contractual interest rate	Guarantee/ collateral	Redemption date	Carrying value
Long-term issues	**450 000**				**451 916**
- Bonds (in PLN)	450 000	4.20%	no collateral	23-11-2015	451 916
Debt securities in issue (carrying value in PLN '000)					**451 916**

As at 31 December 2012

Debt securities in issue by category	Nominal value	Contractual interest rate	Guarantee/ collateral	Redemption date	Carrying value
Short-term issues	**206 900**				**206 105**
- Deposit certificates (in PLN)	206 900	5.00%	no collateral	29-01-2013	206 105
Long-term issues	**450 000**				**452 943**
- Bonds (in PLN)	450 000	6.10%	no collateral	23-11-2015	452 943
Debt securities in issue (carrying value in PLN '000)					**659 048**

The Bank did not note any violations of contractual terms related to liabilities in respect of issued debt securities.

Movements in debt securities in issue

	31.12.2013	31.12.2012
As at the beginning of the period	**659 048**	**-**
Additions (issue)	-	3 414 454
Disposals (redemption)	(206 900)	(2 760 165)
Other changes	(232)	4 759
Debt securities in issue as at the end of the period	**451 916**	**659 048**

On 3 December 2013, mBank S.A. issued subordinated bonds with a total nominal value of PLN 500 000 thousand, which constitute subordinated liabilities and are included and described in detail in Note 30 below.

30. Subordinated liabilities

SUBORDINATED LIABILITIES	Nominal value	Currency	Terms of interest rate (%)	Effective interest rate (%)	Redemption date	As at the end of the period (in PLN '000)
As at 31 December 2013						
- Commerzbank AG	400 000	CHF	3M LIBOR + 1.2%*	1.22	08.03.2017	1 366 332
- Commerzbank AG	80 000	CHF	3M LIBOR + 1.4%**	1.42	perpetual 1)	273 591
- Commerzbank AG	120 000	CHF	3M LIBOR + 2.0%***	2.02	18.12.2017	412 355
- Commerzbank AG	170 000	CHF	3M LIBOR + 2.2%****	2.22	perpetual 1)	584 340
- Commerzbank AG	90 000	CHF	3M LIBOR + 4.0%	4.02	perpetual 1)	313 929
- Commerzbank AG	90 000	CHF	3M LIBOR + 2.5%	2.52	24.06.2018	310 331
- Investors not associated with mBank S.A.	500 000	PLN	6M WIBOR + 2.25%	4.95	20.12.2023	501 879
						3 762 757

SUBORDINATED LIABILITIES	Nominal value	Currency	Terms of interest rate (%)	Effective interest rate (%)	Redemption date	As at the end of the period (in PLN '000)
As at 31 December 2012						
- Commerzbank AG	400 000	CHF	3M LIBOR + 1.2%*	1.21	08.03.2017	1 355 725
- Commerzbank AG	80 000	CHF	3M LIBOR + 1.4%**	1.42	perpetual 1)	271 072
- Commerzbank AG	120 000	CHF	3M LIBOR + 2.0%***	2.02	18.12.2017	406 674
- Commerzbank AG	170 000	CHF	3M LIBOR + 2.2%****	2.24	perpetual 1)	578 765
- Commerzbank AG	90 000	CHF	3M LIBOR + 4.0%	4.01	perpetual 1)	305 084
- Commerzbank AG	90 000	CHF	3M LIBOR + 2.5%	2.51	24.06.2018	304 975
						3 222 295

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* Margin amounting to 0.7% was in force within the period of first five years. From June 2012, margin amounting to 1.2% is in force.

** Margin amounting to 1.4% is in force up to December 2016. Within the period of next years it will be equal to 3.4%.

*** Margin amounting to 2.0% is in force from December 2012.

**** Margin amounting to 2.2% is in force up to January 2018. Within the period of next years it will be equal to 4.2%.

1) Debt securities become due on the initiative of the Bank no earlier than two years after the issue date or on the initiative of Commerzbank, not earlier than five years after the issue date, after obtaining the approval of the Polish Financial Supervision Authority.

The effective interest rate specified in the tables above is the interest rate at the inception day of the last interest period.

On 3 December 2013, mBank S.A. issued subordinated bonds with a total nominal value of PLN 500 000 thousand. Were issued 5 000 pieces of bonds with a nominal value of PLN 100 000 each. The maturity date is 20 December 2023. Starting from 2 January 2014, issued subordinated bonds are listed in the alternative trading system of debt securities operated by BondSpot S.A. with headquarters in Warsaw.

In 2013 and 2012, the Bank did not note any delays in repayments of interest instalments and was not in default of any other contractual provisions related to its subordinated liabilities.

Subordinated liabilities include the amount of issued subordinated debt securities with an indefinite maturity term. In the calculation of the capital adequacy ratio the funds raised through these issues were included in the Bank's own funds calculation. The Bank obtained the approvals of Polish Financial Supervision Authority (KNF) for the inclusion of the funds obtained from the issues into the Bank's supplementary capital.

With respect to the issue as at 3 December 2013, the Bank applied to the Polish Financial Supervision Authority in accordance with Article 127, item 3, point 2, letter b) of the Banking Law, for approval to subject the financial liabilities in the amount of PLN 500 000 thousand obtained from the above mentioned issue into the Bank's supplementary capital and obtained the consent on 14 February 2014. As at 31 December 2013, these bonds were not included in the Bank's own funds.

Movements in subordinated liabilities

	31.12.2013	31.12.2012
As at the beginning of the period	**3 222 295**	**3 456 200**
Additions (issue)	500 000	-
Exchange differences	(4 940)	(234 547)
Other changes	45 402	642
Subordinated liabilities as at the end of the period	**3 762 757**	**3 222 295**
Short-term (up to 1 year)	50 237	4 835
Long-term (over 1 year)	3 712 520	3 217 460

31. Other liabilities

	31.12.2013	31.12.2012
Other liabilities, including		
- tax liabilities	11 717	18 031
- interbank settlements	384 736	388 965
- creditors	212 016	377 260
- accrued expenses	106 914	122 558
- deferred income	91 433	76 365
- provisions for post-employment employee benefits	7 509	6 191
- provisions for holiday equivalents	18 830	17 286
- provisions for other employee benefits	129 715	141 340
Total other liabilities	**962 870**	**1 147 996**

As at 31 December 2013, the presented note includes financial liabilities of PLN 703 666 thousand (31 December 2012: PLN 910 072 thousand). Cash flows resulting from those financial liabilities are presented under the Note 3.9.1. The other components of presented liabilities, except for part of provisions for post-employment benefits that were calculated on actuarial basis as a rule, are short-term liabilities.

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In 2013, liabilities from creditors include the value of financial lease amounted to PLN 22 699 thousand (in 2012: PLN 26 047 thousand).

Movements in provisions for post-employment employee benefits

	31.12.2013	31.12.2012
Provisions for post-employment employee benefits		
As at the beginning of the period (by type)	**6 191**	**6 348**
pension and disability provisions	2 953	3 455
provisions for death severance	1 955	1 719
provisions for the Social Benefit Fund	1 283	1 174
Change in the period (due to)	**1 318**	**(157)**
Provisions created, due to:	**857**	**938**
pension and disability provisions	728	257
provisions for death severance	50	237
provisions for the Social Benefit Fund	79	444
Interest expense, due to:	**300**	**352**
pension and disability provisions	146	183
provisions for death severance	92	97
provisions for the Social Benefit Fund	62	72
Actuarial gains and losses recognised in other comprehensive income (Note 15), due to:	**918**	**(278)**
pension and disability provisions	463	(364)
provisions for death severance	219	47
provisions for the Social Benefit Fund	236	39
Benefits paid, due to:	**(757)**	**(1 169)**
pension and disability provisions	(600)	(578)
provisions for death severance	1	(145)
provisions for the Social Benefit Fund	(158)	(446)
As at the end of the period (by type)	**7 509**	**6 191**
pension and disability provisions	3 690	2 953
provisions for death severance	2 317	1 955
provisions for the Social Benefit Fund	1 502	1 283
Short-term (up to 1 year)	**740**	**725**
pension and disability provisions	522	556
provisions for death severance	175	132
provisions for the Social Benefit Fund	43	37
Long-term (over 1 year)	**6 769**	**5 466**
pension and disability provisions	3 167	2 396
provisions for death severance	2 143	1 824
provisions for the Social Benefit Fund	1 459	1 246

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	31.12.2013	31.12.2012
Breakdown of actuarial gains and losses		
Change in demographic assumptions, due to:	**26**	**(177)**
pension and disability provisions	182	(143)
provisions for death severance	(163)	(35)
provisions for the Social Benefit Fund	7	1
Other changes, due to:	**892**	**(101)**
pension and disability provisions	281	(221)
provisions for death severance	382	82
provisions for the Social Benefit Fund	229	38

32. Provisions

	31.12.2013	31.12.2012
For off-balance sheet granted contingent liabilities *	56 068	46 462
For legal proceedings	56 275	47 204
Other	28 717	35 149
Total provisions	**141 060**	**128 815**

* includes valuation of financial guarantees

Provision policies for off-balance sheet commitments granted are described in Note 3.4.4. The estimated maturity of granted contingent liabilities is presented under Note 35.

