mBank S.A. Group

IFRS Consolidated Financial Statements 2013

Selected financial data

The selected financial data are supplementary information to these Consolidated Financial Statements of mBank S.A. Group 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	3 949 971	4 523 117	938 013	1 083 745
II.	Fee and commission income	1 303 834	1 216 879	309 626	291 566
III.	Net trading income	342 978	356 542	81 448	85 428
IV.	Operating profit	1 517 703	1 464 808	360 414	350 970
V.	Profit before income tax	1 517 703	1 464 808	360 414	350 970
VI.	Net profit attributable to Owners of mBank S.A.	1 206 375	1 197 321	286 482	286 880
VII.	Net profit attributable to non-controlling interests	2 603	581	618	139
VIII.	Net cash flows from operating activities	(871 524)	3 551 574	(206 964)	850 962
IX.	Net cash flows from investing activities	(146 971)	(216 342)	(34 902)	(51 836)
X.	Net cash flows from financing activities	(2 846 202)	(400 979)	(675 897)	(96 075)
XI.	Net increase / decrease in cash and cash equivalents	(3 864 697)	2 934 253	(917 762)	703 051
XII.	Basic earnings per share (in PLN/EUR)	28.62	28.43	6.80	6.81
XIII.	Diluted earnings per share (in PLN/EUR)	28.61	28.40	6.79	6.80
XIV.	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	104 282 761	102 144 983	25 145 342	24 985 319
II.	Amounts due to the Central Bank	-	-	-	-
III.	Amounts due to other banks	19 224 182	21 110 939	4 635 461	5 163 871
IV.	Amounts due to customers	61 673 527	57 983 600	14 871 124	14 183 161
V.	Equity attributable to Owners of mBank S.A.	10 229 342	9 594 430	2 466 566	2 346 859
VI.	Non-controlling interests	27 096	24 491	6 534	5 991
VII.	Share capital	168 696	168 556	40 677	41 230
VIII.	Number of shares	42 174 013	42 138 976	42 174 013	42 138 976
IX.	Book value per share (in PLN/EUR)	242.55	227.69	58.49	55.69
X.	Capital adequacy ratio	19.38	18.73	19.38	18.73

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

- for items of the consolidated 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 consolidated 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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IFRS Consolidated Financial Statements 2013 PLN (000's)

Consolidated income statement

	Note	Year ended 31 December	
		2013	2012 restated
Interest income	6	3 949 971	4 523 117
Interest expense	6	(1 724 160)	(2 243 520)
Net interest income		**2 225 811**	**2 279 597**
Fee and commission income	7	1 303 834	1 216 879
Fee and commission expense	7	(469 096)	(430 333)
Net fee and commission income		**834 738**	**786 546**
Dividend income	8	26 856	13 902
Net trading income, including:	9	342 978	356 542
Foreign exchange result		*282 545*	*324 006*
Other net trading income and result on hedge accounting		*60 433*	*32 536*
Gains less losses from investment securities, investments in subsidiaries and associates	23	78 578	44 966
Other operating income	10	374 821	275 721
Net impairment losses on loans and advances	13	(477 778)	(444 635)
Overhead costs	11	(1 490 153)	(1 465 714)
Amortisation	24,25	(187 890)	(195 617)
Other operating expenses	12	(210 258)	(186 500)
Operating profit		**1 517 703**	**1 464 808**
Profit before income tax		**1 517 703**	**1 464 808**
Income tax expense	14	(308 725)	(266 906)
Net profit		**1 208 978**	**1 197 902**
Net profit attributable to:			
- Owners of mBank S.A.		1 206 375	1 197 321
- Non-controlling interests		2 603	581

Net profit attributable to Owners of mBank S.A.		**1 206 375**	**1 197 321**
Weighted average number of ordinary shares	15	**42 155 456**	**42 118 904**
Basic earnings per share (in PLN)	15	**28.62**	**28.43**
Weighted average number of ordinary shares for diluted earnings	15	**42 167 491**	**42 158 632**
Diluted earnings per share (in PLN)	15	**28.61**	**28.40**

Notes presented on pages 10–130 constitute an integral part of these Consolidated Financial Statements.

IFRS Consolidated Financial Statements 2013 PLN (000's)

Consolidated statement of comprehensive income

	Note	Year ended 31 December	
		2013	2012 restated
Net profit		**1 208 978**	**1 197 902**
Other comprehensive income net of tax, including:	16	**(165 942)**	**422 223**
Items that may be reclassified subsequently to the the income statement		**(165 233)**	**421 998**
Exchange differences on translation of foreign operations (net)		(2 116)	(1 815)
Change in valuation of available for sale financial assets (net)		(163 117)	423 813
Items that will not be reclassified to the income statement		**(709)**	**225**
Actuarial gains and losses relating to post-employment benefits (net)		(709)	225
Total comprehensive income (net)		**1 043 036**	**1 620 125**
Total comprehensive income (net), attributable to:			
- Owners of mBank S.A.		1 040 433	1 619 544
- Non-controlling interests		2 603	581

IFRS Consolidated Financial Statements 2013 PLN (000's)

Consolidated statement of financial position

ASSETS	Note	31.12.2013	31.12.2012 restated	01.01.2012 restated
Cash and balances with the Central Bank	17	1 650 467	4 819 203	1 038 356
Loans and advances to banks	18	3 471 241	3 944 578	4 008 874
Trading securities	19	763 064	1 150 886	1 477 022
Derivative financial instruments	20	2 349 585	2 802 695	1 506 595
Loans and advances to customers	22	68 210 385	66 946 830	67 746 110
Hedge accounting adjustments related to fair value of hedged items	21	970	2 439	1 924
Investment securities	23	25 341 763	19 993 388	20 551 272
Intangible assets	24	455 345	436 123	436 769
Tangible assets	25	709 552	773 904	832 455
Current income tax assets		7 332	129	4 728
Deferred income tax assets	33	370 821	391 182	327 079
Other assets	26	952 236	883 626	859 084
Total assets		**104 282 761**	**102 144 983**	**98 790 268**
LIABILITIES AND EQUITY				
Liabilities				
Amounts due to the Central Bank		-	-	-
Amounts due to other banks	27	19 224 182	21 110 939	27 390 809
Derivative financial instruments	20	2 459 715	3 476 684	1 862 747
Amounts due to customers	28	61 673 527	57 983 600	54 244 388
Debt securities in issue	29	5 402 056	4 892 275	1 735 988
Hedge accounting adjustments related to fair value of hedged items	21	(4 349)	4 220	-
Other liabilities	31	1 267 672	1 394 845	1 723 856
Current income tax liabilities		9 581	226 215	235 568
Deferred income tax liabilities	33	2 954	1 662	258
Provisions	32	228 228	213 327	153 168
Subordinated liabilities	30	3 762 757	3 222 295	3 456 200
Total liabilities		**94 026 323**	**92 526 062**	**90 802 982**
Equity				
Equity attributable to Owners of mBank S.A.		**10 229 342**	**9 594 430**	**7 963 376**
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	**6 398 937**	**5 608 788**	**4 407 778**
- Profit from the previous years		5 192 562	4 411 467	4 407 778
- Profit for the current year		1 206 375	1 197 321	-
Other components of equity	40	**318 067**	**484 009**	**61 786**
Non-controlling interests		**27 096**	**24 491**	**23 910**
Total equity		**10 256 438**	**9 618 921**	**7 987 286**
Total liabilities and equity		**104 282 761**	**102 144 983**	**98 790 268**
Capital adequacy ratio *)	47	**19.38**	**18.73**	**14.96**
Book value		**10 229 342**	**9 594 430**	**7 963 376**
Number of shares		**42 174 013**	**42 138 976**	**42 102 746**
Book value per share (in PLN)		**242.55**	**227.69**	**189.14**

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

Notes presented on pages 10–130 constitute an integral part of these Consolidated Financial Statements.

IFRS Consolidated Financial Statements 2013 PLN (000's)

Consolidated statement of changes in equity

Changes in equity from 1 January to 31 December 2013

	Note	Share capital		Retained earnings					Other components of equity			Equity attributable to Owners of mBank S.A., total	Non-controlling interests	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 attributable to Owners of mBank S.A.	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**	**3 353 504**	**94 863**	**945 953**	**1 214 468**	**-**	**106**	**483 678**	**225**	**9 594 430**	**24 491**	**9 618 921**
Total comprehensive income	16							**1 206 375**	**(2 116)**	**(163 117)**	**(709)**	**1 040 433**	**2 603**	**1 043 036**
Dividends paid	41	-	-	-	-	-	(421 420)	-	-	-	-	(421 420)	-	(421 420)
Transfer to General Risk Fund	39	-	-	-	-	44 000	(44 000)	-	-	-	-	-	-	-
Transfer to supplementary capital		-	-	764 808	-	-	(764 808)	-	-	-	-	-	-	-
Issue of shares	37,38	140	-	-	-	-	-	-	-	-	-	140	-	140
Other changes		-	-	-	-	-	-	-	-	-	-	-	2	2
Stock option program for employees	43	-	10 565	-	5 194	-	-	-	-	-	-	15 759	-	15 759
- value of services provided by the employees		-	-	-	*15 759*	-	-	-	-	-	-	*15 759*	-	*15 759*
- settlement of exercised options		-	*10 565*	-	*(10 565)*	-	-	-	-	-	-	-	-	-
Equity as at 31 December 2013		**168 696**	**3 343 642**	**4 118 312**	**100 057**	**989 953**	**(15 760)**	**1 206 375**	**(2 010)**	**320 561**	**(484)**	**10 229 342**	**27 096**	**10 256 438**

Changes in equity from 1 January to 31 December 2012

	Note	Share capital		Retained earnings					Other components of equity			Equity attributable to Owners of mBank S.A., total	Non-controlling interests	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 attributable to Owners of mBank S.A.	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**	**2 334 675**	**81 174**	**841 953**	**1 235 355**	**-**	**1 921**	**59 865**	**-**	**8 048 755**	**23 910**	**8 072 665**
- changes to accounting policies	2.33	-	-	-	-	-	(85 379)	-	-	-	-	(85 379)	-	(85 379)
Equity as at 1 January 2012 - restated		**168 411**	**3 325 401**	**2 334 675**	**81 174**	**841 953**	**1 149 976**	**-**	**1 921**	**59 865**	**-**	**7 963 376**	**23 910**	**7 987 286**
Total comprehensive income	16							**1 197 321**	**(1 815)**	**423 813**	**225**	**1 619 544**	**581**	**1 620 125**
Transfer to General Risk Fund	39	-	-	-	-	104 000	(104 000)	-	-	-	-	-	-	-
Transfer to reserve capital		-	-	-	10 000	-	(10 000)	-	-	-	-	-	-	-
Transfer to supplementary capital		-	-	1 018 829	-	-	(1 018 829)	-	-	-	-	-	-	-
Issue of shares	37,38	145	-	-	-	-	-	-	-	-	-	145	-	145
Stock option program for employees	43	-	7 676	-	3 689	-	-	-	-	-	-	11 365	-	11 365
- value of services provided by the employees		-	-	-	*11 365*	-	-	-	-	-	-	*11 365*	-	*11 365*
- settlement of exercised options		-	*7 676*	-	*(7 676)*	-	-	-	-	-	-	-	-	-
Equity as at 31 December 2012 - restated		**168 556**	**3 333 077**	**3 353 504**	**94 863**	**945 953**	**17 147**	**1 197 321**	**106**	**483 678**	**225**	**9 594 430**	**24 491**	**9 618 921**

Notes presented on pages 10–130 constitute an integral part of these Consolidated Financial Statements.

IFRS Consolidated Financial Statements 2013 PLN (000's)

Consolidated statement of cash flows

	Note	Year ended 31 December	
		2013	2012 restated
A. Cash flows from operating activities		**(871 524)**	**3 551 574**
Profit before income tax		**1 517 703**	**1 464 808**
Adjustments:		***(2 389 227)***	***2 086 766***
Income taxes paid		(462 013)	(400 918)
Amortisation	10,24,25	239 684	247 174
Foreign exchange (gains) losses related to financing activities		40 555	(1 745 708)
(Gains) losses on investing activities		(13 600)	(10 226)
Impairment of investments in subsidiaries		452	3 113
Dividends received	8	(26 856)	(13 902)
Interest income (income statement)	6	(3 949 971)	(4 523 117)
Interest expense (income statement)	6	1 724 160	2 243 520
Interest received		4 270 272	4 910 471
Interest paid		(1 699 052)	(1 925 700)
Changes in loans and advances to banks		167 234	(597 811)
Changes in trading securities		(220 203)	(522)
Changes in assets and liabilities on derivative financial instruments		(535 158)	363 992
Changes in loans and advances to customers		(1 420 900)	530 104
Changes in investment securities		(5 556 326)	1 052 363
Changes in other assets		(87 423)	(39 754)
Changes in amounts due to other banks		1 749 394	(1 826 692)
Changes in amounts due to customers		3 308 924	3 788 701
Changes in debt securities in issue		178 988	226 181
Changes in provisions		14 901	60 159
Changes in other liabilities		(112 289)	(254 662)
Net cash generated from operating activities		**(871 524)**	**3 551 574**
B.Cash flows from investing activities		**(146 971)**	**(216 342)**
Investing activity inflows		**69 536**	**50 609**
Disposal of shares in subsidiaries, net of cash disposed		2	13 200
Disposal of intangible assets and tangible fixed assets		29 264	23 507
Dividends received	8	26 856	13 902
Other investing inflows		13 414	-
Investing activity outflows		**216 507**	**266 951**
Acquisition of shares in subsidiaries		18	102
Purchase of intangible assets and tangible fixed assets		216 488	266 849
Other investing outflows		1	-
Net cash used in investing activities		**(146 971)**	**(216 342)**
C. Cash flows from financing activities		**(2 846 202)**	**(400 979)**
Financing activity inflows		**2 743 526**	**7 139 339**
Proceeds from loans and advances from other banks		82 356	84 254
Proceeds from other loans and advances		636 430	-
Issue of debt securities		1 524 600	7 054 940
Increase of subordinated liabilities	30	500 000	-
Issue of ordinary shares		140	145
Financing activity outflows		**5 589 728**	**7 540 318**
Repayments of loans and advances from other banks		3 729 163	3 133 894
Repayments of other loans and advances		239 751	10 542
Redemption of debt securities		1 156 900	4 039 165
Acquisition of shares in subsidiaries - increase of involvement		2 000	-
Payments of financial lease liabilities		448	382
Dividends and other payments to shareholders		421 420	-
Interest paid from loans and advances received from other banks and from subordinated liabilities		40 046	356 335
Net cash generated from financing activities		**(2 846 202)**	**(400 979)**
Net increase / decrease in cash and cash equivalents (A+B+C)		**(3 864 697)**	**2 934 253**
Effects of exchange rate changes on cash and cash equivalents		(27 980)	(31 147)
Cash and cash equivalents at the beginning of the reporting period		7 578 317	4 675 211
Cash and cash equivalents at the end of the reporting period	42	**3 685 640**	**7 578 317**

Notes presented on pages 10–130 constitute an integral part of these Consolidated Financial Statements.

Explanatory notes to the consolidated financial statements

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

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

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

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

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

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

As at 31 December 2013, mBank S.A. Group covered by the Consolidated Financial Statements comprised the following companies:

mBank S.A., the parent entity

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

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

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

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

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

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

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

As at 31 December 2013 the headcount of mBank S.A. amounted to 4 696 FTEs (Full Time Equivalents) and of the Group to 6 073 FTEs (31 December 2012: Bank 4 728 FTEs, Group 6 138 FTEs).

As at 31 December 2013 the employment in mBank S.A. was 5 681 persons and in the Group 7 826 persons (31 December 2012: Bank 5 703 persons, Group 8 034 persons).

In connection with the change of the name of the Bank, most of mBank S.A. companies also changed their names by entering the prefix "m". BRE Faktoring changed its name to mFaktoring, BRE Leasing to mLeasing, BRE Bank Hipoteczny to mBank Hipoteczny, BRE Wealth Management to mWealth Management, BRE Centrum Operacji to mCentrum Operacji, BRE.locum to mLocum and Dom Inwestycyjny BRE Banku is currently Dom Maklerski mBanku.

The business activities of the Group are conducted in the following business segments presented in detail in Note 5.

Corporates and Financial Markets Segment, including:

Corporates and Institutions

- mFaktoring S.A., subsidiary

The company operates in Poland and provides factoring services for domestic, export and import transactions. It is a member of the Polish Factors Association and Factors Chain International. mBank holds an indirect stake (through MLV 45 Sp. z o.o. spółka komandytowa, its subsidiary) of 100% of the share capital and 100% of votes at the General Meeting of the company.

- mLeasing Sp. z o.o., subsidiary

The company's core business is to lease chattels such as: machinery, equipment, technology lines, passenger cars, vans and trucks, tractors, trailers and semi-trailers, buses, vehicles, special equipment, ships, aircraft, rolling stock, office equipment, computer hardware. mLeasing's offer for corporate clients includes leasing of real estate, mainly offices, hotels, warehouses and logistics centres, petrol stations, public buildings and municipal infrastructure. The company has a network of offices in the largest cities of Poland. mBank holds indirectly through its subsidiary MLV 45 Sp. z o.o. spółka komandytowa 100% shares of mLeasing.

- Garbary Sp. z o.o., subsidiary

The only business of the company is to administer the buildings of a former meat factories located at 101/111 Garbary St. in Poznań.

- MLV 45 Sp. z o.o. spółka komandytowa, subsidiary

The company was founded as a result of the transformation of BRE Holding Sp. z o.o. into commandite company. The company's assets consists of 100% shares of mLeasing Sp. z o.o., 100% shares of mFaktoring S.A., 75.71% shares of mBank Hipoteczny S.A. and 79.99% shares of mLocum S.A.

- Transfinance a.s., subsidiary

Transfinance a.s. provides factoring services to small and medium-sized enterprises in the Czech Republic. Its services include domestic and international factoring. The core business of the company also includes purchase of collections, letters of credit, bank guarantees, as well as forfeiting. The Bank holds 100% of Transfinance's shares.

Trading and Investment

- BRE Finance France S.A., subsidiary

The core business of the company is to raise funds for the Bank by issuing euro-notes on international financial markets. In October 2012, the company issued Eurobonds with a nominal value of EUR 500 000 thousand with maturity date in 2015. In 2013, the company has issued the following tranches of Eurobonds maturing in 2018: nominal value of CHF 200 000 thousand and the nominal value of CZK 500 000 thousand.

- Dom Maklerski mBanku S.A., subsidiary

The company's core business is to provide services related to trading in securities, rights in property other than securities, and other financial instruments on the capital market in accordance with the applicable law and the licences held by the company.

Retail Banking Segment (including Private Banking)

- Aspiro S.A., subsidiary

Aspiro S.A. offers mBank S.A. and third party banks' products. Its offer includes mortgage loans, business products, cash loans, insurance products and leasing. It has a national distribution network comprising 24 Stationary Financial Centres, 21 Mobile Financial Centres, 68 mKiosks, including 6 Partner mKiosks.

- mBank Hipoteczny S.A., subsidiary

The core business of mBank Hipoteczny S.A. is to grant mortgage loans to finance commercial real estate, residential development projects and local government investments. The company issues mortgage and public bonds to finance its lending operation.

- mWealth Management S.A., subsidiary

The company's core business is to provide comprehensive wealth management services. In 2011, a new business model focused on offering investment related advice was implemented. The Company continues its strategic direction communicated as a change in the offer "From Asset Manager for Wealth Manager." The new model provides advice on all assets, financial and non-financial, focusing on client business plans and assistance in this regard.

- BRE Ubezpieczenia TUiR S.A., subsidiary, insurer

The core business of the company is insurance activity within the scope of the second division of underwriting – property and casualty insurance. The company sells its products through the Internet platform developed in cooperation with retail branches of the Bank. Also, typical products known as bancassurance for customers of the Bank are sold via an insurance agent, the company BRE Ubezpieczenia Sp. z o.o. The Bank holds indirectly, through its subsidiary Aspiro S.A., 100% of the company's shares.

- BRE Ubezpieczenia Sp. z o.o., subsidiary, insurance agent

The core business of the company involves services provided as an insurance agent and services within the scope of settlements due to insurance agreements of insured persons. Its direct parent entity is BRE Ubezpieczenia TUiR SA. The Bank holds indirectly, through its subsidiary Aspiro S.A., 100% of the company's shares.

- BRE Agent Ubezpieczeniowy Sp. z o.o., subsidiary, insurance agent

The core business of the company is to provide services as an insurance agent within the scope of settlements and administration of the low contribution insurance contracts in credits. Its direct parent entity is BRE Ubezpieczenia TUiR SA. The Bank holds indirectly, through its subsidiary Aspiro S.A., 100% of the company's shares.

Other

- mCentrum Operacji Sp. z o.o., subsidiary

The core business of the company is i.a. providing services in the field of data and document management, as well as an electronic archive, a traditional archive, business processes and transaction banking.

- mLocum S.A., subsidiary

mLocum S.A. is a property developer operating in the primary market of residential real estate. The company develops and assesses investment projects; arranges, supervises and manages building designs and construction work; acts as a 'substitute investor'; sources funds for investment. The Bank holds indirectly, through MLV 45 Sp. z o.o spółka komandytowa, 79.99% of the shares of the company.

- BDH Development Sp. z o.o., subsidiary

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. The Bank holds 100% of the shares of the company.

Other information concerning companies of the Group

From the beginning of 2013, there was a change in the assignment to a segment of mBank Hipoteczny. The company was assigned to the Retail Banking Segment (previously was part of Trading and Investment).

In June 2013, the Group ceased to consolidate the subsidiary MLV 35 Sp. z o.o. spółka komandytowo-akcyjna in connection with its liquidation process. On July 15, 2013, the request was filed to remove the company from the register of companies (KRS), which took place on 3 September 2013.

In the third quarter of 2013, BRE Holding Sp. z o.o. was transformed into MLV 45 Sp. z o.o. spółka komandytowa. The transformation was related to the planned creation of the Capital Tax Group within the mBank S.A. Group.

In November 2013, mBank S.A. acquired 100% shares in BDH Development Sp. z o.o. The company was consolidated with the full method.

Information concerning the business conducted by the Group's entities is presented under Note 5 'Business Segments' of these Consolidated Financial Statements.

IFRS Consolidated Financial Statements 2013 PLN (000's)

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

Company	31.12.2013		31.12.2012	
	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method
Aspiro S.A.	100%	full	100%	full
BDH Development Sp. z o.o.	100%	full	-	-
BRE Agent Ubezpieczeniowy Sp. z o.o.	100%	full	100%	full
BRE Ubezpieczenia Sp. z o.o.	100%	full	100%	full
BRE Ubezpieczenia TUiR S.A.	100%	full	100%	full
Dom Maklerski mBanku S.A.	100%	full	100%	full
Garbary Sp. z o.o.	100%	full	100%	full
mBank Hipoteczny S.A.	100%	full	100%	full
mCentrum Operacji Sp. z o.o.	100%	full	100%	full
mFaktoring S.A.	100%	full	100%	full
mLeasing Sp. z o.o.	100%	full	100%	full
mWealth Management S.A.	100%	full	100%	full
MLV 35 Sp. z o.o. spółka komandytowo - akcyjna	-	-	100%	full
MLV 45 Sp. z o.o. spółka komandytowa (previously BRE Holding Sp. z o.o.)	100%	full	100%	full
Transfinance a.s.	100%	full	100%	full
BRE Finance France S.A.	99.98%	full	99.98%	full
mLocum S.A.	79.99%	full	79.99%	full

The Management Board of mBank S.A. approved these Consolidated 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 Consolidated Financial Statements are presented below. These principles were applied consistently over all presented periods.

2.1. Accounting basis

These Consolidated Financial Statements of mBank S.A. Group have been prepared for the 12-month period ended 31 December 2013.

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

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

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

2.2. Consolidation

Subsidiaries

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

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

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

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

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

Associates

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

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

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

2.3. Interest income and expenses

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

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

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

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

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

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

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

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

2.4. Fee and commission income

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

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

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

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

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

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

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

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

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

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

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

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

2.6. Insurance premium revenue

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

2.7. Compensations and benefits, net

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

2.8. Segment reporting

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

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

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

2.9. Financial assets

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

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

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

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

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

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

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

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

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

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

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

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

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

Interest income/expense on financial assets/financial liabilities designated at fair value (Note 2.3), except for derivatives the recognition of which is discussed in Note 2.15, is recognised in net interest income. The valuation and result on disposal of financial assets/financial liabilities designated at fair value is recognised in trading income.

<u>Loans and receivables</u>

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

<u>Held to maturity investments</u>

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

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

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

<u>Available for sale investments</u>

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

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

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

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

The fair value of quoted investments in active markets is based on current market prices. If the market for a given financial asset is not an active one, the Group determines the fair value by applying valuation techniques. These comprise recently conducted transactions concluded according to normal market principles, reference to other instruments, discounted cash flow analysis, as well as valuation models for options and other valuation methods generally applied by market participants (see Note 20).

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

2.10. Reinsurance assets

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

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

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

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

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

2.11. Offsetting financial instruments

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

2.12. Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

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

<u>Assets measured at fair value</u>

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

<u>Renegotiated agreements</u>

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

2.13. Financial guarantee contracts

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

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

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

2.14. Cash and cash equivalents

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

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

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

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

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

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

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

2.16. Derivative financial instruments and hedge accounting

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

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

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

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

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

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

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

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

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

<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.

Derivative instruments not fulfilling the criteria of hedge accounting

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

The Group holds the following derivative instruments in its portfolio:

Market risk instruments:

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

Interest rate risk instruments:

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

Foreign exchange risk instruments:

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

2.17. Gains and losses on initial recognition

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

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

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

2.18. Borrowings and deposits taken

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

2.19. Intangible assets

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

<u>Goodwill</u>

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

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

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

<u>Computer software</u>

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

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

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

<u>Development costs</u>

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

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

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

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

2.20. Tangible fixed assets

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

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

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

Buildings and structures	25-40 years,
Equipment	5-15 years,
Vehicles	5 years,
Information technology hardware	3.33-5 years,

Investments in third party fixed assets	10-40 years or the period of the lease contract,
Office equipment, furniture	5-10 years.

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

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

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

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

2.21. Inventories

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

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

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

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

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

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

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

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

2.23. Deferred income tax

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

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

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

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

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

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

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

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

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

2.24. Assets repossessed for debt

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

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

2.25. Prepayments, accruals and deferred income

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

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

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

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

2.26. Leasing

mBank S.A. Group as a lessor

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

Revenue from leasing agreements is recognised as follows:

- Interests on finance lease

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

- Net revenue from operating lease

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

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

mBank S.A. Group as a lessee

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

2.27. Provisions

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

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

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

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

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

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

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

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

2.28. Post-employment employee benefits and other employee benefits

Post-employment employee benefits

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

Benefits based on shares

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

2.29. Equity

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

Registered share capital

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

- Own shares

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

Share premium

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

- Share issue costs

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

Retained earnings

Retained earnings include:

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

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

Moreover, other reserve capital comprises valuation of employee options.

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

Other components of equity

Other components of equity result from:

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

2.30. Valuation of items denominated in foreign currencies

Functional currency and presentation currency

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

Transactions and balances

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

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

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

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

Companies belonging to the Group

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

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

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

Leasing business

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

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

2.31. Trust and fiduciary activities

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

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

The assets concerned are not shown in these financial statements as they do not belong to the Group. Other companies belonging to the Group do not conduct any trust or fiduciary activities.

2.32. New standards, interpretations and amendments to published standards

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

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

<u>Published Standards and Interpretations which have been issued and binding for the Group for annual periods starting on 1 January 2013:</u>

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 3.11.

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

- 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.

  <u>IAS 1 Clarification of the requirement for comparative data (change)</u>

  These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. The Group 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 / consolidated balance sheet at the beginning of the comparative period (as at 1 January 2012 for the Group) presented as a result of retrospective restatement or reclassification of items in consolidated statement of financial position / consolidated balance does not have to be accompanied by comparative information in the related notes. As a result, the Group 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 Group'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.

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

Standards and interpretations approved by the European Union:

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

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

- Amendments to IFRS 10, IFRS 12 and IAS 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 Group is of the opinion that the application of the standard on recognition and measurement of financial instruments will have an impact on the presentation of these instruments in the financial statements.

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

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

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

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

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

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

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

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

2.33. Comparative data

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

a) Actuarial gains and losses

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

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

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

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

The restatement of comparative data for the year 2012 due to this change resulted in a decrease of consolidated net profit for the year 2012 by the amount of PLN 5 684 thousand and a decrease of the total consolidated 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 consolidated 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 consolidated financial statements.

Adjustments in the mBank S.A. Group consolidated 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	67 059 254	(112 424)	66 946 830	67 851 516	(105 406)	67 746 110
Deferred income tax assets	369 821	21 361	391 182	307 052	20 027	327 079
Other items of assets	34 806 971	-	34 806 971	30 717 079	-	30 717 079
Total assets	**102 236 046**	**(91 063)**	**102 144 983**	**98 875 647**	**(85 379)**	**98 790 268**
LIABILITIES AND EQUITY						
Total liabilities	**92 526 062**	**-**	**92 526 062**	**90 802 982**	**-**	**90 802 982**
Equity						
Equity attributable to Owners of mBank S.A.	**9 685 493**	**(91 063)**	**9 594 430**	**8 048 755**	**(85 379)**	**7 963 376**
Share capital	**3 501 633**	**-**	**3 501 633**	**3 493 812**	**-**	**3 493 812**
Retained earnings:	**5 700 076**	**(91 288)**	**5 608 788**	**4 493 157**	**(85 379)**	**4 407 778**
- Profit for the previous year	4 496 846	(85 379)	4 411 467	4 493 157	(85 379)	4 407 778
- Net profit for the current year	1 203 230	(5 909)	1 197 321	-	-	-
Other components of equity	**483 784**	**225**	**484 009**	**61 786**	**-**	**61 786**
Non-controlling interests	**24 491**	**-**	**24 491**	**23 910**	**-**	**23 910**
Total equity	**9 709 984**	**(91 063)**	**9 618 921**	**8 072 665**	**(85 379)**	**7 987 286**
Total liabilities and equity	**102 236 046**	**(91 063)**	**102 144 983**	**98 875 647**	**(85 379)**	**98 790 268**

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Adjustments in the mBank S.A. Group consolidated 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	4 476 800	46 317	4 523 117
Interest expense	(2 243 168)	(352)	(2 243 520)
Net interest income	**2 233 632**	**45 965**	**2 279 597**
Fee and commission income	1 273 953	(57 074)	1 216 879
Fee and commission expense	(434 073)	3 740	(430 333)
Net fee and commission income	**839 880**	**(53 334)**	**786 546**
Dividend income	13 902	-	13 902
Net trading income	356 542	-	356 542
Gains less losses from investment securities, investments in subsidiaries and associates	44 966	-	44 966
Other operating income	275 721	-	275 721
Net impairment losses on loans and advances	(444 635)	-	(444 635)
Overhead costs	(1 465 788)	74	(1 465 714)
Amortisation	(195 617)	-	(195 617)
Other operating expenses	(186 500)	-	(186 500)
Operating profit	**1 472 103**	**(7 295)**	**1 464 808**
Profit before income tax	**1 472 103**	**(7 295)**	**1 464 808**
Income tax expense	**(268 292)**	**1 386**	**(266 906)**
Net profit	**1 203 811**	**(5 909)**	**1 197 902**
Net profit attributable to:			
- Owners of mBank S.A.	1 203 230	(5 909)	1 197 321
- Non-controlling interests	581	-	581
Basic earnings per share (in PLN)	**28.57**		**28.44**
Diluted earnings per share (in PLN)	**28.54**		**28.42**