The estimated cash flow due to created provisions for legal proceedings and other provisions is expected to crystalise over 1 year.

Movements in the provisions

	31.12.2013	31.12.2012
As at the beginning of the period (by type)	**128 815**	**72 304**
For off-balance sheet granted contingent liabilities	46 462	30 906
For legal proceedings	47 204	25 644
Other	35 149	15 754
Change in the period (due to)	**12 245**	**56 511**
- increase of provisions, due to:	148 529	220 756
for off-balance-sheet granted contingent liabilities (Note 12)	118 169	175 869
for legal proceedings	29 010	22 950
other	1 350	21 937
- release of provisions, due to:	(115 268)	(160 168)
for off-balance-sheet granted contingent liabilities (Note 12)	(108 594)	(159 912)
for legal proceedings	(2 151)	(256)
other	(4 523)	-
- write-offs	(20 942)	(2 697)
- foreign exchange differences	(74)	(1 380)
As at the end of the period (by type)	**141 060**	**128 815**
For off-balance sheet granted contingent liabilities	56 068	46 462
For legal proceedings	56 275	47 204
Other	28 717	35 149

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Provisions for off-balance sheet granted contingent liabilities

	31.12.2013	31.12.2012
Incurred but not identified losses		
Off-balance sheet contingent liabilities	22 819 979	18 498 287
Provisions for off-balance sheet contingent liabilities analysed according to portfolio approach (negative amount)	(24 927)	(21 936)
Net off-balance sheet contingent liabilities	**22 795 052**	**18 476 351**
Off-balance sheet granted contingent liabilities with impairment		
Off-balance sheet contingent liabilities	63 178	79 469
Provisions for off-balance sheet contingent liabilities analysed individually (negative amount)	(31 141)	(24 526)
Net off-balance sheet contingent liabilities	**32 037**	**54 943**

33. Assets and liabilities for deferred income tax

Assets and liabilities for deferred income tax are calculated for all temporary differences in accordance with the balance sheet method, using an effective income tax rate of 19% in 2013 and 2012.

Assets and liabilities for deferred income tax are not recognised as short term assets and liabilities.

Changes in assets and liabilities for deferred income tax are presented below:

Deferred income tax assets	As at 01.01.2013	Recognised in the income statement	Recognised in other comprehensive income	Other changes	As at 31.12.2013
Interest	50 386	23 800	-	-	**74 186**
Valuation of derivative financial instruments	139 587	(112 716)	-	-	**26 871**
Valuation of investment securities	5 663	569	-	-	**6 232**
Provisions for impairment of loans and advances	189 069	(22 472)	-	-	**166 597**
Provisions for employee benefits	25 914	1 087	174	-	**27 175**
Other provisions	3 268	1 250	-	-	**4 518**
Prepayments/accruals	26 186	(5 255)	-	-	**20 931**
Deferred tax losses incurred by mBank S.A. branch in the Czech Republic in 2009-2011	-	13 334	-	-	**13 334**
Other negative temporary differences	11 807	8 419	-	(1)	**20 225**
Total deferred income tax assets	**451 880**	**(91 984)**	**174**	**(1)**	**360 069**

Deferred income tax liabilities	As at 01.01.2013	Recognised in the income statement	Recognised in other comprehensive income	Other changes	As at 31.12.2013
Interest	(43 470)	4 500	-	-	**(38 970)**
Valuation of derivative financial instruments	(560)	(2 974)	-	-	**(3 534)**
Valuation of investment securities	(142 122)	6 538	44 896	-	**(90 688)**
Interest and fees received in advance	(38 312)	2 572	-	-	**(35 740)**
Difference between tax and book value of tangible and intangible assets	(24 415)	(5 740)	-	-	**(30 155)**
Prepayments regarding amortization of applied investment relief	(18 657)	-	-	-	**(18 657)**
Other positive temporary differences	(35 557)	26 410	-	-	**(9 147)**
Total deferred income tax liabilities	**(303 093)**	**31 306**	**44 896**	**-**	**(226 891)**

Deferred income tax assets	As at 01.01.2012	Recognised in the income statement	Recognised in other comprehensive income	Other changes	As at 31.12.2012
Interest	27 310	23 076	-	-	**50 386**
Valuation of derivative financial instruments	76 001	63 586	-	-	**139 587**
Valuation of investment securities	5 611	4 545	(4 493)	-	**5 663**
Provisions for impairment of loans and advances	197 930	(8 861)	-	-	**189 069**
Provisions for employee benefits	28 308	(2 341)	(53)	-	**25 914**
Other provisions	2 632	636	-	-	**3 268**
Prepayments/accruals	26 004	182	-	-	**26 186**
Other negative temporary differences	12 104	(298)	-	1	**11 807**
Total deferred income tax assets	**375 900**	**80 525**	**(4 546)**	**1**	**451 880**

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Deferred income tax liabilities	As at 01.01.2012	Recognised in the income statement	Recognised in other comprehensive income	Other changes	As at 31.12.2012
Interest	(42 854)	(616)	-	-	**(43 470)**
Valuation of derivative financial instruments	-	(560)	-	-	**(560)**
Valuation of investment securities	(140 374)	41 496	(43 244)	-	**(142 122)**
Interest and fees received in advance	(37 285)	(1 027)	-	-	**(38 312)**
Difference between tax and book value of tangible and intangible assets	(28 101)	3 686	-	-	**(24 415)**
Prepayments regarding amortization of applied investment relief	(18 657)	-	-	-	**(18 657)**
Other positive temporary differences	(25 493)	(10 071)	-	7	**(35 557)**
Total deferred income tax liabilities	**(292 764)**	**32 908**	**(43 244)**	**7**	**(303 093)**

Interest income included in the profit and loss account	31.12.2012	31.12.2011
Interest	28 300	22 460
Valuation of derivative financial instruments	(115 690)	63 026
Valuation of securities	7 107	46 041
Provisions for impairment of loans and advances	(22 472)	(8 861)
Provisions for employee benefits	1 087	(2 341)
Other provisions	1 250	636
Prepayments/accruals	(5 255)	182
Interest and fees received in advance	2 572	(1 027)
Difference between tax and book value of tangible and intangible assets	(5 740)	3 686
Tax losses incurred by mBank S.A. branch in the Czech Republic in 2009-2011 carried forward	13 334	-
Other temporary differences	34 829	(10 369)
Total deferred income tax included in the profit and loss account (Note 13)	**(60 678)**	**113 433**

In calculation of deferred tax asset the Bank has taken into account tax losses incurred by foreign branch in Czech Republic in years 2009-2011. The tax losses incurred by foreign branch in Slovakia were not taken into account by the Bank in this calculation. Including losses of Czech branch and excluding losses of Slovak branch in deferred tax asset calculation resulted from assessment of the tax base in the current year and in the subsequent fiscal years (including the periods scheduled for settlement of tax losses), in the Czech Republic and Slovakia, respectively. On the basis of adopted financial projections and the level of tax base for 2013 it could be stated that in the case of: (i) losses of the Czech branch - reaching the tax base making it possible to deduct the tax losses or a higher tax base is probable, (ii) losses of the Slovak branch - reaching the tax base making it possible to offset negative temporary differences and deduct tax losses is not probable. Right to tax losses' settlement expires between 2014 and 2016 year.

Deferred income tax assets were recognised, because it is probable that there will be sufficient taxable income in the future.

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

As at 31 December 2013, the Bank was not involved in any proceedings before a court, arbitration body, or public administration authority concerning liabilities of the Bank or its subsidiaries, which represent at least 10% of the Bank's equity. Moreover, the total value of claims concerning liabilities of the Bank or its subsidiary in all proceedings before a court, an arbitration body or a public administration authority as at 31 December 2013 was also not higher than 10% of the Bank's equity.