Adjustments in the mBank S.A. Group consolidated 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	**1 203 811**	**(5 909)**	**1 197 902**
Other comprehensive income net of tax, including:	**421 998**	**225**	**422 223**
Items that may be reclassified subsequently to the the income statement			
Exchange differences on translation of foreign operations (net)	(1 815)	-	(1 815)
Change in valuation of available for sale financial assets (net)	423 813	-	423 813
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	**1 625 809**	**(5 684)**	**1 620 125**
Total comprehensive income (net), attributable to:			
- Owners of mBank S.A.	1 625 228	(5 684)	1 619 544
- Non-controlling interests	581	-	581

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Adjustments in the mBank S.A. Group consolidated 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	**3 551 574**	**-**	**3 551 574**
Profit before income tax	**1 472 103**	**(7 295)**	**1 464 808**
Adjustments:	***2 079 471***	***7 295***	***2 086 766***
Income taxes paid	(400 918)	-	(400 918)
Amortisation, including amortisation of fixed assets provided under operating lease	247 174	-	247 174
Foreign exchange (gains) losses related to financing activities	(1 745 708)	-	(1 745 708)
(Gains) losses on investing activities	(10 226)	-	(10 226)
Impairment of investments in subsidiaries	3 113	-	3 113
Dividends received	(13 902)	-	(13 902)
Interest income (income statement)	(4 476 800)	(46 317)	(4 523 117)
Interest expense (income statement)	2 243 168	352	2 243 520
Interest received	4 857 137	53 334	4 910 471
Interest paid	(1 925 626)	(74)	(1 925 700)
Changes in loans and advances to banks	(597 811)	-	(597 811)
Changes in trading securities	(522)	-	(522)
Changes in assets and liabilities on derivative financial instruments	363 992	-	363 992
Changes in loans and advances to customers	530 104	-	530 104
Changes in investment securities	1 052 363	-	1 052 363
Changes in other assets	(39 754)	-	(39 754)
Changes in amounts due to other banks	(1 826 692)	-	(1 826 692)
Changes in amounts due to customers	3 788 701	-	3 788 701
Changes in debt securities in issue	226 181	-	226 181
Changes in provisions	60 159	-	60 159
Changes in other liabilities	(254 662)	-	(254 662)
Net cash generated from operating activities	**3 551 574**	**-**	**3 551 574**
B.Cash flows from investing activities	**(216 342)**	**-**	**(216 342)**
C. Cash flows from financing activities	**(400 979)**	**-**	**(400 979)**
Net increase / decrease in cash and cash equivalents (A+B+C)	**2 934 253**	**-**	**2 934 253**
Effects of exchange rate changes on cash and cash equivalents	(31 147)	-	(31 147)
Cash and cash equivalents at the beginning of the reporting period	4 675 211	-	4 675 211
Cash and cash equivalents at the end of the reporting period	**7 578 317**	**-**	**7 578 317**

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

3. Financial and Insurance Risk management

The mBank Group 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 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).

Authorities of the Bank:

- **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.

Directors of the Bank:

- **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.

Committees:

- **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.

Taking into account the external regulatory limitations, the above tasks are performed also in relation to the subsidiaries.

- **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.

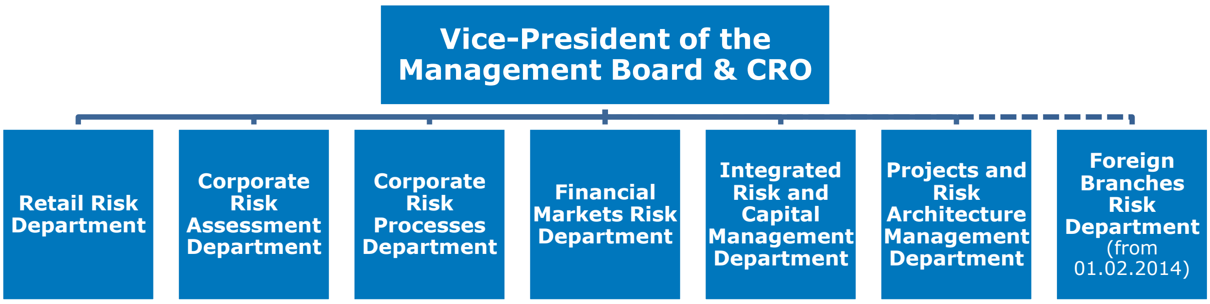
From 01.01.2014, all tasks of KPK have been forwarded to the Retail Banking Risk Committee being a part of the Business and Risk Forum of mBank Group.

- **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.

Other units:

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.

<u>Control units:</u>

- **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).

<u>Strategies and policies for managing particular risk types:</u>

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 the mBank S.A. Group

The document describes the internal capital adequacy assessment process taking place in the Group 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.

Starting from 2013 mortgage loans to retail customers are also granted by mBank Hipoteczny. The credit process and the principles of risk assessment are consistent with the solutions used in mBank - the main difference is another method of property valuation, i.e. the use of the mortgage lending value instead of market value.

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 Group 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 (or the mortgage lending value – in case of mBank Hipoteczny), and the quality of personal collateral is assessed according to the financial situation of the guarantor. Moreover, the impact of collateral on limitation on the impairment of the loan portfolio is a significant factor in the assessment of the collateral's quality. 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.

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 Group 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 Group 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 Group 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 Eurobonds with a nominal value of: EUR 500 000 thousand, CHF 200 000 thousand and CZK 500 000 thousand issued by BFF. 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.

Collaterals accepted by the mBank Group companies. The mBank Group companies accept various forms of legal collateral of credit risk-bearing products. Their list depends on the specific nature of activities, type of offered products and transaction risk.

mBank Hipoteczny applies mortgage on the financed real estate as the basic collateral. Additional collateral may include bills of exchange or civil surety by the borrowing company's owners, as well as pledge on shares in the borrower's company. Loan insurance in an insurance company approved by the Bank may be accepted for a period necessary to effectively set up collateral.

mLeasing applies types of collateral that are most similar to those of mBank. It accepts both standard personal collateral – bill of exchange and civil surety, letters of comfort, guarantees and tangible collateral – ordinary and capped mortgage, registered liens, transfer of ownership of collateral, transfer of receivables and cession of receivables and rights to an insurance policy, and deposits. mLeasing also accepts declarations of voluntary submission for enforcement.

mFaktoring accepts only highly liquid collateral. Apart from own blank bills of exchange, these are mainly bill of exchange surety of the owners of the customer's company, cession of receivables from bank accounts (mainly those maintained by mBank), insurance of receivables, cession of rights from insurance policies in respect of receivables, concluded by customers. In the case of providing services to several companies belonging to one group, a customary form of collateral is a power of attorney to perform cross-settlement of agreements concluded with the particular companies.

Insurance companies, which secure their activities against credit risk, by implementing a policy of safe allocation of all resources and using comprehensive reinsurance, do not have any additional collateral for assets exposed to credit risk.

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.

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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.

All mBank Group companies, whose operations are burdened with credit risk, before concluding an agreement and upon its performance, apply a monitoring process to estimate the risk using rating systems. The systems are different for different types of operations, with the exception of all factoring companies, which use the same solution, moreover lease contracts and mortgage loans are concluded on the basis of individual systems. The common feature is a two-stage methodology: at the first stage the customer rating is assigned and at the second stage the rating of the transaction/portfolio is established. Both above-mentioned ratings constitute credit risk rating. Quantitative indicators and qualitative features with material impact on the risk are evaluated. Particular risk classifications (client/transaction) are emphasized differently depending on the nature of the operations and the evaluated product.

Rating systems that are used by the Group's companies were created either on the basis of mBank's systems or by an application of an expert based approach.

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 Group 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 Group 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,
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 Group'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 Group's internal rating categories (description of the rating model is given above).

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Sub-portfolio	31.12.2013		31.12.2012	
	Exposure (%)	Provision coverage (%)	Exposure (%)	Provision coverage (%)
1	7.47	0.00	34.99	0.09
2	29.93	0.09	23.78	0.16
3	23.26	0.09	11.20	0.29
4	21.09	0.22	15.33	0.25
5	5.45	0.89	3.50	1.28
6	0.53	1.60	0.17	1.10
7	2.28	0.98	0.66	3.74
8	4.52	1.47	5.49	0.67
other *)	0.31	-	-	-
Default category	5.16	35.53	4.88	51.73
Total	**100.00**	**2.07**	**100.00**	**2.77**

*) position 'other' concerns these entities, which do not use the same systems as mBank S.A.

37.55% of the loans and advances portfolio for balance sheet and off-balance sheet exposures is categorised in the top two grades of the internal rating system (31 December 2012: 58.77%).

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 Group 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 Group 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 Group'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	44.77	0.01
2	29.59	0.07	17.31	0.15
3	33.72	0.42	35.65	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	-	0.10	-
Total	**100.00**	**0.00**	**100.00**	**0.19**

3.4.5 Maximum exposure to credit risk

The Group 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	63 847 985	90.46	62 739 871	90.32
Past due but not impaired	2 310 090	3.27	3 103 233	4.46
Impaired	4 423 717	6.27	3 632 259	5.22
Total, gross	**70 581 792**	**100.00**	**69 475 363**	**100.00**
Provision (provision for impaired loans and advances as well as IBNI provision)	(2 371 407)	3.36	(2 528 533)	3.63
Total, net	**68 210 385**	**96.64**	**66 946 830**	**96.37**

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	3 471 530	100.00	3 945 137	100.00
Past due but not impaired	-	-	-	-
Impaired	-	-	-	-
Total, gross	**3 471 530**	**100.00**	**3 945 137**	**100.00**
Provision (provision for impaired loans and advances as well as IBNI provision)	(289)	0.01	(559)	0.01
Total, net	**3 471 241**	**99.99**	**3 944 578**	**99.99**

The total amount of recognized provision for loans and advances is PLN 2 371 696 thousand (as at 31 December 2012: PLN 2 529 092 thousand) of which PLN 2 114 851 thousand (as at 31 December 2012: PLN 2 329 821 thousand) represents the individually impaired loans and advances to customers and the remaining amount of PLN 256 845 thousand represents the portfolio provision (as at 31 December 2012 PLN 199 271 thousand). Further information on the impairment allowance for loans and advances to banks and to customers is provided in Notes 18 and 22.

90.46% of the loans and advances portfolio is considered to be neither past due nor impaired (31 December 2012: 90.32%).

Loans and advances neither past due nor impaired

31 December 2013	Individuals			Corporate entities					Public sector	Other receivables	Total - Loans and advances to customers	Loans and advances to banks
			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				
1	38 137	1 815 230	1 771 948	54 135	86 384	567 148	-	-	535 278	8	3 096 320	1 860 281
2	697 256	15 893 469	15 335 382	407 710	2 969 942	1 184 488	-	62 504	1 181 787	-	22 397 156	881 110
3	736 917	6 843 621	5 779 251	857 803	1 116 207	2 690 665	-	1 033 080	285 853	-	13 564 146	203 301
4	1 247 564	3 828 028	2 430 586	1 560 288	456 508	7 292 149	-	-	134 253	-	14 518 790	230 093
5	738 397	1 306 710	714 315	274 359	100 001	1 711 440	-	-	1 232	-	4 132 139	42 827
6	40 410	142 453	98 376	9 840	67 504	136 557	-	-	-	-	396 764	-
7	200 440	585 078	429 435	23 698	28 014	270 214	-	-	-	-	1 107 444	-
8	150 459	101 802	30 656	1	-	-	3 287 066	-	-	620 619	4 159 947	-
other *)	-	-	-	443	-	-	-	346 526	-	-	346 969	253 918
Default category	-	6 300	2 179	12 908	7 919	101 183	-	-	-	-	128 310	-
Total	**3 849 580**	**30 522 691**	**26 592 128**	**3 201 185**	**4 832 479**	**13 953 844**	**3 287 066**	**1 442 110**	**2 138 403**	**620 627**	**63 847 985**	**3 471 530**

31 December 2012	Individuals			Corporate entities					Public sector	Other receivables	Total - Loans and advances to customers	Loans and advances to banks
			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				
1	699 317	26 204 232	26 034 920	12 778	2 803	546 739	-	-	517 873	312	27 984 054	1 119 061
2	2 062 372	4 486 836	1 245 538	916 451	2 171 809	1 237 972	-	-	1 521 217	-	12 396 657	1 832 615
3	743 067	-	-	736 639	1 693 227	2 148 616	-	842 475	366 180	-	6 530 204	635 871
4	35 645	86 960	86 960	1 771 063	665 008	7 134 590	-	-	253 701	-	9 946 967	52 954
5	-	-	-	257 609	749 299	1 238 912	-	-	18 362	-	2 264 182	106 266
6	-	-	-	8 398	738	109 900	-	-	-	-	119 036	-
7	-	-	-	26 144	14 980	345 317	-	-	-	-	386 441	-
8	-	-	-	-	-	10	2 024 380	-	-	666 434	2 690 824	40 826
other *)	-	-	-	-	-	-	-	293 496	-	581	294 077	157 544
Default category	3 056	11 047	3 972	7 227	9 969	96 130	-	-	-	-	127 429	-
Total	**3 543 457**	**30 789 075**	**27 371 390**	**3 736 309**	**5 307 833**	**12 858 186**	**2 024 380**	**1 135 971**	**2 677 333**	**667 327**	**62 739 871**	**3 945 137**

*) position 'other' concerns these entities, which do not use the same rating systems as mBank S.A.

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.