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

Report on major proceedings brought against the Bank

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

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

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

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

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

3. Claims of clients of Interbrok

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

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

4. Class action against mBank S.A.

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

   On 6 May 2011, the District Court in Łódź decided to reject the application of mBank S.A. for dismissing the claim and decided that the case will proceed as a class action. On 13 June 2011, mBank S.A. lodged a complaint against this decision with the Court of Appeal in Łódź. On 28

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September 2011, the Court of Appeal dismissed the complaint of mBank S.A. Currently, the case proceeds as a class action. The time for joining the class ended in March 2012. As at 17 October 2012, the approved class consisted of 1 247 members. Moreover, the District Court in Łódź ruled against setting up a cash deposit for mBank S.A. requested by the Bank. The Bank lodged a complaint against this ruling. On 29 November 2012, the Court of Appeal in Łódź dismissed the Bank's complaint about setting up the cash deposit. The ruling is valid and the Plaintiff is not obliged to pay the cash deposit. The final response to the petition was sent in January, while the Plaintiff replied to it in a pleading filed on 15 February 2013. By a decision dated 18 February 2013, the District Court in Łódź decided to refer the case to mediation. In a letter dated 26 February 2013, the Municipal Consumer Ombudsman raised an objection to the mediation. On 22 June 2013, a trial was conducted, and on 3 July 2013, the Court announced its judgment in which it took into account the action in its entirety acknowledging that the Bank improperly performed the agreement whereby the consumers sustained a loss. On 9 September 2013, the Bank made an appeal against the judgement and the date of a hearing was set on 25 March 2014. The verdict of the first instance court does not significantly influence the Bank's perception of the legal risk in this case.

As at 31 December 2013, the Bank was not involved in any proceedings before a court, arbitration body, or public administration authority concerning receivables of the Bank or its subsidiaries, which represent at least 10% of the Bank's equity. The total value of claims concerning receivables of the Bank or its subsidiaries in all proceedings before a court, an arbitration body or a public administration authority underway at 31 December 2013 was also not higher than 10% of the Bank's equity.

Taxes

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

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

35. Off-balance sheet liabilities

Off-balance sheet liabilities of the Bank comprise:

- Loan commitments

The amounts and deadlines by which the Bank will be obliged to realise its off-balance sheet liabilities by granting loans or other monetary services are presented in the table below.

- Guarantees and other financial facilities

Guarantees are presented in the table below based on the earliest contractual maturity date.

- Operating lease liabilities

The following table presents the Bank's off-balance sheet commitments granted and received as well as nominal value of open positions of derivative transactions of the Bank as at 31 December 2012 and 31 December 2011.

31.12.2013	Up to 1 year	1 - 5 years	Over 5 years	Total
1 Contingent liabilities granted and received	**17 197 354**	**6 317 843**	**879 275**	**24 394 472**
Commitments granted	**16 642 751**	**5 630 749**	**724 349**	**22 997 849**
1. Financing	14 376 337	1 967 828	531 559	16 875 724
a) Loan commitments	14 355 484	1 884 415	521 133	16 761 032
b) Operating lease commitments	20 853	83 413	10 426	114 692
2. Guarantees and other financial facilities	2 257 414	3 662 921	192 790	6 113 125
a) Banker's acceptances	2 765	-	209	2 974
b) Guarantees and standby letters of credit	2 012 443	3 656 141	192 581	5 861 165
c) Guarantees of issues underwritten	155 000	-	-	155 000
d) Documentary and commercial letters of credit	87 206	6 780	-	93 986
3. Other commitments	9 000	-	-	9 000
Commitments received	**554 603**	**687 094**	**154 926**	**1 396 623**
1. Financial commitments received	3 375	207 360	-	210 735
2. Guarantees received	551 228	479 734	154 926	1 185 888
2 Derivative financial instruments (nominal value of contracts)	**330 067 543**	**253 967 471**	**20 620 014**	**604 655 028**
1. Interest rate derivatives	293 607 083	245 354 337	20 568 945	559 530 365
2. Currency derivatives	35 122 146	8 517 321	12 190	43 651 657
3. Market risk derivatives	1 338 314	95 813	38 879	1 473 006
Total off-balance sheet items	**347 264 897**	**260 285 314**	**21 499 289**	**629 049 500**

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31.12.2012	Up to 1 year	1 - 5 years	Over 5 years	Total
1 Contingent liabilities granted and received	**13 915 347**	**4 660 661**	**910 901**	**19 486 909**
Commitments granted	**13 546 181**	**4 431 526**	**733 705**	**18 711 412**
1. Financing	11 530 509	1 687 036	457 972	13 675 517
a) Loan commitments	11 509 953	1 604 810	427 098	13 541 861
b) Operating lease commitments	20 556	82 226	30 874	133 656
2. Guarantees and other financial facilities	1 613 272	2 744 490	275 733	4 633 495
a) Banker's acceptances	4 441	-	-	4 441
b) Guarantees and standby letters of credit	1 541 465	2 696 990	275 733	4 514 188
c) Guarantees of issues underwritten	-	47 500	-	47 500
d) Documentary and commercial letters of credit	67 366	-	-	67 366
3. Other commitments	402 400	-	-	402 400
Commitments received	**369 166**	**229 135**	**177 196**	**775 497**
2. Guarantees received	369 166	229 135	177 196	775 497
2 Derivative financial instruments (nominal value of contracts)	**424 634 933**	**204 385 583**	**15 300 549**	**644 321 065**
1. Interest rate derivatives	387 467 857	202 484 562	14 998 964	604 951 383
2. Currency derivatives	36 639 535	1 825 041	18 385	38 482 961
3. Market risk derivatives	527 541	75 980	283 200	886 721
Total off-balance sheet items	**438 550 280**	**209 046 244**	**16 211 450**	**663 807 974**

The above operating lease liabilities relate to the lease of buildings.

The leasing agreement for the Bank's headquarters is the most important leasing agreement concluded by the Bank. According to the agreement, the leasing period ends on 30 June 2019. The agreement has been concluded for a definite period and, in principal, is not subject to early termination. The agreement provides for the possibility of purchasing the leased object upon a written application of the lessee at least 6 months and no more than 12 months prior to the termination of the leasing agreement, as well as the pre-emptive right under the conditions specified in the agreement. Under the agreement the Bank shall ensure proper maintenance of the object of leasing.

The nominal values of derivatives are presented in the Note 19.

As at 31 December 2013, commitments received by the Bank in the amount of PLN 1 396 623 thousand, mainly related to guarantees received as collateral of loans and guarantees.

36. Pledged assets

	31.12.2013	31.12.2012
Pledged assets, including:	**6 016 816**	**3 104 628**
- Trading securities (Note 18), including:	252 278	559 644
pledged asset with the right to repledge	*252 278*	*559 644*
- Investment securities (Note 22), including:	5 764 538	2 544 984
pledged asset with the right to repledge	*2 687 951*	*2 197 220*
Liabilities arising from pledged assets, including:	**9 481 283**	**5 165 238**
- Sell-buy-back transactions (Note 27, 28), including	7 021 697	3 179 332
sell-buy-back transactions concerning securities which are subject to buy-sell-back transaction	*4 024 126*	*2 066 961*
- Loan received from the European Investment Bank	2 100 331	1 696 404
- Deposit placed by the client	28 686	7 264
- Funds guaranteed under the Bank Guarantee Fund	330 569	282 238

Assets are pledged as collaterals in sell-buy-back agreements made with other banks and deposits are held as collateral for futures and options contracts and in relation to the membership in stock exchanges. Deposits are held in the Central Bank, representing obligatory reserves required by the law.

37. Registered share capital

The total number of ordinary shares as at 31 December 2013 was 42 174 013 shares (31 December 2012: 42 138 976 shares) of PLN 4 nominal value each (31 December 2011: PLN 4 each). All issued shares were fully paid up.

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REGISTERED SHARE CAPITAL (THE STRUCTURE) AS AT 31 DECEMBER 2013						
Share type	**Type of preference**	**Type of restrictions**	**Number of shares**	**Series / issue value**	**Paid up**	**Year of registration**
ordinary bearer*	-	-	9 982 000	39 928 000	fully paid in cash	1986
ordinary registered*	-	-	18 000	72 000	fully paid in cash	1986
ordinary bearer	-	-	2 500 000	10 000 000	fully paid in cash	1994
ordinary bearer	-	-	2 000 000	8 000 000	fully paid in cash	1995
ordinary bearer	-	-	4 500 000	18 000 000	fully paid in cash	1997
ordinary bearer	-	-	3 800 000	15 200 000	fully paid in cash	1998
ordinary bearer	-	-	170 500	682 000	fully paid in cash	2000
ordinary bearer	-	-	5 742 625	22 970 500	fully paid in cash	2004
ordinary bearer	-	-	270 847	1 083 388	fully paid in cash	2005
ordinary bearer	-	-	532 063	2 128 252	fully paid in cash	2006
ordinary bearer	-	-	144 633	578 532	fully paid in cash	2007
ordinary bearer	-	-	30 214	120 856	fully paid in cash	2008
ordinary bearer	-	-	12 395 792	49 583 168	fully paid in cash	2010
ordinary bearer	-	-	16 072	64 288	fully paid in cash	2011
ordinary bearer	-	-	36 230	144 920	fully paid in cash	2012
ordinary bearer	-	-	35 037	140 148	fully paid in cash	2013
Total number of shares			**42 174 013**			
Total registered share capital				**168 696 052**		
Nominal value per share		**4**				

* As at the end of the reporting period

Commerzbank AG is a shareholder holding over 5% of the share capital and votes at the General Meeting and as at 31 December 2013 it held 69.60% of the share capital and votes at the General Meeting of mBank S.A.

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

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

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

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

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

In 2013, the National Depository of Securities (KDPW) has registered 35 037 shares of mBank , which were issued as part of the conditional increase in the share capital of the Bank by issuance of shares with no subscription rights for the existing shareholders in order to enable beneficiaries of the incentive programmes to take up shares in mBank S.A. As a result of the above registration, in the third quarter of 2013 the Bank's share capital increased by PLN 140 148.

38. Share premium

Share premium is formed from the share premium obtained from the issue of shares reduced by the direct costs incurred with that issue. This capital is intended to cover all losses that may result from the business activity of the Bank.

The increase of share premium in 2013 and 2012 results from the issue of shares under incentive programmes described under Note 43.

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39. Retained earnings

Retained earnings include: other supplementary capital, other reserve capital, general banking risk reserve, profit (loss) from the previous year and profit for the current year.

Other supplementary capital, other reserve capital and general banking risk reserve are created from profit for the current year and their aim is described in the By-laws or in other regulations of the law.

	31.12.2013	31.12.2012
Other supplementary capital	3 765 454	3 027 390
Other reserve capital	29 061	23 867
General banking risk reserve	965 143	925 143
Profit from the previous year	(91 288)	(85 379)
Profit for the current year	1 070 306	1 193 575
Total retained earnings	**5 738 676**	**5 084 596**

According to the Polish legislation, each bank is required to allocate 8% of its net profit to a statutory undistributable other supplementary capital until this supplementary capital reaches 1/3 of the share capital.

In addition, the Bank transfers some of its net profit to the general banking risk reserve to cover unexpected risks and future losses. The general banking risk reserve can be distributed only on consent of shareholders at a general meeting.

40. Other components of equity

	31.12.2013	31.12.2012
Exchange differences on translating foreign operations	**(6 512)**	**(7 778)**
Unrealized gains (positive differences)	12 504	3 531
Unrealized losses (negative differences)	(19 016)	(11 309)
Available-for-sale financial assets	**329 237**	**494 118**
Unrealized gains on debt instruments	208 978	421 432
Unrealized losses on debt instruments	(7 808)	(9 996)
Unrealized gains on equity instruments	169 890	169 401
Deferred income tax	(41 823)	(86 719)
Actuarial gains and losses relating to post-employment benefits	**(519)**	**225**
Actuarial gains	278	278
Actuarial (losses)	(918)	-
Deferred income tax	121	(53)
Total other components of equity	**322 206**	**486 565**

41. Dividend per share

On 11 April 2013, the XXVI Ordinary General Meeting of mBank S.A. adopted a resolution regarding the distribution of the profit with the decision to pay a dividend for the year 2012. The dividend to the shareholders contributed an amount of PLN 421 419 860, wherein the amount of the dividend per one share was PLN 10. Number of shares eligible for dividend was 42 141 986. The dividend date was fixed for the 15th of May 2013. Payment of the dividend was on 29 May 2013.

42. Cash and cash equivalents

For the purpose of the statement of cash flows, the balance of cash and cash equivalents comprises the following balances with maturities shorter than 3 months:

	31.12.2013	31.12.2012
Cash and balances with the Central Bank (Note 16)	1 643 073	4 816 095
Loans and advances to banks (Note 17)	1 877 050	2 470 579
Trading securities (Note 18)	287 768	707 976
Total cash and cash equivalents	**3 807 891**	**7 994 650**

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43. Share-based incentive programmes

2008 Incentive Programme for the Management Board Members of the Bank

On 14 March 2008 the Ordinary General Meeting of mBank, by adopting a relevant resolution, expressed consent to carry out an incentive programme for Members of the Bank's Management Board at mBank. Under the programme Members of the Bank's Management Board 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 Members of the Management Board 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 S.A. shares within the framework of the programme have already been granted. Payments are settled in three equal deferred tranches: 12, 24 and 36 months form the date of acquiring the rights for a given year of the programme by the Manager. The last settlements of the programme are scheduled for 2015.

Cash bonus under the programme was paid for 2008-2011 and presented as an obligation to employees and referred to profit and loss account in a given year for which it was awarded.

The bonds may be acquired by the Entitled Persons over the years 2010 – 2018, provided that their employment continues. The right to take up shares under the conditional capital increase, resulting from bonds, may be exercised by the Entitled Persons in the period from acquisition of bonds to 31 December 2018. 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 Entitled Person by the Supervisory Board, net ROE of mBank S.A. Group in the financial year for which the shares are granted and making a consolidated profit before tax of mBank S.A. Group or consolidated profit before tax of particular business lines of mBank Group for a given financial year.

Share-Based Payments Settled in Cash

All rights under payments settled as a cash equivalent based on Commerzbank shares under the program have already been granted. Since payments are settled in three equal annual deferred tranches on the lapse of, respectively, 12, 24 and 36 months from the date of acquisition by the Manager of the right for a given year of the program, the cost of Commerzbank share-based payments settled in cash were recognised in the income statement in correspondence with liabilities to employees. The last settlements under the programme are in 2015.

Share-Based Payments Settled in mBank S.A. Shares

All rights under payments settled as a cash equivalent based on mBank S.A. shares under the program have already been granted. Since payments are settled in three equal annual deferred tranches on the lapse of, respectively, 12, 24 and 36 months from the date of acquisition by the Manager of the right for a given year of the program, the cost of share-based payments settled in cash are still recognised in the income statement in correspondence with other reserve capital. The last settlements under the programme are in 2015.

This is equity-settled share-based program.

The table below presents the number and weighted average exercise prices of share options related to the 2008 incentive programme for Management Board Members of the Bank.

	31.12.2013		31.12.2012	
	Number of options	Weighted average exercise price (in PLN)	Number of options	Weighted average exercise price (in PLN)
Outstanding at the beginning of the period	**23 162**	**4**	**35 218**	**4**
Granted during the period	543	-	17 376	-
Forfeited during the period	-	-	-	-
Exercised during the period*	13 412	4	27 140	4
Expired during the period	-	-	2 292	-
Outstanding at the end of the period	**10 293**	**4**	**23 162**	**4**
Exercisable at the end of the period	**-**	**-**	**-**	**-**

* In 2013, the weighted average exercise price of the shares at the option exercise date was PLN 393.13 (in 2012 PLN 263.13).

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2012 Incentive Programme for the Management Board Members of the Bank

On 7 December 2012, the Supervisory Board, in accordance with the recommendation of the Remuneration Committee, adopted Rules of the Incentive Programme at mBank S.A. which replaced the Rules of the Incentive Programme at mBank S.A. of 14 March 2008.