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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					Public sector	Other receivables	Total - Loans and advances to customers	Loans and advances to banks
			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	Other				
Past due up to 30 days	316 856	924 349	722 009	10 058	7 644	438 088	-	-	26 667	-	1 723 662	-
Past due 31 - 60 days	31 433	155 514	116 847	4 542	4 609	151 076	-	-	-	-	347 174	-
Past due 61 - 90 days	11 304	41 670	31 349	1 323	-	11 070	-	-	-	-	65 367	-
Past due over 90 days	23 657	72 040	20 928	11 590	332	53 362	-	-	12 906	-	173 887	-
Total	**383 250**	**1 193 573**	**891 133**	**27 513**	**12 585**	**653 596**	**-**	**-**	**39 573**	**-**	**2 310 090**	**-**

31 December 2012	Individuals			Corporate entities					Public sector	Other receivables	Total - Loans and advances to customers	Loans and advances to banks
			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	Other				
Past due up to 30 days	341 145	1 063 435	858 689	23 322	60 413	418 816	-	-	6 311	-	1 913 442	-
Past due 31 - 60 days	44 433	327 103	255 778	7 937	-	160 135	-	-	3 363	-	542 971	-
Past due 61 - 90 days	16 634	108 552	87 898	1 631	-	13 514	-	-	-	-	140 331	-
Past due over 90 days	70 709	93 143	39 606	11 130	-	319 965	-	-	11 542	-	506 489	-
Total	**472 921**	**1 592 233**	**1 241 971**	**44 020**	**60 413**	**912 430**	**-**	**-**	**21 216**	**-**	**3 103 233**	**-**

Loans and advances individually impaired

Loans and advances individually impaired amounted to PLN 2 308 866 thousand (as at 31 December 2012: PLN 1 302 438 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					Public sector	Other receivables	Total - Loans and advances to customers	Loans and advances to banks
			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	Other				
31 December 2013												
Loans and advances with impairment	746 024	1 612 797	1 209 635	368 679	270 256	1 354 113	-	71 848	-	-	**4 423 717**	-
Provisions for loans and advances with impairment	(388 617)	(608 010)	(411 346)	(215 575)	(170 440)	(677 545)	-	(54 664)	-	-	**(2 114 851)**	-
31 December 2012												
Loans and advances with impairment	584 167	722 231	480 482	474 763	489 462	1 269 574	-	92 062	-	-	**3 632 259**	-
Provisions for loans and advances with impairment	(542 771)	(438 949)	(268 146)	(392 585)	(285 785)	(602 891)	-	(66 840)	-	-	**(2 329 821)**	-

The Group 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	**3 471 530**	**(289)**	**-**	**(289)**
Loans and advances to customers, including:	**70 581 792**	**(2 371 407)**	**(3 737 661)**	**1 703 106**
Loans to individuals:	38 307 915	(1 154 563)	(1 486 116)	331 553
− Current accounts	4 978 854	(444 214)	(468 880)	24 666
− Term loans, including:	33 329 061	(710 349)	(1 017 236)	306 887
housing and mortgage loans	28 692 896	(469 223)	(671 645)	202 422
Loans to corporate clients:	24 674 250	(868 195)	(2 233 855)	1 365 660
− Current accounts	3 597 377	(234 414)	(321 643)	87 229
− Term loans:	21 076 873	(633 781)	(1 912 212)	1 278 431
corporate & institutional enterprises	5 115 320	(180 681)	(299 011)	118 330
medium & small enterprises	15 961 553	(453 100)	(1 613 201)	1 160 101
Loans and advances to public sector	2 177 976	(11 797)	(17 690)	5 893
Total balance sheet data	**74 053 322**	**(2 371 696)**	**(3 737 661)**	**1 702 817**
Off-balance sheet data:				
Loan commitments and other commitments	18 417 254	(34 720)	(58 792)	24 072
Guarantees, banker's acceptances, documentary and commercial letters of credit	3 188 247	(21 348)	(36 775)	15 427
Total off-balance sheet data:	**21 605 501**	**(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	**3 945 137**	**(559)**	**(3 998)**	**3 439**
Loans and advances to customers, including:	**69 475 363**	**(2 528 533)**	**(4 100 921)**	**1 640 028**
Loans to individuals:	37 704 084	(1 057 789)	(1 461 859)	404 070
− Current accounts	4 600 545	(586 189)	(616 467)	30 278
− Term loans, including:	33 103 539	(471 600)	(845 392)	373 792
housing and mortgage loans	29 093 842	(284 004)	(548 397)	264 393
Loans to corporate clients:	25 152 990	(1 390 778)	(2 616 968)	1 226 190
− Current accounts	4 255 092	(410 255)	(472 030)	61 775
− Term loans:	20 897 898	(980 523)	(2 144 938)	1 164 415
corporate & institutional enterprises	5 857 708	(313 738)	(363 961)	50 223
medium & small enterprises	15 040 190	(666 785)	(1 780 977)	1 114 192
Loans and advances to public sector	2 698 549	(12 326)	(22 094)	9 768
Total balance sheet data	**73 420 500**	**(2 529 092)**	**(4 104 919)**	**1 643 467**
Off-balance sheet data:				
Loan commitments and other commitments	14 843 972	(25 614)	(47 509)	21 895
Guarantees, banker's acceptances, documentary and commercial letters of credit	2 549 874	(20 848)	(35 438)	14 590
Total off-balance sheet data:	**17 393 846**	**(46 462)**	**(82 947)**	**36 485**

Other financial assets

	31.12.2013	31.12.2012
Gross other financial assets, including:	**418 472**	**338 193**
- Not past due	401 681	321 926
- Past due over 90 days	16 791	16 267
- Provisions for impaired assets (negative amount)	(15 729)	(20 025)
Net other financial assets (Note 26)	**402 743**	**318 168**

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+	388 259	-	28 641	24 139 009	24 555 909
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	**388 259**	**-**	**346 362**	**25 069 257**	**25 803 878**

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+	805 778	319	163 002	19 105 039	20 074 138
BBB+ to BBB-	-	-	46 301	103 226	149 527
BB+ to BB-	-	-	94 284	20 673	114 957
B+ to B-	-	-	-	-	-
Lower than B-	-	-	-	-	-
Unrated	-	-	-	2	2
Total	**805 778**	**319**	**303 587**	**19 720 440**	**20 830 124**

98.44% of the investments in debt securities is rated at least on A- credit rating (31 December 2012: 98.73%).
Information about impairment allowance for investment debt securities occurs under Note 23.

3.4.8 Repossessed collateral

The Group classifies repossessed collaterals as assets repossessed for debt and measures them in accordance with the adopted accounting policies described in paragraph 2.19. 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 companies of the Group is to sell repossessed assets or - in the case of leases - lease them out again to another customer. Cases in which the repossessed collateral is used for own needs are rare – such a step must be economically justified and reflect the Group companies' urgent need, and must at each time be approved by their Management Boards. In 2013, the Group did not have any repossessed collaterals that were difficult to sell. As at 31 December 2013, value of repossessed collaterals was PLN 8 192 thousand (31 December 2012: PLN 79 355 thousand) included mainly real estate which constitute collaterals for mortgage loans and leasing assets. The value of repossessed collaterals was included in the item '*inventories'* under Note 26.

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 Group:

- 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 Group 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 Group monitors its share in the financing of the whole sector and the standing of each customer of the Group vs. the rest of the sector. For this purpose, the Group 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 Group 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 Group 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. Group's exposures in particular sectors.

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

No.	Sectors	Principal exposure (in PLN million)	%	Principal exposure (in PLN million)	%
		31.12.2013		31.12.2012	
1.	Household customers	38 307 915	54.27	37 704 084	54.27
2.	Real estate management	5 401 342	7.65	4 674 458	6.73
3.	Transport and travel agencies	2 102 952	2.98	1 737 725	2.50
4.	Public administration	1 781 251	2.52	2 177 125	3.13
5.	Building industry	1 761 635	2.50	2 084 143	3.00
6.	Power industry and heat engineering	1 680 154	2.38	1 474 800	2.12
7.	Motorization	1 192 851	1.69	880 978	1.27
8.	Metals	1 183 575	1.68	1 223 564	1.76
9.	Chemistry and plastic processing	957 713	1.36	719 518	1.04
10.	Groceries	906 962	1.28	855 409	1.23
11.	Liquid fuels and natural gas	882 918	1.25	1 392 174	2.00
12.	Building materials	834 755	1.18	742 360	1.07
13.	Wood and furniture	754 178	1.07	632 047	0.91
14.	Other retail trade	739 214	1.05	548 978	0.79
15.	Other wholesale trade	662 973	0.94	888 033	1.28
16.	Meat processing industry	613 667	0.87	593 134	0.85
17.	Pharmaceuticals and health care	594 231	0.84	680 846	0.98
18.	Stimulants	506 154	0.72	298 231	0.43
19.	Telecomunication	500 479	0.71	618 089	0.89
20.	Hotels and restaurants	422 679	0.60	432 268	0.62
21.	Management, consulting, advertising	373 151	0.53	404 098	0.58
22.	Leasing and renting	273 930	0.39	429 591	0.62

In 2013, the total exposure of the Group in the above sectors (excluding household customers) amounts to 34.18% of the credit portfolio (2012: 33.80%).

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The risk of investing in these sectors (in a 3-point scale, i.e., low, medium, high) estimated by the Group'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.	Real estate management	medium	medium
2.	Transport and travel agencies	medium	medium
3.	Public administration	low	low
4.	Building industry	high	high
5.	Power industry and heat engineering	medium	medium
6.	Motorization	high	high
7.	Metals	high	high
8.	Chemistry and plastic processing	medium	medium
9.	Groceries	medium	medium
10.	Liquid fuels and natural gas	medium	medium
11.	Building materials	medium	medium
12.	Wood and furniture	medium	high
13.	Other retail trade	medium	medium
14.	Other wholesale trade	medium	medium
15.	Meat processing industry	medium	medium
16.	Pharmaceuticals and health care	medium	medium
17.	Stimulants	medium	medium
18.	Telecomunication	medium	medium
19.	Hotels and restaurants	medium	medium
20.	Management, consulting, advertising	medium	n/a
21.	Leasing and renting	medium	medium

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 Group:

- 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 Group 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, the Bank 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	0
VaR	**15 460**	**16 142**	**22 633**	**7 043**	**6 171**	**11 241**	**14 885**	**6 131**

VaR IR – interest rate risk
VaR FX – 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).

Market risk of mBank Group

The main sources of market risk of the mBank Group are the Bank's positions. The table below shows VaR statistics (at 97.5% confidence level for a one-day holding period) for mBank Group (i.e. mBank, mBank Hipoteczny, mLeasing, Dom Maklerski mBanku) in 2013 for individual members of the Group in which market risk positions were identified and their decomposition to the VaRs corresponding to the main risk factor types – interest rate risk (VaR IR), foreign exchange risk (VaR FX), and equity prices risk (VaR EQ). The table below presents VaRs for mBank as of the end of 2013, including the positions of DS, DFM, BM and DFS.

PLN 000's	mBank Group	mBank	mBH	mLeasing	DM mBanku
VaR IR	16 334	16 034	76	478	11
VaR FX	362	348	73	190	14
VaR EQ	5 680	5 659	0	0	66
VaR Mean	17 776	17 622	108	532	64
VaR Maximum	23 844	23 556	984	780	146
VaR Minimum	10 668	10 840	59	214	45
VaR	**17 152**	**16 910**	**64**	**615**	**108**

For comparison, at the end of 2012 VaR for the mBank Group was PLN 9 999 thousand, including VaR for mBank at PLN 9 879 thousand, mBank Hipoteczny – PLN 129 thousand, mLeasing – PLN 253 thousands and Dom Maklerski mBanku – PLN 58 thousand.

PLN 000's	mBank Group	mBank	mBH	mLeasing	DM mBanku	BRE GOLD
VaR IR	11 162	11 146	108	287	20	0
VaR FX	526	506	78	238	3	0
VaR EQ	5 955	925	0	0	117	5 839
VaR Mean	14 800	11 588	111	299	119	6 900
VaR Maximum	18 125	14 779	192	461	237	4 345
VaR Minimum	9 914	8 059	61	201	55	0
VaR	**9 999**	**9 879**	**129**	**253**	**58**	0

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3.7. Currency risk

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

31.12.2013	PLN	EUR	USD	CHF	CZK	Other	Total
ASSETS							
Cash and balances with the Central Bank	1 520 978	59 639	6 767	596	57 492	4 995	**1 650 467**
Loans and advances to banks	1 669 403	734 107	863 453	2 397	109 436	92 445	**3 471 241**
Trading securities	763 064	-	-	-	-	-	**763 064**
Derivative financial instruments	2 221 073	84 843	39 207	(5 331)	8 538	1 255	**2 349 585**
Loans and advances to customers	33 453 008	12 162 402	1 212 258	19 356 235	1 842 279	184 203	**68 210 385**
Hedge accounting adjustments related to fair value of hedged items	-	-	-	-	970	-	**970**
Investment securities	24 317 545	223 830	-	-	800 388	-	**25 341 763**
Intangible assets	451 387	336	-	-	3 622	-	**455 345**
Tangible fixed assets	698 584	3 734	-	-	7 234	-	**709 552**
Other assets, including tax assets	1 216 235	46 135	44 920	273	22 809	17	**1 330 389**
Total assets	**66 311 277**	**13 315 026**	**2 166 605**	**19 354 170**	**2 852 768**	**282 915**	**104 282 761**
LIABILITIES							
Amounts due to the Central Bank	-	-	-	-	-	-	**-**
Amounts due to other banks	4 318 863	367 930	415 758	13 791 309	330 150	172	**19 224 182**
Derivative financial instruments	2 360 598	77 921	26 756	12 669	(18 436)	207	**2 459 715**
Amounts due to customers	46 964 090	9 237 764	1 765 668	426 830	3 093 800	185 375	**61 673 527**
Debt securities in issue	2 194 093	2 456 011	-	676 225	75 727	-	**5 402 056**
Hedge accounting adjustments related to fair value of hedged items - debt securities in issue	-	(4 256)	-	156	(249)	-	**(4 349)**
Other liabilities including tax liabilities	1 085 930	97 764	43 367	2 712	41 939	8 495	**1 280 207**
Provisions	216 143	9 695	805	783	789	13	**228 228**
Subordinated liabilities	501 879	-	-	3 260 878	-	-	**3 762 757**
Total liabilities	**57 641 596**	**12 242 829**	**2 252 354**	**18 171 562**	**3 523 720**	**194 262**	**94 026 323**
Net on-balance sheet position	**8 669 681**	**1 072 197**	**(85 749)**	**1 182 608**	**(670 952)**	**88 653**	**10 256 438**
Loan commitments and other commitments	**15 951 486**	**2 080 225**	**184 922**	**-**	**200 621**	**-**	**18 417 254**
Guarantees, banker's acceptances, documentary and commercial letters of credit	**2 327 007**	**716 831**	**98 193**	**930**	**35 608**	**9 678**	**3 188 247**

31.12.2012	PLN	EUR	USD	CHF	CZK	Other	Total
ASSETS							
Cash and balances with the Central Bank	3 721 979	1 061 004	7 342	174	25 968	2 736	**4 819 203**
Loans and advances to banks	1 651 761	921 416	556 109	2 915	722 637	89 740	**3 944 578**
Trading securities	1 150 886	-	-	-	-	-	**1 150 886**
Derivative financial instruments	2 645 456	120 777	33 657	63	-	2 742	**2 802 695**
Loans and advances to customers	31 744 869	10 784 676	1 551 447	21 116 206	1 436 360	313 272	**66 946 830**
Hedge accounting adjustments related to fair value of hedged items	-	-	-	-	2 439	-	**2 439**
Investment securities	19 485 400	415	10 353	-	-	497 220	**19 993 388**
Intangible assets	431 379	209	-	-	-	4 535	**436 123**
Tangible fixed assets	761 009	4 017	-	-	-	8 878	**773 904**
Other assets, including tax assets	1 220 652	37 371	4 773	1	6 886	5 254	**1 274 937**
Total assets	**62 813 391**	**12 929 885**	**2 163 681**	**21 119 359**	**2 194 290**	**924 377**	**102 144 983**
LIABILITIES							
Amounts due to the Central Bank	-	-	-	-	-	-	**-**
Amounts due to other banks	2 477 937	929 036	862 762	16 567 536	81 500	192 168	**21 110 939**
Derivative financial instruments	3 323 575	120 287	29 366	-	-	3 456	**3 476 684**
Amounts due to customers	44 762 732	8 575 021	1 416 809	76 836	2 976 541	175 661	**57 983 600**
Debt securities in issue	2 803 068	2 089 207	-	-	-	-	**4 892 275**
Hedge accounting adjustments related to fair value of hedged items - debt securities in issue	-	4 220	-	-	-	-	**4 220**
Other liabilities including tax liabilities	1 431 460	93 599	32 643	1 602	53 069	10 349	**1 622 722**
Provisions	187 939	10 652	10 135	4 545	-	56	**213 327**
Subordinated liabilities	-	-	-	3 222 295	-	-	**3 222 295**
Total liabilities	**54 986 711**	**11 822 022**	**2 351 715**	**19 872 814**	**3 111 110**	**381 690**	**92 526 062**
Net on-balance sheet position	**7 826 680**	**1 107 863**	**(188 034)**	**1 246 545**	**(916 820)**	**542 687**	**9 618 921**
Loan commitments and other commitments	**12 989 302**	**1 314 325**	**314 653**	**-**	**161 544**	**64 148**	**14 843 972**
Guarantees, banker's acceptances, documentary and commercial letters of credit	**1 884 894**	**472 397**	**81 236**	**-**	**100 466**	**10 881**	**2 549 874**

3.8. Interest rate risk

mBank S.A.

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 unfavourable 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

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).

mBank Hipoteczny S.A.

Repricing date misfit gap and interest earnings at risk (EaR) based on the former are the key interest rate risk measures at mBank Hipoteczny S.A.