Under the programme, Members of the Bank's Management Board have the right to receive a bonus, including "cashless bonus" paid in the Bank's shares, including phantom shares. The net ROE of mBank S.A. Group forms the basis for acquisition by Members of the Management Board of the right to bonus and calculation of the base amount to determine the amount of bonus for a given financial year. 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 Member of the Management Board achieved the annual/multi-year business and development objective and taking into account the situations on financial markets in the last/previous financial periods. 40% of the bonus due to a Member of the Management Board 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: 12, 24 and 36 months form the date of acquiring by the Member of the Management Board the rights to the cashless bonus. 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 and assessment of work of a given Member of the Management Board for a period longer than one financial year. The Supervisory Board on the basis of recommendations issued by the Remuneration Committee may make a decision on suspending in whole or limiting the right to acquire bonds with priority right to take up the shares of the Bank in whole or in part of the deferred tranche due to the later assessment of the performance of the Member of the Management Board over a period of time longer than one financial year (i.e. for the period of at least 3 years), which takes into account the business cycle of the Bank as well as the risk related to the bank's operation, but only when the acts or omissions of the Member of the Management Board had a direct and adverse impact on the bank's financial result and market position within the assessment period. The Supervisory Board, on the basis of the recommendation of the Remuneration Committee of the Supervisory Board may make a decision on suspending in whole or decreasing the bonus amount for a given financial, as well as in the scope of the bonus or deferred tranche not paid out yet, in the situation referred to in Article 142 (1) of the Banking Law Act. Suspending in whole or decreasing the bonus, as well as any deferred tranche by the Remuneration Committee of the Supervisory Board can also apply to the bonus and/or the deferred tranche not paid out to the Member of the Management Board upon termination or expiry of the management contract.

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.

The table below presents the number of share options related to the 2012 incentive programme for Management Board Members of the Bank.

	31.12.2013	
	Number of options	Weighted average exercise price (in PLN)
Outstanding at the beginning of the period	**-**	**-**
Granted during the period	25 802	-
Forfeited during the period	-	-
Exercised during the period	-	-
Expired during the period	-	-
Outstanding at the end of the period	**25 802**	**4**
Exercisable at the end of the period	**-**	**-**

Cash Part of the Bonus

The bonus at 40% of the base amount for the year is recognised as a liability to employees and charged to the income statement in the year for which it was granted.

Share-Based Payments Settled in mBank S.A. Shares

A bonus at 60% of the base amount constitutes a payment settled in mBank S.A. shares. The cost of this part of the programme is charged to the income statement and recognised in correspondence with other reserve capital.

The cost of payments settled in shares is recognised in the income statement for the last year of the previous program, i.e. the year 2012 and as of the date of award of a new 5-year program, i.e., as of

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2013, for all years of the program (2013 – 2017) until the acquisition date of rights to the program for the year and, subsequently, until the date of the last deferred payment (payments are settled in three equal annual deferred tranches on the lapse of, respectively, 12, 24 and 36 months from the date of acquisition by the Manager of the right for a given year of the program).

This is equity-settled share-based program.

2008 Incentive Programme for Key Managers of mBank Group

On 27 October 2008 the Extraordinary General Meeting of the Bank adopted an incentive programme for the key management staff of mBank S.A. Group.

The programme participants include:

- Bank Directors;
- Representatives of key management.

They are responsible for taking decisions which have material impact on the implementation of a strategy specified by the Bank's Management Board, the Group's results, stability and security of business and development and creating added value of the organization.

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 31 December 2019. The rights under Tranche V may be exercised after meeting specified conditions concerning acquisition of rights in the period from 1 May 2014 to 31 December 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 S.A. Group specified by the Management Board and obtaining a specific appraisal by the programme participant in each year of the Tranche. In 2011 a decision was taken on suspension of the programme and not activating the remaining tranches.

Share-Based Payments Settled in mBank S.A. Shares

The cost of the programme for key managers is charged to the income statement and recognised in correspondence with other reserve capital.

The cost of payments settled in shares is recognised in the income statement as of the date of award of the program until the acquisition date of rights, i.e.:

- from23.08.2010 to 30.04.2012 for Tranche III;
- from 1.02.2011 to 30.04.2013 for Tranche IV;
- from 1.02.2011 to 30.04.2014 for Tranche V.

This is equity-settled share-based program.

The table below presents the number and weighted average exercise prices of share options related to the 2008 incentive programme for key managers of mBank Group.

	31.12.2013		31.12.2012	
	Number of options	Weighted average exercise price (in PLN)	Number of options	Weighted average exercise price (in PLN)
Outstanding at the beginning of the period	**42 785**	**4**	**49 280**	**4**
Granted during the period	1 310	-	5 390	-
Forfeited during the period	-	-	-	-
Exercised during the period	21 625	4	9 090	4
Expired during the period	1 910	-	2 795	-
Outstanding at the end of the period	**20 560**	**4**	**42 785**	**4**
Exercisable at the end of the period	**2 285**	**4**	**3 910**	**4**

Options outstanding at the end of 2013 and 2012 expire on 31 December 2019.

Employee programme for key management staff of mBank Group of 2013

On 11 April 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 in Tranches III, IV and V 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 S.A. Group with the interest of the Company and its

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shareholders and implementing in mBank S.A. Group variable components of remuneration of the persons holding managerial positions at mBank S.A. Group in accordance with the Resolution of the Polish Financial Supervision Authority.

The programme will be applied with reference to employees having a material impact on the risk profile of mBank S.A. Group, in particular Members of the Management Board of strategic subsidiaries, Bank Directors and key staff of mBank, whose decisions have a significant impact on the implementation of the strategy specified by the Bank's Management Board, results of mBank S.A. Group, growth in the value of the Bank.

Starting from Tranche VI the right granted to the Entitled Person to acquire bonds will be divided into three equal parts, which may be exercised after 12, 24 and 36 months from the date of granting this right, in accordance with the internal regulations adopted in mBank S.A. Group specifying rules of variable remuneration of the employees having a material impact on the risk profile at mBank S.A. Group.

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 by the Entitled Persons during the Programme Term, but not later than by 31 December 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 Company, 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 for the Entitled Person in the case of occurrence of the situations, referred to in Article 142 (1) of the Banking Law Act, occurrence of balance sheet loss or loss of liquidity, meeting the conditions set forth in the agreements with the program participants, forming the basis for work certificate or other services for the Bank and subsidiaries.

Cash Part of the Bonus

The bonus in the amount of 50% of the base amount for the year is recognised as a liability to employees and charged to the income statement in the year for which it was granted.

Share-Based Payments Settled in mBank S.A. Shares

As payments are settled in three equal annual deferred tranches on the lapse of, respectively, 12, 24 and 36 months from the date of acquisition by the program participants of the right for a given year of the program, the cost of this part of the programme is charged to the income statement and recognised in correspondence with other reserve capital.

This is equity-settled share-based program.

Summary of the Impact of the Programmes on the Bank's Balance Sheet and Income Statement

Share-Based Payments Settled in Shares

The table below presents changes in other reserve capital generated by the above mentioned incentive programmes for share-based payments settled in mBank S.A. shares.

	31.12.2013	31.12.2012
Incentive programs		
As at the beginning of the period	**23 867**	**20 178**
- value of services provided (Note 10)	15 759	11 365
- settlement of exercised options	(10 565)	(7 676)
As at the end of the period	**29 061**	**23 867**

Share-Based Payments Settled in Cash

The incentive programme for the Management Board of the Bank in the part comprising Commerzbank shares has no impact on other reserves as its cost is taken to the income statement in correspondence with liabilities. The value of provided services associated with this part of the programme was PLN 0 in 2013 (31 December 2012: PLN 533 thousand) (Note 10). As at 31 December 2013, liabilities due to this programme amounted to PLN 1 995 thousand (31 December 2012: PLN 2 660 thousand).

Cash Payments

The cost of the cash part of the programmes is presented in Note 10 'Overhead costs'.

44. Transactions with related entities

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

Up to 27 December 2012, the direct parent of mBank S.A. was Commerzbank Auslandsbanken Holding AG, 100% subsidiary of Commerzbank AG.

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

The Bank provides standard financial services to the Bank's key management personnel, Members of the Supervisory Board of the Bank and close members of their families, which comprise i.e.: maintaining bank accounts, taking deposits, granting loans or other financial services. In the Bank's opinion, these transactions are concluded on market terms and conditions.

Pursuant the Banking Law, the extension of a loan, cash advance, bank guarantee or other guarantee to the Members of the Management Board and Supervisory Board of the Bank, persons holding managerial positions at the Bank as well as at entities related financially or organisationally therewith, is governed by the By-Laws adopted by the Supervisory Board of mBank S.A.

The By-Laws set out detailed rules and debt limits for loans, cash advances, bank guarantees, and other guarantees in relation to aforementioned persons and entities which are consistent with the Bank's internal regulations defining the competences of granting credit decisions concerning retail and corporate clients of the Bank. A decision to grant a loan, cash advances, bank guarantee or other guarantee to a Member of the Management Board and Supervisory Board of the Bank, person holding managerial position at the Bank or an entity related financially or organisationally therewith in excess of the limits set by the Banking Law is taken by the resolution of the Management Board and by the resolution of the Supervisory Board.