As at 31 December 2013 and 31 December 2012 a sudden, lasting and disadvantageous change of market interest rates by 100 basis points for all maturities would result in decrease in the annual interest income by the following amounts:

31.12.2013		31.12.2012	
in PLN million	currency	in PLN million	currency
5.22	PLN	5.00	PLN
0.05	EUR	0.09	EUR
0.01	USD	0.01	USD

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 mBank Hipoteczny would not take any measures to change related exposure to interest rate change risk.

mLeasing Sp. z o.o.

mLeasing Sp. z o.o. performs risk analysis based on the following risk factors:

- interest rates;
- fx rates.

The sensitivity of individual transactions to the risk factors is calculated by adding the shock rate and analysing its impact on the present value of the portfolio (MTM).

As at 31 December 2013 and 31 December 2012 a sudden, lasting and disadvantageous change of market interest rates by 100 basis points for all maturities would result in decrease in the annual interest income by the following amounts:

31.12.2013		31.12.2012	
in PLN million	currency	in PLN million	currency
3.70	PLN	3.10	PLN
1.40	EUR	1.60	EUR
0.00	USD	0.00	USD
0.00	CHF	0.01	CHF
0.00	JPY	0.01	JPY

mBank S.A. Group interest rate risk

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

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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	1 650 452	-	-	-	-	15	**1 650 467**
Loans and advances to banks	2 936 051	329 977	3 493	-	-	201 720	**3 471 241**
Trading and investment securities	13 096 527	166 332	1 110 870	11 279 441	274 046	177 611	**26 104 827**
Loans and advances to customers	56 908 185	5 699 191	2 617 423	2 218 925	8 612	758 049	**68 210 385**
Other assets and derivative financial instruments	532 223	383 471	1 006 721	531 654	26 840	820 912	**3 301 821**
Total assets	**75 123 438**	**6 578 971**	**4 738 507**	**14 030 020**	**309 498**	**1 958 307**	**102 738 741**
LIABILITIES							
Amounts due to the Central Bank	-	-	-	-	-	-	**-**
Amounts due to other banks	11 171 188	8 050 078	-	-	-	2 916	**19 224 182**
Amounts due to customers	52 473 616	4 999 356	3 335 951	-	374 527	490 077	**61 673 527**
Debt securities in issue	885 337	204 040	1 356 421	2 832 725	123 533	-	**5 402 056**
Subordinated liabilities	621 287	2 639 591	501 879	-	-	-	**3 762 757**
Other liabilities and derivative financial instruments	358 282	410 486	1 194 623	558 553	29 138	1 176 305	**3 727 387**
Total liabilities	**65 509 710**	**16 303 551**	**6 388 874**	**3 391 278**	**527 198**	**1 669 298**	**93 789 909**
Total interest repricing gap	**9 613 728**	**(9 724 580)**	**(1 650 367)**	**10 638 742**	**(217 700)**		

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	1 857 284	-	-	-	-	2 961 919	**4 819 203**
Loans and advances to banks	3 680 988	57 318	42 735	-	-	163 537	**3 944 578**
Trading and investment securities	15 019 697	69 955	1 159 942	4 031 169	669 958	193 553	**21 144 274**
Loans and advances to customers	58 833 057	4 448 678	2 348 566	507 913	25 653	782 963	**66 946 830**
Other assets and derivative financial instruments	382 705	627 111	1 333 906	474 354	25 034	843 211	**3 686 321**
Total assets	**79 773 731**	**5 203 062**	**4 885 149**	**5 013 436**	**720 645**	**4 945 183**	**100 541 206**
LIABILITIES							
Amounts due to the Central Bank	-	-	-	-	-	-	**-**
Amounts due to other banks	11 089 295	9 847 354	173 021	-	-	1 269	**21 110 939**
Amounts due to customers	44 332 686	5 704 981	7 442 917	78 425	266 207	158 384	**57 983 600**
Debt securities in issue	675 248	505 256	1 663 639	2 048 132	-	-	**4 892 275**
Subordinated liabilities	578 765	2 643 530	-	-	-	-	**3 222 295**
Other liabilities and derivative financial instruments	458 655	640 483	1 762 420	615 477	32 089	1 362 405	**4 871 529**
Total liabilities	**57 134 649**	**19 341 604**	**11 041 997**	**2 742 034**	**298 296**	**1 522 058**	**92 080 638**
Total interest repricing gap	**22 639 082**	**(14 138 542)**	**(6 156 848)**	**2 271 402**	**422 349**		

3.9. Liquidity risk

mBank S.A.

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 115.7% to 110.6% 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).

mBank Hipoteczny S.A.

Liquidity risk is the risk of inability to finance assets and meet obligations on time in the course of normal operations of the Bank or in other conditions which may be foreseen without the need to sustain a loss.

The strategic goal of the liquidity risk management is to ensure the Bank's ability to meet its obligations on time and finance increasing assets as well as to minimize the influence of this risk on the Bank's financial result.

The Bank manages liquidity risk by ensuring current, short, medium and long-term liquidity. The Bank sets out the rules for risk identification, measurement, assessment, monitoring and reporting. The market liquidity risk management requires the Bank to diversify its funding sources mainly within cooperation with mBank S.A. The Bank finances its long-term assets predominantly by issuing mortgage and public covered bonds with long maturities, and next by collecting long-term deposits. The Bank's current funding needs are satisfied on the inter-bank market and by the issue of short-term bonds, client deposits and servicing of client current accounts.

The Bank has in place a special emergency plan in case of a liquidity crisis. The plan specifies cases of crisis situations posing a threat to liquidity or to fx and interest rate risk management. It also identifies Bank's alternative funding sources and sets out a general scheme of managing crisis situations at the Bank.

The Bank ensures immediate and current liquidity by maintaining the liquidity portfolio composed of easily liquidated instruments.

The current and short-term liquidity is monitored with the use of liquidity ratios with the time horizon of 1 week and 1 month respectively. Additionally, the Bank limits the size of exposure within the cumulative liquidity gap in the periods of 1 month, 3 months, 6 months, 1 year and 2 years.

In 2013, the liquidity ratios up to 1 month were between 34.09% and 53.75% and the average liquidity ratio was 43.41%. As at 31 December 2013, this ratio was 36.02%. The liquidity ratio up to 1 month at 36.02% results from including unconditional stand-by lines of credit in the total amount of PLN 150 million (2012: PLN 200 million).

mLeasing Sp. z o.o.

The purpose of liquidity management policy in mLeasing is a maintenance of balance sheet structure and off balance sheet transactions, which ensure a constant cash flows of the company including the nature of business and needs that may arise as a result of changes in the financial markets or arising from creditors and customers behaviour. Ensuring of continued liquidity concerns both normal, stable operating conditions and the conditions of higher probability of loss.

mLeasing manages its liquidity risk by matching the maturity of amounts receivable under leasing contracts with the maturity of credit liabilities on the basis of cash flow reports. In addition, the company has open sources of refinancing for periods exceeding 6 months.

Liquidity risk management policy covers the basic principles of risk management and methods of measurement and control as well as ways to deal with the threat of liquidity. Parallel to the liquidity risk control performed by the Management Board, the independent liquidity risk control is carried out by mBank S.A.

The base method of analysis and risk measurement is contractual approach, i.e. mismatch calculation of future cash flows, commonly known as "gap mismatch". Using this method the contractual cash flows for all currencies and all balance sheet and off-balance sheet items are determined.

mLeasing also uses the real financial cash flows method, based on scenarios. Real cash flows are created in two versions: basic and stress test. Assumptions for each scenario are based on sales plans prepared by sales departments, based on an analysis of liquidity and substitutability of the leasing portfolios and loans and debt instruments.

3.9.1 Cash flows from transactions in non-derivative financial instruments

The table below shows cash flows the Group 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	4 931 691	2 266 838	1 455 441	11 199 914	17 175	**19 871 059**
Amounts due to customers	52 817 585	4 155 216	3 726 858	1 078 814	2 127 598	**63 906 071**
Debt securities in issue	92 576	87 594	550 798	4 706 992	212 733	**5 650 693**
Subordinated liabilities	28 676	33 369	50 624	2 251 561	1 773 562	**4 137 792**
Technical-insurance provisions	20 219	21 340	34 098	8 833	2 678	**87 168**
Other liabilities	810 702	21 666	182 192	6 542	10 155	**1 031 257**
Total liabilities	**58 701 449**	**6 586 023**	**6 000 011**	**19 252 656**	**4 143 901**	**94 684 040**

Assets (by remaining contractual maturity dates)

Total assets	**15 389 793**	**4 015 967**	**13 149 705**	**43 696 476**	**41 309 574**	**117 561 515**
Net liquidity gap	**(43 311 656)**	**(2 570 056)**	**7 149 694**	**24 443 820**	**37 165 673**	**22 877 475**

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	3 311 374	74 657	3 656 870	11 526 046	2 562 206	**21 131 153**
Amounts due to customers	43 623 285	4 850 738	7 511 785	320 690	1 671 209	**57 977 707**
Debt securities in issue	350 547	157 069	93 241	4 499 556	205 894	**5 306 307**
Subordinated liabilities	4 878	-	-	1 761 136	1 456 324	**3 222 338**
Technical-insurance provisions	14 540	14 220	37 115	17 800	837	**84 512**
Other liabilities	967 434	28 301	192 642	9 577	6 789	**1 204 743**
Total liabilities	**48 272 058**	**5 124 985**	**11 491 653**	**18 134 805**	**5 903 259**	**88 926 760**

Assets (by remaining contractual maturity dates)

Total assets	**19 503 953**	**5 137 621**	**12 444 037**	**29 306 634**	**49 274 820**	**115 667 065**
Net liquidity gap	**(28 768 105)**	**12 636**	**952 384**	**11 171 829**	**43 371 561**	**26 740 305**

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 Group 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 Group 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 Group, 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), including:	118 711	238 008	485 753	1 056 215	229 328	2 128 015
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	**150 056**	**298 837**	**561 552**	**1 092 540**	**230 351**	**2 333 336**

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	599 662	1 456 714	396 415	3 022 323
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**	**952 235**	**1 516 292**	**396 434**	**3 989 811**

Derivative financial instruments settled in gross amounts

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

The table below shows derivative financial liabilities/assets of the Group, 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	9 009 623	1 826 470	2 830 234	165 784	-	13 832 111
-inflows	9 022 689	1 813 370	2 852 658	156 595	-	13 845 312

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	9 824 900	2 691 334	2 052 585	159 335	-	14 728 154
-inflows	9 853 242	2 762 336	2 059 865	157 772	-	14 833 215

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 20 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. Insurance risk management

The risk connected with insurance contracts is the possibility of occurrence of the insurance event and the uncertainty of the amount of the resulting claim the insurer is to pay by virtue of this event. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For the portfolio of insurance contracts where for creating new products, calculating premiums as well as producing financial plans for subsequent periods the theory of probability is applied, the basic risk is the risk of discrepancy between actual claims and their expected values.

As loss ratio-based estimates are usually based on historic values, there is the risk that their actual realisation will differ from their expected realisation with regard to factors changing over the period such as:

- demographic structure of insured persons upon collective health insurance,
- regulations of the law concerning the insurance market,
- other regulations of the law affecting the insurance market.

Too small insurance portfolio, which does not enable the Law of Great Numbers to function but also does not provide sufficient statistical information for proper risk management is also a factor increasing the risk of discrepancy between loss ratio-based estimates and their actual realisation.

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In order to decrease this risk, the Group concentrates primarily on increasing given insurance risk portfolios while limiting the risk as well as the amount of individual risks insured on the Group's share by application of profound reinsurance.

Another source of insurance risk is insurance fraud, which occurs in a higher or lesser degree in most of insurance products. This phenomenon consists in fraudulent claims for compensations or benefits, which are not due actually.

Methods limiting the results of occurrence of the above indicated phenomenon include among others: preventive actions taken up by insurance companies (registers etc.) as well as procedures preventing acceptance of such risk for insurance and relevant procedures of claims handling.

In 2013, the Group offered short-term property and personal insurance contracts both in individual and collective models. However, the collective model is applied to the sale of insurance portfolio known as bancassurance.

The Group also offers individual agreements in co-insurance with other insurers.

Individual agreements are usually concluded for one year with the possibility of renewal with the exception of tourist insurance agreements which are concluded for the duration of the trip, i.e., from 1 to 90 days. Once a year the Group has the right to propose new conditions while renewing the agreement or may not propose such renewal at all.

Collective agreements are concluded in perpetuity. However, the Group has the right to propose new conditions at any time with a three-month notice with the exception of financial agreements where the agreement conditions can be changed by mutual agreement or with a twelve-month notice.

The Group reinsures insurance contracts upon reinsurance agreements.

Concentration of insurance risk is presented in accordance with the breakdown by the groups and the scope of risks defined by the Polish Financial Supervision Authority as well as according to the individual and collective sale model.

The concentration of insurance risk stated in provisions for compensations and benefits

Gross risk	31.12.2013	share %	31.12.2012	share %
casualty	16 808	14%	13 120	13%
disease	11 221	10%	11 562	11%
casco of land vehicles	3 413	3%	3 897	4%
damages caused by elements	6 557	6%	5 568	5%
other material damages	5 317	5%	5 413	5%
civil liability due to owing and usage of land vehicles	53 065	46%	38 393	37%
civil liability	1 016	1%	766	1%
loan	10 353	9%	16 875	17%
guarantee	494	0%	697	1%
different financial risks	215	0%	353	0%
protection by law	161	0%	178	0%
providing help	7 245	6%	5 728	6%
Gross provision for compensations and benefits	**115 865**	**100%**	**102 550**	**100%**

Risk on own share	31.12.2013	share %	31.12.2012	share %
casualty	16 276	29%	13 120	25%
disease	11 221	20%	11 562	22%
casco of land vehicles	714	1%	809	2%
damages caused by elements	3 717	7%	3 755	7%
other material damages	4 076	7%	4 498	8%
civil liability due to owing and usage of land vehicles	10 657	19%	7 678	14%
civil liability	758	1%	560	1%
loan	6 653	12%	8 583	16%
guarantee	494	1%	697	1%
different financial risks	215	0%	353	1%
protection by law	161	0%	178	0%
providing help	1 712	3%	1 376	3%
Provisions for compensations and benefits on own share	**56 654**	**100%**	**53 169**	**100%**
Gross risk	**31.12.2013**	**share %**	**31.12.2012**	**share %**
individual	70 482	61%	54 031	53%
group	45 383	39%	48 519	47%
Provisions for compensations and benefits	**115 865**	**100%**	**102 550**	**100%**
Risk on own share	**31.12.2013**	**share %**	**31.12.2012**	**share %**
individual	20 523	36%	16 031	30%
group	36 131	64%	37 138	70%
Provisions for compensations and benefits on own share	**56 654**	**100%**	**53 169**	**100%**

Sensitivity analysis of provisions for damages

Change of ULR ratio (%)		Change of IBNR provision (%)		IBNR provision (PLN '000)		Change of the value of IBNR provision (PLN '000)		The impact on profit after reinsurance (PLN '000)	
31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012
(20)	(20)	(25)	(26)	70 010	58 975	(23 634)	(21 218)	12 510	11 852
(10)	(10)	(13)	(13)	81 705	69 486	(11 939)	(10 708)	6 359	6 009
-	-	-	-	93 082	-	-	-	-	-
10	10	13	14	104 481	91 038	12 057	10 845	(6 416)	(6 140)
20	20	26	27	116 446	101 988	24 157	21 794	(12 865)	(12 385)

With regard to the accepted methodology of calculation of the IBNR provision ('Naive Loss Ratio' and 'Bornhuetter-Ferguson'), total provisions for compensations and benefits together with costs of claims handling are generally linearly dependent on the assumed loss-based ratio, ULR ('Ultimate Loss Ratio'), accepted for calculation of the IBNR provision with the exception of situations when the ratio calculated only on the basis of damages claimed in a given group of insurance exceeds the accepted value of ULR.

However, the IBNR provision alone is sensitive to changes of assumed loss-based ratios.

Sensitivity analysis was carried out simultaneously for all insured risks of the portfolio, through a change of predicted IBNR ratios with other parameters of the model being unchanged.

The following table presents changes of the IBNR provision depending on changes of parameters of predicted ULR ratios.

PLN '000	31.12.2013	31.12.2012
Own resources	167 498	107 860
Margin of solvency	18 165	17 257
Minimal guarantee capital	15 048	15 624
1/3rd of margin of solvency	6 055	5 752
Own resources surplus for coverage of margin of solvency	123 602	90 603
Guarantee capital	15 048	15 624
Own resources surplus for coverage of guarantee capital	152 450	92 236

Provisions adequacy analysis

The Group carried out a provisions adequacy analysis, which showed that technical-insurance provisions (reduced by deferred acquisition costs) as at 31 December 2013 were created at a level sufficient to cover commitments arising from insurance agreements till 31 December 2013.

Capital management

Since the start of business of BRE Ubezpieczenia TUiR SA, i.e., 15 January 2007, capital management in insurance companies is connected with the aspiration for maintenance of regular adequacy. The purpose of the Group within the scope of capital management is the maintenance of the capacity of insurance companies of the Group for continuance of business and maintenance of an optimal structure of capital in order to reduce costs of capital.

For this purpose, the Group constantly monitors the value of its own resources in relation to the margin of solvency and guarantee capital in accordance with capital requirements imposed by regulations binding in Poland (Insurance Activity Act and Accounting Act with relevant decrees).

In accordance with these regulations, the company BRE Ubezpieczenia TUiR SA is obliged to hold own resources in the value not lower than the margin of solvency and not lower than the guarantee capital. The guarantee capital equals the bigger of: one-third of the margin of solvency or minimum value of the guarantee capital.

The Decree of Minister of Finance, which takes into account the necessity of ensuring solvency of companies conducting insurance activities, determines the manner of calculation of the solvency margin and minimum value of the guarantee capital.

Own resources of the company are the assets of the insurance company, excluding:

- assets assigned for coverage of all expected commitments,
- intangible assets other than DAC (Deferred Acquisition Cost),
- own shares held by the insurance company,
- deferred income tax assets.

The company BRE Ubezpieczenia TUiR SA is guided only by the law requirements in calculating the solvency margin and the minimum guarantee capital.

Insurance companies check the compliance of capital with law requirements as at the end of each reporting period. Within the whole year 2012 and 2011 the law requirements were met.

The following table presents own resources of the company BRE Ubezpieczenia TUiR SA and coverage of the solvency margin and the guarantee capital as at 31 December 2013 and 31 December 2012.

3.11. Fair value of financial assets and liabilities

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

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

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

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

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

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

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

IFRS Consolidated Financial Statements 2013 PLN (000's)

	31.12.2013		31.12.2012	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Loans and advances to banks	**3 471 241**	**3 515 772**	**3 944 578**	**3 964 969**
Loans and advances to customers	**68 210 385**	**67 300 927**	**66 946 830**	**65 533 027**
Loans and advances to individuals	**37 153 418**	**36 413 808**	**36 646 361**	**35 769 331**
current accounts	4 534 640	4 567 052	4 014 356	4 047 187
term loans including:	32 618 778	31 846 756	32 632 005	31 722 144
- housing and mortgage loans	28 223 739	27 403 194	28 809 905	27 887 137
Loans and advances to corporate entities	**28 270 161**	**28 124 414**	**26 946 919**	**26 491 298**
current accounts	3 362 963	3 353 764	3 968 531	3 938 933
term loans	20 161 638	20 025 090	19 784 972	19 358 949
- corporate & institutional enterprises	4 934 639	4 953 138	5 546 428	5 479 057
- medium & small enterprises	15 226 999	15 071 952	14 238 544	13 879 892
reverse repo / buy sell back transactions	3 287 066	3 287 066	2 024 380	2 024 380
other	1 458 494	1 458 494	1 169 036	1 169 036
Loans and advances to public sector	**2 166 179**	**2 142 078**	**2 686 223**	**2 605 071**
Other receivables	**620 627**	**620 627**	**667 327**	**667 327**
Financial liabilities				
Amounts due to other banks	**19 224 182**	**19 239 265**	**21 110 939**	**20 579 160**
Amounts due to customers	**61 673 527**	**61 670 841**	**57 983 600**	**57 977 521**
Debt securities in issue	**5 402 056**	**5 444 193**	**4 892 275**	**4 909 506**
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 Group for estimation of the fair values of financial instruments:

Loans and advances to banks and loans and advances to customers. The fair value for loans and advances to banks and loans and advances to customers is disclosed as the present value of future cash flows using current interest rates including appropriate credit spreads and is based on the expected maturity of the respective loan agreements. The level of credit spread was determined based on market quotation of median credit spreads for Moody's rating grade. Attribution of a credit spread to a given credit exposure is based on a mapping between Moody's rating grade and internal rating grades of mBank. To reflect the fact that the majority of the 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 Group are valued at fair value. The fair value of debt securities not listed at an active market is calculated using a discounted cash flow approach based on current interest rates (including 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 Group include the following:

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

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

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

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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	3 515 772	-	-	3 515 772
Loans and advances to customers	67 300 927	-	-	67 300 927
FINANCIAL LIABILITIES				
Amounts due to other banks	19 239 265	-	14 358 996	4 880 269
Amounts due to customers	61 670 841	-	4 866 251	56 804 590
Debt securities in issue	5 444 193	2 879 565	-	2 564 628
Subordinated liabilities	3 764 754	-	3 764 754	-
Total financial assets	**70 816 699**	**-**	**-**	**70 816 699**
Total financial liabilities	**90 119 053**	**2 879 565**	**22 990 001**	**64 249 487**

Level 1

In level 1, the Group included the fair value of bonds issued by BRE Finance France, the subsidiary of the Bank (Note 29). For issued debt securities, the Group applied prices directly from the market for these securities.

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 Group 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 Group 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 Group 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 Group 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 Group to market swap curve was estimated. In case of deposits the Group used the curve based on overnight rates, term cash rates, as well as FRA contracts up to 1 year and IRS contracts over 1 year for appropriate currencies and maturities. For debt securities in issue the Group used the prices directly from the market for these securities. For the purpose of measurement of subordinated liabilities the Group used obtained primary market spreads of subordinated bonds issued by the Group and if required corresponding cross-currency basis swap levels for the respective maturities.

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 Group's exposures is collateralised whereas the median of market quotation is centred around unsecured issues, the Group performed appropriate adjustments.

Level 3 includes also the fair value of mortgage bonds and bonds issued by mBank Hipoteczny. For the valuation of the Group has applied the technique of estimation of interest flow using swap curve and discounting with the rate amended by credit spread which is obtainable in case of issue depending on currency and maturity of financial instrument.

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

IFRS Consolidated Financial Statements 2013 PLN (000's)

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

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

In 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.

IFRS Consolidated Financial Statements 2013 PLN (000's)

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

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	**1 150 886**	**817 083**	**30 199**	**303 604**
Debt	1 109 684	806 097	-	303 587
Equity	41 202	10 986	30 199	17
Derivative financial instruments, including	**2 802 695**	**1 307**	**2 801 292**	**96**
Investment securities	**19 993 388**	**11 760 578**	**7 993 893**	**238 917**
Debt	19 720 440	11 534 654	7 981 754	204 032
Equity	272 948	225 924	12 139	34 885
Total financial assets	**23 946 969**	**12 578 968**	**10 825 384**	**542 617**
Financial liabilities				
Derivative financial instruments	**3 476 684**	**150**	**3 476 534**	**-**
- Derivative financial instruments held for hedging	6 198	-	6 198	-
Total financial liabilities	**3 476 684**	**150**	**3 476 534**	**-**

Transfers between levels in 2012	Transfers into Level 1	Transfers out of Level 1	Transfers into Level 2	Transfers out of Level 2
Trading securities	27	-	-	-
Equity	27	-	-	-

Assets Measured at Fair Value Based on Level 3 - changes in 2012	Debt trading securities	Equity trading securities	Derivative financial instruments	Debt investment securities	Equity investment securities
As at the beginning of the period	**443 686**	**-**	**-**	**327 811**	**11 864**
Gains and losses for the period:	3 135	-	96	904	2 935
Recognised in profit or loss	*3 135*	-	*96*	-	*2 008*
Recognised in other comprehensive income	-	-	-	*904*	*927*
Purchases	1 729 714	17	-	102 073	50 160
Redemptions	(1 139 116)	-	-	-	(467)
Sales	(14 080 426)	-	-	(353 854)	(26 403)
Issues	13 330 780	-	-	123 900	-
Settlements	15 814	-	-	3 198	(3 177)
Transfers out of Level 3	-	-	-	-	*(27)*
As at the end of the period	**303 587**	**17**	**96**	**204 032**	**34 885**

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

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

Level 1

As at 31 December 2013, at level 1 of the fair value hierarchy, the Group has presented the fair value of held for trading government bonds in the amount of PLN 388 259 thousand (see Note 19) and the fair value of investment government bonds in the amount of PLN 18 583 636 thousand (31 December 2012 respectively: PLN 806 097 thousand and PLN 11 496 866 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 225 108 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 6 314 196 thousand (31 December 2012: PLN 7 981 754 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 Group'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 Group'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 479 305 thousand (31 December 2012: PLN 507 619 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 40 212 thousand valuated using the market multiples method. The market multiples method, consists of valuating the equity capital of a company by using a relation between the market values of the own equity capital or market values of the total capital invested in comparable companies (goodwill) and selected economic and financial figures.

3.12. Other activities

The Group provides custody, trustee, corporate administration, investment management and advisory services to third parties. In connection with these, the Group 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 Group applies estimates and adopts assumptions which impact the values of assets and liabilities presented in the subsequent period. Estimates and assumptions, which are continuously subject to assessment, rely on historical experience and other factors, including expectations concerning future events, which seem justified under the given circumstances. Last such verification was performed in November 2013 and it did not have material impact on the overall level of provisions for loans and advances, however it had an impact on the structure of these provisions as well as on the level of loans and advances for which impairment was recognized. The detailed description of the changes implemented as a result of this verification is included under Note 3.4.4.2 of these consolidated financial statements.

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

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

<u>Fair value of derivative instruments</u>

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

<u>Impairment of available for sale investments</u>

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

<u>Deferred tax assets</u>

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

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

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

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

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

<u>Liabilities due to post-employment employee benefits</u>

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

Technical-insurance provisions

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

As at 31 December 2013, provisions for claims incurred but not reported to the insurer (IBNR) were calculated using the actuarial methods (Naive Loss Ratio and Bornhuetter-Ferguson). The expected loss ratios are composed on the basis of available market studies concerning loss arising from the given group of risks.

5. Business segments

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

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

Under the rebranding process, on 25 November 2013, their names changed BRE Bank and MultiBank. Entities of the former BRE Bank Group merged under the name mBank S.A. Ultimately, the rebranding process will cover all the outlets of the former BRE Bank Group with all its branches getting a new logo. The process will be completed during 2014. Additionally, in accordance with the strategy, all retail and corporate branches of the Bank will have been re-organized and repositioned by 2018 to provide a full range of services to all mBank S.A. clients.

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

- The Retail Banking segment, which divides its customers into mBank customers and Private Banking customers and which offers a full range of the Bank's banking products and services as well as specialized products offered by a number of subsidiaries belonging to the Retail Banking segment. The key products in this segment include current and savings accounts (including accounts in foreign currencies), term deposits, lending products (retail mortgage loans and non-mortgage loans such as cash loans, car loans, overdrafts, credit cards and other loan products), debit cards, insurance products, investment products and brokerage services offered to both individual customers and to micro-businesses. The results of the Retail Banking segment include the results of foreign branches of mBank in the Czech Republic and Slovakia. The Retail Banking segment also includes the results of mBank Hipoteczny S.A., mWealth Management S.A., Aspiro S.A. as well as BRE Ubezpieczenia TUiR S.A., BRE Ubezpieczenia Sp. z o.o. and BRE Agent Ubezpieczeniowy Sp. z o.o.
- The Corporates and Financial Markets segment, which is divided into two sub-segments:
    - *Corporates and Institutions* sub-segment (business line), which targets small, medium and large-sized companies and public sector entities. The key products offered to these customers include transactional banking products and services including current account products, multi-functional internet banking, tailor-made cash management and trade finance services, term deposits, foreign exchange transactions, a comprehensive offer of short-term financing and investment loans, cross-border credit, project finance, structured and mezzanine finance services, investment banking products including foreign exchange options, forward contracts, interest rate derivatives and commodity swaps and options, structured deposit products with embedded options (interest on structured deposit products are directly linked to the performance of certain underlying financial instruments such as foreign exchange options, interest rate options and stock options), debt origination for corporate clients, treasury bills and bonds, non-government debt, medium-term bonds, buy sell back and sell buy back transactions and repo transactions, as well as leasing and factoring services. The Corporates and Institutions sub-segment includes the results of the

following subsidiaries:, mLeasing Sp. z o.o., mFaktoring S.A., MLV 45 Sp. z o.o. spółka komandytowa (previously BRE Holding Sp. z o.o.), Transfinance a.s., Garbary Sp. z o.o., as well as the results achieved by MLV 35 Sp. z o.o. spółka komandytowo-akcyjna until the date of cessation of consolidation, due to the liquidation process of the company.

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

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

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

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

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

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

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

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

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

From the beginning of 2013, there was a change in the assignment to a segment of mBank Hipoteczny S.A. The company was assigned to the Retail Banking segment (previously was part of Trading and Investment sub-segment). This change was made in connection with the new strategy adopted by mBank Hipoteczny S.A., which assumes that the company will be in the future a source of funding for mortgages offered to retail customers.

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

The primary basis used by the Group in the segment reporting is business line division. Additionally, the Group's activity is presented by geographical areas reporting broken down into Poland and foreign countries. Foreign countries segment include activity of mBank's foreign branches in Czech Republic and Slovakia as well as activity of foreign subsidiaries Transfinance a.s. and BRE Finance France S.A.