The terms and conditions of such loans, cash advances, bank guarantees or other guarantees, including in particular those related to interest rates as well as fees and commissions, cannot be more advantageous than the terms and conditions offered by the Bank to its retail or corporate clients, respectively.

The table below presents the values of transactions between the Bank and companies of mBank Group and: Members of the Supervisory Board and the Management Board of mBank, key executive management of mBank, Members of the Supervisory Board and the Management Board of Commerzbank and other related persons and entities, as well as the amount of transactions with mBank subsidiaries and other Commerzbank AG Group entities. The amounts of transactions include assets, liabilities and related costs and income as at 31 December 2013 and 31 December 2012 and for the respective periods then ended are as follows:

(in PLN 000's)	Supervisory Board, Management Board and key management personnel of mBank S.A .as well as Supervisory Board and Management Board of Commerzbank AG		Other related persons *		mBank's subsidiaries		Commerzbank AG Group	
As at the end of the period	**31.12.2013**	**31.12.2012**	**31.12.2013**	**31.12.2012**	**31.12.2013**	**31.12.2012**	**31.12.2013**	**31.12.2012**
Statement of Financial Position								
Assets	24 792	12 222	32	55	7 248 639	6 260 582	930 803	902 977
Liabilities	20 298	39 818	1 862	7 129	3 798 450	2 897 981	17 916 472	20 964 962
Separate Income Statement								
Interest income	813	101	-	5	180 700	215 884	113 713	114 886
Interest expense	(1 587)	(1 266)	(80)	(258)	(78 252)	(80 253)	(343 411)	(346 592)
Commission income	10	55	3	22	71 383	65 464	-	-
Commission expense	-	-	-	-	(96 818)	(114 079)	-	-
Other operating income	-	25	-	1	11 746	16 501	320	113
Overhead costs amortization and depreciation and other operating expenses	-	(1)	-	-	(9 356)	(9 235)	(9 022)	(12 309)
Contingent liabilities granted and received								
Commitments granted	885	769	58	156	3 397 259	2 745 931	1 278 880	834 033
Commitments received	-	-	-	-	-	-	717 528	511 959

* Other related persons and entities include: close family members of Members of the Supervisory and the Management Board of mBank, key executive management of mBank, Members of the Supervisory Board and the Management Board of Commerzbank, entities controlled or jointly controlled by above mentioned persons.

In 2013 and 2012, no provisions were created in connection with credits granted to related entities.

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Management Board Remuneration

On 11 April 2013, the Supervisory Board of mBank S.A. appointed the Management Board of mBank S.A. for a joint five-year term, with the following members:

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

On 17 September 2013, mBank S.A. was informed that the Polish Financial Supervision Authority granted its consent to appoint Mrs. Lidia Jabłonowska-Luba as Vice-President of the Management Board in charge of risk management at mBank and Chief Risk Officer.

From 12 April 2013 to the date of approval by the Polish Financial Supervision Authority to appoint Mrs. Lidia Jabłonowska-Luba for the position of Vice-President of the Management Board responsible for the risk management of the Bank and for the post of Chief Risk Officer, these duties were temporarily assigned to Mr. Cezary Stypułkowski, President of the Management Board of mBank S.A.

Information on the salaries, bonuses and benefits paid and due to the Members of the Management Board of the Bank who were performing their functions at the end of 2013, as at 31 December 2013 and 31 December 2012, is presented below.

		Remuneration paid in 2013 (in PLN)			
		Basic salary	Other benefits	Bonus for 2012	Cash settlement of the incentive program based on Commerzbank shares*
1.	Cezary Stypułkowski	2 100 225	155 865	1 400 000	-
2.	Lidia Jabłonowska-Luba	872 359	162 339	-	-
3.	Przemysław Gdański	1 200 000	130 807	800 000	78 635
4.	Joerg Hessenmueller	1 263 000	161 693	620 000	-
5.	Hans-Dieter Kemler	1 202 623	414 864	600 000	80 783
6.	Cezary Kocik	1 200 000	91 802	700 000	-
7.	Jarosław Mastalerz	1 200 000	111 943	800 000	90 294
	Total	**9 038 207**	**1 229 313**	**4 920 000**	**249 712**

* The settlement relates to an incentive programme for members of the Management Board in 2008, in a part based on the shares of Commerzbank. In 2013, eligible Members of the Board received a cash equivalent for Commerzbank shares in settlement of the third tranche of the incentive programme for 2009, the second tranche of the incentive programme for 2010 and the first tranche of the incentive programme for 2011.

Remuneration of the former Management Board Members paid in the year 2013.

		Remuneration paid in 2013 (in PLN)			
		Basic salary	Other benefits, payoff and compensations	Bonus for 2012	Cash settlement of the incentive program based on Commerzbank shares*
Remuneration of the former Management Board Members who ceased performing their functions in the year 2013					
1.	Wiesław Thor	488 346	1 535 023	1 000 000	291 128
Remuneration of the former Management Board Members who ceased performing their functions in the year 2012					
1.	Christian Rhino	-	-	249 315	-
Remuneration of the former Management Board Members who ceased performing their functions in the year 2010					
1.	Mariusz Grendowicz	-	-	-	91 515
	Total	**488 346**	**1 535 023**	**1 249 315**	**382 643**

* The settlement relates to an incentive programme for members of the Bank Management Board in 2008, in a part based on the shares of Commerzbank. In 2013, entitled former Members of the Management Board received: Mr. Wiesław Thor - cash equivalent for Commerzbank shares in

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settlement of the third tranche of the incentive programme for 2009, the second and third tranche of the incentive programme for 2010 and the first, second and third tranche of the incentive programme for 2011; Mr. Mariusz Grendowicz - cash equivalent for Commerzbank shares in settlement of the second tranche of the incentive programme for 2010.

In 2013, Mr. Wiesław Thor, who acted as Vice-President of the Bank until 11 April 2013, was paid bonus for 2012 in the amount of PLN 1 000 000 thousand. In 2013, was also paid bonus for 2012 in amount of PLN 249 315 thousand for Mr. Christian Rhino who acted as the Member of the Board until 31 March 2012.

Remuneration of the Management Board Members paid in the year 2012.

		Remuneration paid in 2012 (in PLN)				
		Basic salary	Other benefits	Bonus for 2011	Cash settlement of the incentive program based on Commerzbank shares*	Supplement of bonus for 2008 **
1.	Cezary Stypułkowski	2 088 596	155 600	2 052 222	-	-
2.	Wiesław Thor	1 607 143	165 058	1 350 000	145 034	1 500 000
3.	Przemysław Gdański	1 376 190	141 275	990 000	31 884	-
4.	Joerg Hessenmueller	907 471	173 544	-	-	-
5.	Hans-Dieter Kemler	1 200 000	563 575	1 035 000	30 961	-
6.	Cezary Kocik	900 000	68 672	-	-	-
7.	Jarosław Mastalerz	1 314 286	91 373	1 170 000	135 865	400 000
	Total	**9 393 686**	**1 359 097**	**6 597 222**	**343 744**	**1 900 000**

* The settlement relates to 2008 incentive programme for the Management Board Members of the Bank in the part based on Commerzbank shares. In 2012, the entitled Management Board Members received cash equivalent for Commerzbank shares as a settlement of the third tranche of the incentive programme for 2008, second tranche of the incentive programme for 2009 and of the first tranche of the incentive programme for 2010.

** In 2012, eligible members of the Board were paid an extra amount in addition to the bonus for 2008, representing compensation for the exclusion from the calculation of bonus for 2008, the effects of one-off transaction.

Remuneration of the former Management Board Members paid in the year 2012.

		Remuneration paid in 2012 (in PLN)				
		Basic salary	Other benefits, payoff and compensations	Bonus for 2011	Cash settlement of the incentive program based on Commerzbank shares*	Supplement of bonus for 2008 **
Remuneration of the former Management Board Members who ceased performing their functions in the year 2012						
1.	Karin Katerbau	598 214	18 913	1 125 000	69 645	208 895
2.	Christian Rhino	431 571	31 871	1 080 000	483 223	208 000
Remuneration of the former Management Board Members who ceased performing their functions in the year 2010						
1.	Mariusz Grendowicz	-	-	-	91 516	-
Remuneration of the former Management Board Members who ceased performing their functions in the year 2008						
1.	Andre Carls	-	-	-	36 560	220 035
	Total	**1 029 785**	**50 784**	**2 205 000**	**680 944**	**636 930**

* The settlement relates to an incentive programme for members of the Bank Management Board in 2008, in a part based on the shares of Commerzbank. In 2012, entitled former Members of the Management Board received: Mrs. Karin Katerbau - cash equivalent for Commerzbank shares in settlement of the third tranche of the incentive programme for 2008, the second tranche of the incentive programme for 2009 and the first tranche of the incentive programme for 2010; Mr. Christian Rhino - cash equivalent for Commerzbank shares in settlement of the third tranche of the incentive programme for 2008, the second and third tranches of the incentive programme for 2009, the first, second and third tranche of the incentive programme for 2010 and first, second and third tranche of the incentive programme for 2011; Mr. Mariusz Grendowicz - cash equivalent for Commerzbank shares in settlement of the first tranche of the incentive programme for 2010, Mr. Andre Carls cash equivalent for Commerzbank shares in settlement of the third tranche of the incentive programme for 2008.