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

	Corporates & Financial Markets		Retail Banking (including Private Banking)	Other	Eliminations	Total figure for the Group	Statement of financial position reconciliation/ income statement reconciliation
	Corporates & Institutions	Trading & Investment					
Net interest income	**753 223**	**19 053**	**1 462 644**	**(9 109)**	**-**	**2 225 811**	**2 225 811**
- sales to external clients	623 208	665 891	941 485	(4 773)	-	2 225 811	
- sales to other segments	130 015	(646 838)	521 159	(4 336)	-	-	
Net fee and commission income	**311 346**	**52 705**	**457 499**	**(3 780)**	**16 968**	**834 738**	**834 738**
- sales to external clients	295 345	65 098	478 101	(3 806)	-	834 738	
- sales to other segments	16 001	(12 393)	(20 602)	26	16 968	-	
Dividend income	**24 454**	**121**	**64**	**2 217**	**-**	**26 856**	**26 856**
Trading income	**199 517**	**23 117**	**120 411**	**(67)**	**-**	**342 978**	**342 978**
Gains less losses from investment securities, investments in subsidiaries and associates	**8 747**	**56 327**	**13 504**	**-**	**-**	**78 578**	**78 578**
Other operating income	**88 897**	**2 171**	**141 999**	**161 597**	**(19 843)**	**374 821**	**374 821**
Net impairment losses on loans and advances	**(180 818)**	**807**	**(297 719)**	**(48)**	**-**	**(477 778)**	**(477 778)**
Overhead costs	**(523 955)**	**(124 926)**	**(812 064)**	**(32 083)**	**2 875**	**(1 490 153)**	**(1 490 153)**
Amortization and depreciation	**(70 011)**	**(12 198)**	**(102 517)**	**(3 164)**	**-**	**(187 890)**	**(187 890)**
Other operating expenses	**(38 148)**	**(2 087)**	**(71 938)**	**(98 085)**	**-**	**(210 258)**	**(210 258)**
Gross profit of the segment	**573 252**	**15 090**	**911 883**	**17 478**	**-**	**1 517 703**	**1 517 703**
Income tax						(308 725)	(308 725)
Net profit attributable to Owners of mBank S.A.						1 206 375	1 206 375
Net profit attributable to non-controlling interests						2 603	2 603
Assets of the segment	**24 740 104**	**36 084 994**	**42 526 861**	**930 802**	**-**	**104 282 761**	**104 282 761**
Liabilities of the segment	**20 307 650**	**35 443 564**	**37 577 996**	**697 113**	**-**	**94 026 323**	**94 026 323**
Other items of the segment							
Expenditures incurred on fixed assets and intangible assets	(103 014)	(10 192)	(115 323)	(181)	-	(228 710)	
Other costs/ income without cash outflows/ inflows*	2 704	17 333	5 560	-	-	25 597	
- other non-cash costs	*(369)*	*(1 388 593)*	*730*	-	-	*(1 388 232)*	
- other non-cash income	*3 073*	*1 405 926*	*4 830*	-	-	*1 413 829*	

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

Business segment reporting on the activities of mBank S.A. Group for the period from 1 January to 31 December 2012 (PLN'000)

	Corporates & Financial Markets		Retail Banking (including Private Banking)	Other	Eliminations	Total figure for the Group	Statement of financial position reconciliation/ income statement reconciliation
	Corporates & Institutions	Trading & Investment					
Net interest income	**727 168**	**133 281**	**1 432 121**	**(13 722)**	**749**	**2 279 597**	**2 279 597**
- sales to external clients	594 238	854 850	831 207	(698)	-	2 279 597	
- sales to other segments	132 930	(721 569)	600 914	(13 024)	749	-	
Net fee and commission income	**309 460**	**37 451**	**426 328**	**(2 739)**	**16 046**	**786 546**	**786 546**
- sales to external clients	287 611	54 782	446 892	(2 739)	-	786 546	
- sales to other segments	21 849	(17 331)	(20 564)	-	16 046	-	
Dividend income	**11 045**	**223**	**62**	**2 572**	**-**	**13 902**	**13 902**
Trading income	**184 315**	**37 958**	**134 785**	**(516)**	**-**	**356 542**	**356 542**
Gains less losses from investment securities, investments in subsidiaries and associates	**(974)**	**33 557**	**2 008**	**10 375**	**-**	**44 966**	**44 966**
Other operating income	**78 543**	**4 721**	**117 182**	**119 667**	**(44 392)**	**275 721**	**275 721**
Net impairment losses on loans and advances	**(166 661)**	**(15 383)**	**(262 584)**	**(7)**	**-**	**(444 635)**	**(444 635)**
Overhead costs	**(510 327)**	**(125 380)**	**(820 397)**	**(37 207)**	**27 597**	**(1 465 714)**	**(1 465 714)**
Amortization and depreciation	**(79 350)**	**(11 550)**	**(101 627)**	**(3 090)**	**-**	**(195 617)**	**(195 617)**
Other operating expenses	**(40 492)**	**(1 240)**	**(68 463)**	**(76 305)**	**-**	**(186 500)**	**(186 500)**
Gross profit of the segment	**512 727**	**93 638**	**859 415**	**(972)**	**-**	**1 464 808**	**1 464 808**
Income tax						(266 906)	(266 906)
Net profit attributable to Owners of mBank S.A.						1 197 321	1 197 321
Net profit attributable to non-controlling interests						581	581
Assets of the segment	**25 136 704**	**34 087 188**	**42 086 323**	**834 768**	**-**	**102 144 983**	**102 144 983**
Liabilities of the segment	**20 660 447**	**33 081 039**	**37 810 589**	**973 987**	**-**	**92 526 062**	**92 526 062**
Other items of the segment							
Expenditures incurred on fixed assets and intangible assets	(112 233)	(24 152)	(86 477)	(1 834)	-	(224 696)	
Other costs/ income without cash outflows/ inflows*	6 137	53 372	5 934	133	-	65 576	
- other non-cash costs	*(877)*	*(2 243 438)*	-	-	-	*(2 244 315)*	
- other non-cash income	*7 014*	*2 296 810*	*5 934*	*133*	-	*2 309 891*	

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

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The mBank S.A. Group geographical areas reporting

Geographical areas reporting on the acivities of mBank Group for the period from 1 January to 31 December	2013			2012		
	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total
Net interest income	2 124 260	101 551	**2 225 811**	2 186 394	93 203	**2 279 597**
Net fee and commission income	811 613	23 125	**834 738**	766 984	19 562	**786 546**
Dividend income	26 856	-	**26 856**	13 902	-	**13 902**
Trading income	337 150	5 828	**342 978**	352 828	3 714	**356 542**
Gains less losses from investment securities, investments in subsidiaries and associates	78 578	-	**78 578**	44 966	-	**44 966**
Other operating income	370 182	4 639	**374 821**	270 590	5 131	**275 721**
Net impairment losses on loans and advances	(467 468)	(10 310)	**(477 778)**	(430 487)	(14 148)	**(444 635)**
Overhead costs	(1 395 426)	(94 727)	**(1 490 153)**	(1 387 584)	(78 130)	**(1 465 714)**
Amortization and depreciation	(183 337)	(4 553)	**(187 890)**	(190 779)	(4 838)	**(195 617)**
Other operating expenses	(202 490)	(7 768)	**(210 258)**	(177 385)	(9 115)	**(186 500)**
Gross profit of the segment	1 499 918	17 785	**1 517 703**	1 449 429	15 379	**1 464 808**
Income tax			(308 725)			(266 906)
Net profit attributable to Owners of mBank S.A.			1 206 375			1 197 321
Net profit attributable to non-controlling interests			2 603			581
Assets of the segment, including:	101 649 833	2 632 928	**104 282 761**	99 933 059	2 211 924	**102 144 983**
- tangible assets	1 147 730	17 167	1 164 897	1 192 443	17 584	1 210 027
- deferred income tax assets	367 611	3 210	370 821	387 316	3 866	391 182
Liabilities of the segment	85 956 950	8 069 373	**94 026 323**	85 741 819	6 784 243	**92 526 062**

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6. Net interest income

	Year ended 31 December	
	2013	**2012**
Interest income		
Loans and advances including the unwind of the impairment provision discount	2 841 195	3 266 564
Investment securities	884 205	870 692
Cash and short-term placements	78 807	127 562
Trading debt securities	43 693	70 854
Interest income on derivatives classified into banking book	88 583	172 733
Interest income on derivatives concluded under the hedge accounting	181	-
Other	13 307	14 712
Total interest income	**3 949 971**	**4 523 117**
Interest expense		
Arising from amounts due to banks	(256 936)	(353 037)
Arising from amounts due to customers	(1 133 931)	(1 611 479)
Arising from issue of debt securities	(191 965)	(182 356)
Other borrowed funds	(64 101)	(62 941)
Interest expense related to post-employment benefits	-	(945)
Other	(77 227)	(32 762)
Total interest expense	**(1 724 160)**	**(2 243 520)**

Interest income related to impaired financial assets amounted to PLN 178 515 thousand (for the period ended 31 December 2012: PLN 195 224 thousand).

Net interest income per client groups is as follows:

	Year ended 31 December	
	2013	**2012**
Interest income		
From banking sector	444 185	568 469
From clients, including:	3 505 786	3 954 648
- corporate clients	1 207 644	1 514 013
- individual clients	1 524 418	1 581 689
- public sector	773 724	858 946
Total interest income	**3 949 971**	**4 523 117**
Interest expense		
From banking sector	(296 768)	(377 491)
From clients, including:	(1 275 478)	(1 643 724)
- corporate clients	(516 520)	(799 067)
- individual clients	(673 439)	(808 036)
- public sector	(85 519)	(36 621)
From debt securities in issue	(151 914)	(222 305)
Total interest expense	**(1 724 160)**	**(2 243 520)**

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7. Net fee and commission income

	Year ended 31 December	
	2013	2012
Fee and commission income		
Payment cards-related fees	413 729	393 837
Credit-related fees and commissions	227 600	216 304
Commissions from insurance activity	106 637	122 280
Commissions from bank accounts	154 980	127 574
Commissions from money transfers	88 239	87 793
Fees from brokerage activity	91 607	76 654
Commissions for agency service regarding selling products of external financial entities	77 413	62 524
Commissions due to guarantees granted and trade finance commissions	37 864	36 879
Commissions on trust and fiduciary activities	19 393	17 469
Fees from portfolio management services and other management-related fees	14 402	9 677
Other	71 970	65 888
Fee and commission income	**1 303 834**	**1 216 879**
Fee and commission expense		
Payment cards-related fees	(217 668)	(182 739)
Commissions paid to external entities for sale of the Bank's products	(59 035)	(65 142)
Discharged brokerage fees	(26 191)	(23 966)
Insurance activity-related fees	(3 628)	(10 471)
Other discharged fees	(162 574)	(148 015)
Total fee and commision expense	**(469 096)**	**(430 333)**

	Year ended 31 December	
	2013	2012
Fee and commission income from insurance contracts		
- Income from insurance intermediation	87 556	101 919
- Income from insurance policies administration	19 081	20 361
Total fee and commission income from insurance contracts	**106 637**	**122 280**

8. Dividend income

	Year ended 31 December	
	2013	2012
Trading securities	49	162
Securities available for sale	26 807	13 740
Total dividend income	**26 856**	**13 902**

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9. Net trading income

	Year ended 31 December	
	2013	**2012**
Foreign exchange result	**282 545**	**324 006**
Net exchange differences on translation	239 853	218 907
Net transaction gains/(losses)	42 692	105 099
Other net trading income and result on hedge accounting	**60 433**	**32 536**
Interest-bearing instruments	49 455	24 002
Equity instruments	145	3 077
Market risk instruments	2 833	4 118
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	**342 978**	**356 542**

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

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

In addition, from October 2012 the Group applies fair value hedge accounting of Eurobonds issued by BRE Finance France S.A., subsidiary of mBank. An Interest Rate Swap is the hedging instrument changing the fixed interest rate to a variable interest rate.

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

10. Other operating income

	Year ended 31 December	
	2013	**2012**
Income from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories	142 651	84 831
Income from insurance activity net	82 931	71 574
Income from services provided	30 818	32 553
Net income from operating lease	14 873	20 680
Income due to release of provisions for future commitments	36 195	11 393
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	1 169	96
Income from compensations, penalties and fines received	184	494
Release of impairment provisions for tangible fixed assets and intangible assets	-	12 300
Other	66 000	41 800
Total other operating income	**374 821**	**275 721**

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

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

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

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

In 2012, as a result of the analysis of tangible fixed assets, the Group had made write-offs of investments in real estate and leasehold improvements (Note 12) and reversal of write-offs created in the previous reporting periods. The total impact of write-offs and reversal of write-offs was negative and amounted to PLN 3 087 thousand.

Net income from insurance activity generated in 2013 and 2012 respectively, is presented below.

	Year ended 31 December	
	2013	**2012**
Income from premiums		
- Premiums attributable	183 877	174 414
- Change in provision for premiums	2 518	473
Premiums earned	**186 395**	**174 887**
Reinsurer's shares		
- Gross premiums written	(72 131)	(74 135)
- Change in unearned premiums reserve	(2 098)	5 910
Reinsurer's share in premiums earned	**(74 229)**	**(68 225)**
Net premiums earned	**112 166**	**106 662**
Claims and benefits		
- Claims and benefits paid out in the current year including costs of liquidation before tax	(73 133)	(60 519)
- Change in provision for claims and benefits paid out in the current year including costs of liquidation before tax	(13 287)	(23 214)
- Reinsurer's share in claims and benefits paid out in the current year including costs of liquidation	51 868	40 334
- Change in provision for reinsurer's share of claims and benefits paid out in the current year including costs of liquidation	9 274	13 184
Claims and benefits net	**(25 278)**	**(30 215)**
- Other costs net of reinsurance	(3 744)	(4 515)
- Other operating income	8	(67)
- Costs of expertise and certificates concerning underwriting risk	(221)	(291)
Total net income from insurance activity	**82 931**	**71 574**

Net income from operating lease generated in 2013 and 2012 respectively, is presented below.

	Year ended 31 December	
	2013	**2012**
Net income from operating lease, including:		
- Income from operating lease	66 667	72 237
- Depreciation cost of fixed assets provided under operating lease	(51 794)	(51 557)
Total net income from operating lease	**14 873**	**20 680**

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11. Overhead costs

	Year ended 31 December	
	2013	2012
Staff-related expenses	(808 259)	(808 425)
Material costs	(586 658)	(564 399)
Taxes and fees	(30 011)	(25 069)
Contributions and transfers to the Bank Guarantee Fund	(58 228)	(60 454)
Contributions to the Social Benefits Fund	(6 782)	(6 511)
Other	(215)	(856)
Total overhead costs	**(1 490 153)**	**(1 465 714)**

'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	(657 993)	(661 772)
Social security expenses	(98 847)	(94 718)
Employee contributions related to post-employment benefits	(857)	(1 057)
Remuneration concerning share-based payments, including:	(15 886)	(12 216)
- share-based payments settled in mBank S.A. shares	(15 759)	(11 365)
- cash-settled share-based payments	(127)	(851)
Other staff expenses	(34 676)	(38 662)
Staff-related expenses, total	**(808 259)**	**(808 425)**

12. Other operating expenses

	Year ended 31 December	
	2013	2012
Costs arising from sale or liquidation of fixed assets, intangible assets, assets held for resale and inventories	(114 796)	(64 167)
Provisions for future commitments	(42 593)	(51 603)
Costs arising from provisions created for other receivables (excluding loans and advances)	(4 624)	(6 491)
Donations made	(2 726)	(2 764)
Costs of sale of services	(1 799)	(1 597)
Compensation, penalties and fines paid	(718)	(1 303)
Costs arising from receivables and liabilities recognised as prescribed, remitted and uncollectible	(478)	(137)
Impairment provisions created for tangible fixed assets and intangible assets	-	(15 387)
Other operating costs	(42 524)	(43 051)
Total other operating expenses	**(210 258)**	**(186 500)**

In 2012, as a result of the analysis of tangible fixed assets the Group had made write-offs of investments in real estate and leasehold improvements and reversal of write-offs created in the previous reporting periods (Note 10). The total impact of write-offs and reversal of write-offs was negative and amounted to PLN 3 087 thousand.

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

In 2013, provisions for future commitments include provisions for legal proceedings of PLN 29 199 thousand (2012: PLN 22 950 thousand) (Note 32).

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Costs of services provided concern non-banking services.

13. Net impairment losses on loans and advances

	Year ended 31 December	
	2013	2012
Net impairment losses on amounts due from other banks (Note 18)	282	437
Net impairment losses on loans and advances to customers (Note 22)	(468 485)	(429 115)
Changes in provisions on off-balance sheet items (Note 32)	(9 575)	(15 957)
Total net impairment losses on loans and advances	**(477 778)**	**(444 635)**

14. Income tax expense

	Year ended 31 December	
	2013	2012
Current tax	(243 039)	(397 126)
Deferred income tax (Note 33)	(65 686)	130 220
Total income tax	**(308 725)**	**(266 906)**
Profit before tax	**1 517 703**	**1 464 808**
Tax calculated at Polish current tax rate (19%)	(288 364)	(278 314)
Effect of different tax rates in other countries	(12)	(1)
Income not subject to tax *)	15 073	3 865
Costs other than tax deductible costs **)	(47 659)	(20 131)
Other positions affecting income tax	613	29 209
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	**(308 725)**	**(266 906)**
Effective tax rate calculation		
Profit before income tax	1 517 703	1 472 103
Income tax	(308 725)	(266 906)
Effective tax rate	**20.34%**	**18.13%**

*) includes i.a. a positive result of branch in Czech Republic (excluded from taxation in Poland).