** In 2012, eligible members of the Board were paid an extra amount in addition to the bonus for 2008, representing compensation for the exclusion from the calculation of bonus for 2008, the effects of one-off transaction.

In 2012, Mrs. Karin Katerbau, who acted as V-President of the Bank until 15 April 2012, was paid bonus for 2011 in the amount of PLN 1 125 000 thousand. In 2012, was also paid bonus for 2011 in amount of

PLN 1 080 000 thousand for Mr. Christian Rhino who acted as the Member of the Board until 31 March 2012.

The total compensation of members of the Management Board consists of: basic salary, bonuses, termination payments of management agreement, prohibition of competitiveness payment, insurance costs, accommodation costs.

The above mentioned benefits are short-term employee benefits.

In accordance with the Bank's remuneration system in force, the members of the Management Board of the Bank may be eligible to receive bonuses for the year 2013, which would be paid out in 2014. As a result provision created for the cash bonus payment for the members of the Management Board for 2013 amounts to PLN 5 024 335 as of 31 December 2013. The final decision concerning the level of the bonus will be taken by the Remuneration Committee of the Supervisory Board by 31 March 2014.

In 2013 and 2012, Members of the Management Board of mBank S.A. did not receive compensation for their role as members of the management boards and supervisory boards of the Bank's related companies.

The total amount of remuneration received in 2013 by the Bank's Management Board Members was PLN 18 751 729 (2012: PLN 23 849 081).

<u>Information on the rules of payment other component of remuneration (severance payment) for the members of the Management Board</u>

From the date of appointment of the members of the Management Board for the new term, i.e. from the date of General Shareholders Meeting approving the financial results for the year 2012 all members of the Management Board, in case of cancellation the managers from the Management Board before the expiration of the term, have got the severance payment in the amount which depends on years spent with the organization and is calculated as follows: (i) 4 monthly salaries if the member held his post for a period shorter than 1 year, (ii) 8 monthly salaries if the member held his position for more than 1 year but less than 2 years and (iii) 12 monthly salaries if the member held his post for more than 2 but less than 5 years, (iv) 18 monthly salaries if the member held his post for more than 5 years. If not appointed for next term of the office, the Management Board members are entitled to severance in the amount of 12 monthly salaries.

<u>Supervisory Board Compensation</u>

The composition of the Supervisory Board of mBank S.A. at the end of 2013 was as follows:

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

On 11 April 2013, the XXVI Ordinary General Meeting of mBank S.A. appointed with the effect from 12 April 2013, Mr. Wieslaw Thor and Mr. Martin Blessing for the post of Members of the Supervisory Board of mBank S.A. for the joint term of office of the Supervisory Board of mBank S.A. Until 11 April 2013, Mr. Wieslaw Thor posted as Vice President of the Management Board, Chief Risk Officer.

On 13 November 2013, Mr Maciej Leśny, Chairman of the Supervisory Board, received from Mr Ulrich Sieber, Member of the Supervisory Board and Deputy Chairman, a letter of resignation from his function as of 30 November 2013. The resignation is related to termination the mandate of Mr Sieber as a Member of the Management Board of Commerzbank AG, of which Commerzbank AG announced in its public information on 6 November 2013.

On 12 December 2013, the Supervisory Board of mBank S.A. appointed Mr Martin Zielke as Member of the Supervisory Board of mBank S.A. effective as of 12 December 2013 for the common term of the Supervisory Board.

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Information about the Supervisory Board members' salaries, bonuses and benefits paid as at 31 December 2013 and 31 December 2012 is presented below.

		Remuneration paid in 2013 (in PLN)	Remuneration paid in 2012 (in PLN)
1.	Maciej Leśny	365 832	355 430
2.	Andre Carls	252 000	246 750
3.	Stephan Engels	216 000	162 000
4.	Thorsten Kanzler	216 000	211 500
5.	Teresa Mokrysz	220 054	215 399
6.	Waldemar Stawski	221 231	216 530
7.	Jan Szomburg	221 231	216 530
8.	Dirk Wilhelm Schuh	216 000	93 273
9.	Marek Wierzbowski	144 000	141 000
10.	Martin Blessing	-	-
11.	Wiesław Thor	109 680	-
12.	Martin Zielke	-	-
	Ulrich Sieber*	188 500	254 250
	Eric Strutz**	-	49 500
	Sascha Klaus***	-	121 500
	Total	**2 370 528**	**2 283 662**

* On 30 November 2013, Mr. Urlich Sieber resigned from the office

** On 13 February 2012, Mr. Eric Strutz resigned from the office

*** On 25 July 2012, Mr. Sascha Klaus resigned from the office.

In accordance with the wording of paragraph 11(j) of the By-laws of mBank S.A., the General Meeting determines remuneration for members of the Supervisory Board in a resolution. Remuneration of the Management Board members is determined by the Supervisory Board (paragraph 22.1(e) of the By-laws of mBank S.A.

The total compensation of Members of the Supervisory Board, the Management Board and other key executive management of the Bank that perform their duties in 2013 amounted to PLN 25 275 930 (2012: PLN 34 654 944).

<u>Information regarding proprietary position in Bank shares by the Members of the Management Board and by the Members of the Supervisory Board</u>

As at 31 December 2013, the Bank shares were held by one Member of the Management Board, Mr. Przemysław Gdański – 1 000 shares.

As at 31 December 2012, the Bank shares were held by one Member of the Management Board, Mr. Przemysław Gdański – 1 086 shares.

As at 31 December 2013, the Bank shares were held by one Member of the Supervisory Board of mBank S.A., Mr. Wiesław Thor – 6 463 shares.

As at 31 December 2012, the Members of the Supervisory Board of the Bank had no Bank's shares.

45. Acquisitions and disposals

At the turn of Q2 and Q3 2013, the liquidation process of the company MLV 35 Sp. z o.o. spółka komandytowo-akcyjna was ended. The company was removed from the Register of Entrepreneurs (KRS) on 3 September 2013.

In November 2013, mBank S.A. acquired 100% shares of BDH Development Sp. z o.o. The company's core business is implementation and completion of development projects on the basis of residential property taken over by mBank S.A. Group through restructuring and recovery of investment loans, in order to recover the greatest possible value of the real estate taken over.

46. Information about the registered audit company

The registered audit company with whom mBank S.A. signed an agreement is Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. The agreement to conduct an audit of stand-alone financial statements of mBank S.A. and consolidated financial statements of mBank S.A. Group was signed on 20 May 2013.

The choice of a new auditor to audit the financial statements of mBank S.A. and consolidated financial statements of mBank S.A. Group for the years 2013 and 2014 had been made on 11 April 2013 by XXVI Annual General Meeting of mBank S.A., acting under section 11 letter. n) of the By-Lows of the Bank.

The total amount of Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. gross remuneration related to the audit and review of stand-alone financial statements and consolidated financial statements of mBank S.A. was PLN 2 558 thousand in 2013.

In 2013, the total amount of remaining gross remuneration paid to Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. in respect of other services for mBank S.A. was PLN 95 thousand.

In addition, in 2013 the company PricewaterhouseCoopers Sp. z o.o., the previous auditor of mBank S.A., was paid the gross remuneration in the amount of PLN 332 thousand for the audit and review of financial statements and consolidated financial statements of mBank S.A. and the gross remuneration for other services to mBank S.A. in the amount of PLN 1 046 thousand.

In 2012, the registered audit company with which mBank S.A. signed an agreement was PricewaterhouseCoopers Sp. z o.o., and the total amount of gross remuneration related to the audit and review of stand-alone financial statements and consolidated financial statements of mBank S.A. was PLN 3 005 thousand.

In 2012, the total amount of PricewaterhouseCoopers Sp. z o.o. remuneration related to consulting services for mBank S.A. was PLN 1 546 thousand.

47. Capital adequacy ratio / capital adequacy

One of the main tasks of the balance sheet management is to ensure an appropriate level of capital. Within the framework of the capital management policy of mBank S.A., Bank prepares the guidelines for the most effective planning and utilisation of capital basis which:

- are compliant with external and internal regulations in force,
- guarantee a continuity of financial targets achievement, which render an appropriate rate of return for shareholders,
- ensure the maintenance of a strong capital basis being of fundamental support for business development.

The capital management policy in mBank S.A. is based on:

1. Maintenance of an optimal level and structure of own funds with the application of available methods and means (retention of net profit, subordinated loan, issue of shares, etc.),
2. Effective utilisation of existing capital, among others through application of a set of measures of effective utilisation of the capital, limitation of activities that do not provide an expected rate of return and development of products with lower capital absorption.

Effective utilisation of capital is an integral part of the capital management policy oriented at reaching an optimal rate of return on capital and, as a result, forming a stable fundament of reinforcement of the capital basis in future periods. This enables to maintain the capital adequacy ratio (calculated as a quotient of own funds to the total capital requirement multiplied by 12.5,) at least on the level required by the supervision authority (the Polish Financial Supervision Authority - KNF).

The strategic goals of mBank S.A. are aimed at maintaining the capital adequacy ratio above 15% and Tier 1 capital adequacy ratio above 12%.

Capital adequacy ratio

The calculation of the capital adequacy ratio, own funds and total capital requirement in mBank S.A. is made according to the following regulations:

- Banking Act of 29 August 1997 (Dz.U. from the year 2002 No 72, item 665) with further amendments,
- Resolution No. 325/2011 of the Polish Financial Supervision Authority of 20 December 2011 (Dz. Urz. KNF from 2011 No 13 item 49),
- Resolution No. 76/2010 of the Polish Financial Supervision Authority of 10 March 2010 (Dz. Urz. KNF from 2010 No 2 item 11) with further amendments,
- Resolution No. 258/2011 of the Polish Financial Supervision Authority of 4 October 2011 (Dz. Urz. KNF from 2011 No 11 item 42),
- Resolution No. 208/2011 of the Polish Financial Supervision Authority of 22 August 2011 (Dz. Urz. KNF from 2011 No 9 item 34) with further amendments,

- Resolution No. 384/2008 of the Polish Financial Supervision Authority of 17 December 2008 (Dz. Urz. KNF from 2008 No 8 item 38) with further amendments,
- Resolution No. 387/2008 of the Polish Financial Supervision Authority of 17 December 2008 (Dz. Urz. KNF from 2008 No 8 item 41).

Own funds contain:

- required capital including:
  - principal funds (paid-up and registered capital, capital surplus and reserve capital, excluding any liabilities due to preference shares),
  - additional items of required capital (a general risk reserve held against unidentified risk arising from banking activity, prior period undistributed profit, profit under authorisation and net profit from the current reporting period, calculated in accordance with current accounting principles, reduced by the expected burdens and dividends, in the amounts not higher than the amount of profit verified by external auditors and other items specified by the KNF),
  - items deducted from required capital (own shares in possession of the bank, priced at the balance sheet value including impairment losses, intangible assets priced at balance sheet value, prior period losses, loss pending confirmation, current period net losses and other deductions from the required capital specified by KNF),
- supplementary funds including:
  - balance sheet items included in supplementary funds with the consent of the KNF (including subordinated debts, liabilities resulting from securities of unspecified maturity and other similar instruments),
  - additional items of supplementary funds specified by KNF,
  - items specified by KNF, the aim of which is to carry out safe activity and to correctly manage risk,
  - deductions of supplementary funds specified by KNF.

The total capital requirement contains (while assuming the possession of a trading book) capital requirements for:

- credit risk,
- market risk, including the total requirement for foreign exchange risk, commodity price risk, equity price risk, specific risk of debt instrument prices and general interest rate risk,
- settlement, delivery and counterparty risk,
- excess of the exposure concentration limit,
- excess of qualified holdings,
- operational risk.

Starting from 31 December 2012 in calculation of capital adequacy ratio of mBank S.A. the total capital requirement is determined taking into account capital requirement for credit risk with the application of the A-IRB approach according to the annex No. 5 to the Resolution No. 76/2010 of KNF of 10 March 2010 (with further amendments) and is maintained at the level based on 80% of the total capital requirement determined taking into account the capital requirement for credit risk calculated under the standardised approach according to the article 14 of Resolution No. 76/2010 of KNF of 10 March 2010 (with further amendments). Additionally own funds are calculated with the application of the deduction derived from the A-IRB approach.

The total capital requirement of mBank S.A. as of 31 December 2013 amounted to PLN 4 027 354 thousand, including PLN 3 378 946 thousand of capital requirement for credit risk.

The capital adequacy ratio of mBank S.A. as of 31 December 2013 amounted to 20.59%. Additionally the Tier 1 capital adequacy ratio of mBank S.A. amounted to 14.99%.

Data relating to the capital adequacy ratio for comparative periods has not been restated. In the Bank's opinion, capital adequacy ratio is a regulatory and not accounting measure and should not be subject to retrospective conversion. Apart of this, any retrospective restatement of calculating capital adequacy ratios would not affect significantly their level.

Internal capital

mBank S.A. adjusts the own funds to the level and the type of risk, the Bank is exposed to, and to the nature, the scale and the complexity of its business activity. For that purpose, the ICAAP process (Internal Capital Adequacy Assessment Process) was prepared and implemented in Bank, the aim of which is to maintain the own funds at the level adequate to the risk profile and the risk level of the activity of the Bank.

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The internal capital is the amount of capital estimated by mBank S.A. to cover all material risks identified in the activity of the Bank. The internal capital is the total sum of the economic capital to cover the kinds of risk included in the process of the economic capital calculation and the capital required to cover other kinds of risk (including difficult to measure kinds of risk).

The internal capital adequacy assessment process is continuous in mBank S.A. and is composed of six stages implemented by organizational units of the Bank.

The process includes:

- stock-taking of risk in the activity of Bank,
- calculation of internal capital for coverage of risk,
- capital aggregation,
- stress tests,
- planning and allocation of economic capital to business lines of the Bank,
- monitoring consisting in a permanent identification of risk involved in the activity of the Bank and the analysis of the level of capital for risk coverage.

The internal capital adequacy assessment process is accepted by the Supervisory Board of mBank S.A. The whole internal capital adequacy assessment process is reviewed annually. The Management Board of mBank S.A. is responsible for the internal capital adequacy assessment process.

Due to the fact that both, the total capital requirement of mBank S.A. calculated according to the Resolution No. 76/2010 (with further amendments) and the internal capital estimated by mBank S.A. according to the Resolution No. 258/2011 are lower than mBank S.A. own funds, the own funds of mBank S.A. as of 31 December 2013 were kept on the level consistent with the requirements of the Banking Act.

Capital adequacy	31.12.2013	31.12.2012
Own funds:		
- Share capital	168 696	168 556
- Supplementary fund	7 109 097	6 360 467
- Reserve fund	902 915	949 010
- Unrealised gains and losses on available for sale financial instruments and exchange differences from conversion	284 454	456 646
- Profit for the current year	220 446	600 647
- Investments in financial institutions	(603 957)	(893 075)
- Additional decrease	(166 855)	(243 212)
- Intangible assets	(408 784)	(389 325)
- Subordinated liabilities	2 860 834	3 217 460
I. Total own funds	**10 366 846**	**10 227 174**
Capital charges		
II. Credit risk, including	**3 378 946**	**3 710 664**
- with application of standardised approach	1 226 128	1 065 389
- with application of AIRB approach	2 152 818	2 645 275
III. Foreign exchange risk	**-**	**-**
IV. Equity position risk	**3 794**	**1 768**
V. Specific risk of debt instruments	**29 115**	**32 739**
VI. General interest rate risk	**40 190**	**26 903**
VII. Settlement, delivery and counterparty credit risk	**40 516**	**38 623**
VIII. Commodity risk	**-**	**-**
IX. Operational risk	**389 348**	**350 408**
X. Other and transitional capital requirements	**145 445**	**-**
XI. Total capital charge	**4 027 354**	**4 161 105**
XII. Total risk exposure amount	**50 341 925**	**52 013 813**
XIII. Capital adequacy ratio (%)	**20.59%**	**19.66%**
XIV. Internal capital	**3 435 896**	**3 369 401**

48. Events after the balance sheet date

After balance sheet date, significant events did not occur in the Bank.