**) 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 Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the parent as presented above.

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15. Earnings per share

Earnings per share for 12 months

	2013	2012
Basic:		
Net profit attributable to Owners of mBank S.A.	1 206 375	1 197 321
Weighted average number of ordinary shares	42 155 456	42 118 904
Net basic profit per share (in PLN per share)	**28.62**	**28.43**
Diluted:		
Net profit attributable to Owners of mBank S.A., applied for calculation of diluted earnings per share	1 206 375	1 197 321
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)	**28.61**	**28.40**

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 programmes 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.

16. 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	**(209 715)**	**44 482**	**(165 233)**	**489 058**	**(67 060)**	**421 998**
Exchange differences on translation of foreign operations	(2 116)	-	(2 116)	(1 815)	-	(1 815)
Change in valuation of available for sale financial assets	(207 599)	44 482	(163 117)	490 873	(67 060)	423 813
Items that will not be reclassified to the income statement	**(875)**	**166**	**(709)**	**278**	**(53)**	**225**
Actuarial gains and losses relating to post-employment benefits	(875)	166	(709)	278	(53)	225
Total other comprehensive income	**(210 590)**	**44 648**	**(165 942)**	**489 336**	**(67 113)**	**422 223**

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	**(165 233)**	**421 998**
Exchange differences on translating foreign operations	**(2 116)**	**(1 815)**
Unrealised gains (positive differences) arising during the year (net)	6 378	2 678
Unrealised losses (negative differences) arising during the year (net)	(8 494)	(4 493)
Available-for-sale financial assets	**(163 117)**	**423 813**
Unrealised gains on debt instruments arising during the year (net)	33 149	438 560
Unrealised losses on debt instruments arising during the year (net)	(158 616)	(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	37 201
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)	(9 574)	(130)
Items that will not be reclassified to the income statement	**(709)**	**225**
Actuarial gains and losses relating to post-employment benefits	**(709)**	**225**
Actuarial gains	35	225
Actuarial losses	(744)	-
Total other comprehensive income (net)	**(165 942)**	**422 223**

In 2013 and 2012, a change in the valuation of treasury 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 Group 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 2013, the unrealized gains on equity instruments include positive valuation of shares in PZU SA in amount PLN 5 655 thousand, (in 2012, the unrealized loss of PLN 33 848 thousand).

17. Cash and balances with central bank

	31.12.2013	31.12.2012
Cash in hand	250 696	197 635
Current account	1 399 771	4 621 568
Total cash and balances with the Central Bank (Note 42)	**1 650 467**	**4 819 203**

On the basis of the Act on the National Bank of Poland of 29 August 1997, mBank and mBank Hipoteczny hold a mandatory reserve deposit. The arithmetic mean of daily balances of the mandatory reserve which mBank and mBank Hipoteczny were obliged to maintain during a given period in the current account with NBP amounted to:

- PLN 1 851 071 thousand for the period from 31 December 2013 to 30 January 2014,
- PLN 1 857 076 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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18. Loans and advances to banks

	31.12.2013	31.12.2012
Current accounts	479 627	366 562
Placements with other banks (up to 3 months)	1 167 287	1 586 455
Included in cash equivalents (Note 42)	**1 646 914**	**1 953 017**
Loans and advances	149 829	292 554
Term placements with other banks	4 953	13 567
Reverse repo / buy-sell-back transactions	1 249 936	887 433
Other receivables	419 898	798 566
Total (gross) loans and advances to banks	**3 471 530**	**3 945 137**
Provisions created for loans and advances to banks (negative amount)	(289)	(559)
Total (net) loans and advances to banks	**3 471 241**	**3 944 578**
Short-term (up to 1 year)	3 445 025	3 896 317
Long-term (over 1 year)	26 216	48 261

The following table presents receivables from Polish and foreign banks:

	31.12.2013	31.12.2012
Loans and advances to Polish banks (gross)	934 387	1 478 905
Provisions created for loans and advances to Polish banks	(118)	(79)
Loans and advances to foreign banks (gross)	2 537 143	2 466 232
Provisions created for loans and advances to foreign banks	(171)	(480)
Total (net) loans and advances to banks	**3 471 241**	**3 944 578**

As at 31 December 2013, the variable rate loans to banks amounted to PLN 140 215 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 290 160 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 1 317 116 thousand and PLN 1 600 022 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 13)	(1 664)	(3 793)
Release of provisions (Note 13)	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 and 31 December 2012, the amount of provisions for loans and advances to banks relates in total to receivables without loss.

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19. 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:	**482 343**	**252 278**	**734 621**	**550 040**	**559 644**	**1 109 684**
Issued by government	135 981	252 278	388 259	246 453	559 644	806 097
- government bonds	135 981	252 278	388 259	246 134	559 644	805 778
- treasury bills	-	-	-	319	-	319
Other debt securities	346 362	-	346 362	303 587	-	303 587
- bank's bonds	264 922	-	264 922	231 196	-	231 196
- deposit certificates	37 787	-	37 787	26 459	-	26 459
- corporate bonds	43 653	-	43 653	45 932	-	45 932
Equity securities:	**28 443**	**-**	**28 443**	**41 202**	**-**	**41 202**
- listed	6 893	-	6 893	10 986	-	10 986
- unlisted	21 550	-	21 550	30 216	-	30 216
Total debt and equity securities:	**510 786**	**252 278**	**763 064**	**591 242**	**559 644**	**1 150 886**

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).

20. Derivative financial instruments

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

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

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

Due to the application of fair value hedge accounting for part of the portfolio of fixed interest rate mortgage loans granted by foreign branches of the Bank in the Czech Republic and fair value hedge accounting of Eurobonds issued by BRE Finance France S.A. within interest rate swaps, the Group distinguished instruments that hedge the risk of changes in interest rate. Result from valuation of the hedged item and hedging instruments is presented in this consolidated financial statement in item 'Net income from other trading operations and hedge accounting' in Note 9.

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

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

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

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The following table presents the fair values of the derivatives:

	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	8 503 882	33 158	98 114
- Currency swaps	8 055 578	7 952 942	120 168	26 676
- 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	**21 049 631**	**21 168 452**	**232 776**	**183 643**
- Currency futures	60 449	60 728	-	-
Total foreign exchange derivatives	**21 110 080**	**21 229 180**	**232 776**	**183 643**
Interest rate derivatives				
- Interest rate swap, OIS	182 875 031	182 875 028	1 976 546	2 133 359
- 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	**280 753 874**	**272 353 634**	**2 103 034**	**2 253 550**
- Interest rate futures	10 335	10 373	-	-
Total interest rate derivatives	**280 764 209**	**272 364 007**	**2 103 034**	**2 253 550**
Market risk transactions	**745 284**	**727 958**	**13 775**	**14 766**
Total derivative assets / liabilities held for trading	**302 619 573**	**294 321 145**	**2 349 585**	**2 451 959**
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	**305 488 873**	**297 190 445**	**2 349 585**	**2 459 715**
Total recognised derivative assets/ liabilities and other trading liabilities	**305 488 873**	**297 190 445**	**2 349 585**	**2 459 715**
Short-term (up to 1 year)	167 797 967	160 542 697	1 029 709	1 134 139
Long-term (over 1 year)	137 690 906	136 647 748	1 319 876	1 325 576

	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	10 273 010	10 139 218	161 491	39 651
- 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	**19 394 554**	**19 459 284**	**251 431**	**238 493**
- Currency futures	34 638	34 789	-	-
Total foreign exchange derivatives	**19 429 192**	**19 494 073**	**251 431**	**238 493**
Interest rate derivatives				
- Interest rate swap, OIS	174 878 240	174 878 239	2 163 782	2 992 790
- 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	**278 569 804**	**321 141 172**	**2 543 310**	**3 221 474**
Total interest rate derivatives	**278 569 804**	**321 141 172**	**2 543 310**	**3 221 474**
Market risk transactions	**488 455**	**398 752**	**7 954**	**10 519**
Total derivative assets / liabilities held for trading	**298 487 451**	**341 033 997**	**2 802 695**	**3 470 486**

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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	**300 635 831**	**343 182 377**	**2 802 695**	**3 476 684**
Total recognised derivative assets/ liabilities and other trading liabilities	**300 635 831**	**343 182 377**	**2 802 695**	**3 476 684**
Short-term (up to 1 year)	194 166 841	229 965 235	1 084 201	1 585 715
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 Group 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 Group did not have any financial assets and liabilities designated upon initial recognition as at fair value through the income statement.

21. Hedge accounting

The Group applies 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 Group 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.

Description of the hedging relation

The Group 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 Eurobonds issued by BRE Finance France S.A. (BFF), subsidiary of mBank. The hedged risk results from changes in interest rates.

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 Eurobonds issued by BFF with a nominal value of EUR 500 000 thousand,
- fixed interest rate Eurobonds issued by BFF with a nominal value of CHF 200 000 thousand,
- fixed interest rate Eurobonds issued by BFF with a nominal value of CZK 500 000 thousand,

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 are recognised in the income statement as the income from trading operation.

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22. Loans and advances to customers

	31.12.2013	31.12.2012
Loans and advances to individuals:	**38 307 915**	**37 704 084**
- current accounts	4 978 854	4 600 545
- term loans, including:	33 329 061	33 103 539
housing and mortgage loans	28 692 896	29 093 843
Loans and advances to corporate entities:	**29 475 274**	**28 405 403**
- current accounts	3 597 377	4 255 092
- term loans:	21 076 873	20 897 898
corporate & institutional enterprises	5 115 320	5 857 708
medium & small enterprises	15 961 553	15 040 190
- reverse repo / buy-sell-back transactions	3 287 066	2 024 380
- other	1 513 958	1 228 033
Loans and advances to public sector	**2 177 976**	**2 698 549**
Other receivables	**620 627**	**667 327**
Total (gross) loans and advances to customers	**70 581 792**	**69 475 363**
Provisions for loans and advances to customers (negative amount)	(2 371 407)	(2 528 533)
Total (net) loans and advances to customers	**68 210 385**	**66 946 830**

Short-term (up to 1 year)	24 596 330	22 895 700
Long-term (over 1 year)	43 614 055	44 051 130

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 69 584 163 thousand and fixed rate credits amounted to PLN 997 629 thousand (as at 31 December 2012 respectively: PLN 68 603 360 thousand and PLN 984 427 thousand). 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 4.01% (31 December 2012: 4.60%).

Provisions for loans and advances:

	31.12.2013	31.12.2012
Incurred but not identified losses		
Gross balance sheet exposure	66 158 075	65 843 104
Impairment provisions for exposures analysed according to portfolio approach	(256 556)	(198 712)
Net balance sheet exposure	**65 901 519**	**65 644 392**
Receivables with impairment		
Gross balance sheet exposure	4 423 717	3 632 259
Provisions for receivables with impairment	(2 114 851)	(2 329 821)
Net balance sheet exposure	**2 308 866**	**1 302 438**

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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	**(1 057 723)**	**(1 251 779)**	**990 527**	**(18 078)**	**182 556**	**(1 154 497)**
Current accounts	(586 189)	(459 141)	518 946	(17 120)	99 290	**(444 214)**
Term loans, including:	(471 534)	(792 638)	471 581	(958)	83 266	**(710 283)**
Housing and mortgage loans	(283 938)	(488 484)	268 959	760	33 546	**(469 157)**
Loans and advances to corporate entities	**(1 458 484)**	**(767 033)**	**559 269**	**6 835**	**454 300**	**(1 205 113)**
Current accounts	(286 561)	(252 500)	174 579	38 567	91 501	**(234 414)**
Term loans, including:	(1 112 926)	(503 632)	384 007	(27 363)	344 679	**(915 235)**
Corporate & institutional enterprises	(311 280)	(139 081)	193 890	1 271	74 519	**(180 681)**
Medium & small enterprises	(801 646)	(364 551)	190 117	(28 634)	270 160	**(734 554)**
Other	(58 997)	(10 901)	683	(4 369)	18 120	**(55 464)**
Loans and advances to public sector	**(12 326)**	**(724)**	**1 255**	**(2)**	**-**	**(11 797)**
Total movements for loans and advances to customers	**(2 528 533)**	**(2 019 536)**	**1 551 051**	**(11 245)**	**636 856**	**(2 371 407)**

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	**(861 377)**	**(750 522)**	**515 164**	**14 487**	**24 525**	**(1 057 723)**
Current accounts	(523 086)	(334 510)	245 064	5 757	20 586	**(586 189)**
Term loans, including:	(338 291)	(416 012)	270 100	8 730	3 939	**(471 534)**
Housing and mortgage loans	(200 789)	(254 823)	163 143	8 079	452	**(283 938)**
Loans and advances to corporate entities	**(1 523 199)**	**(806 517)**	**621 174**	**23 528**	**226 530**	**(1 458 484)**
Current accounts	(324 262)	(322 549)	252 259	18 506	89 485	**(286 561)**
Term loans, including:	(1 134 934)	(470 563)	365 502	1 880	125 189	**(1 112 926)**
Corporate & institutional enterprises	(337 438)	(114 426)	123 065	17 519	-	**(311 280)**
Medium & small enterprises	(797 496)	(356 137)	242 437	(15 639)	125 189	**(801 646)**
Other	(64 003)	(13 405)	3 413	3 142	11 856	**(58 997)**
Loans and advances to public sector	**(3 708)**	**(57 417)**	**49 003**	**(204)**	**-**	**(12 326)**
Total movements for loans and advances to customers	**(2 388 284)**	**(1 614 456)**	**1 185 341**	**37 811**	**251 055**	**(2 528 533)**

Loans and advances include receivables under finance leases.

	31.12.2013	31.12.2012
Gross investment in finance leases, receivable:	**4 541 342**	**4 003 756**
- not later than 1 year	1 393 783	1 386 863
- later than 1 year and not later than 5 years	2 492 111	2 252 512
- later than 5 years	655 448	364 381
Unearned future finance income on finance leases (negative amount)	(533 982)	(469 720)
Net investment in finance leases	**4 007 360**	**3 534 036**
Net investment in finance leases, receivable:		
- not later than 1 year	1 208 758	1 199 826
- later than 1 year and not later than 5 years	2 230 081	2 016 366
- later than 5 years	568 521	317 844
Net investment in finance leases	**4 007 360**	**3 534 036**
Impairment provisions for finance leases receivable	**(149 130)**	**(176 640)**
Net carrying amount of finance leases receivable	**3 858 230**	**3 357 396**
Unguaranteed residual value accruing to the lessor	**202 245**	**497 717**

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23. 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	**19 303 219**	**5 766 038**	**25 069 257**	**17 174 158**	**2 546 282**	**19 720 440**
Issued by government	12 839 094	5 744 542	18 583 636	9 076 533	2 420 333	11 496 866
- government bonds	12 839 094	5 744 542	18 583 636	9 076 533	2 420 035	11 496 568
- treasury bills	-	-	-	-	298	298
Issued by central bank	6 292 700	21 496	6 314 196	7 855 805	125 949	7 981 754
Other debt securities	171 425	-	171 425	241 820	-	241 820
- bank's bonds	25 136	-	25 136	123 901	-	123 901
- corporate bonds	107 906	-	107 906	80 131	-	80 131
- communal bonds	38 383	-	38 383	37 788	-	37 788
Equity securities:	**272 506**	**-**	**272 506**	**272 948**	**-**	**272 948**
Listed	229 617	-	229 617	225 108	-	225 108
Unlisted	42 889	-	42 889	47 840	-	47 840
Total debt and equity securities:	**19 575 725**	**5 766 038**	**25 341 763**	**17 447 106**	**2 546 282**	**19 993 388**
Short-term (up to 1 year)	**6 706 581**	**23 494**	**6 730 075**	**8 794 515**	**156 185**	**8 950 700**
Long-term (over 1 year)	**12 869 144**	**5 742 544**	**18 611 688**	**8 652 591**	**2 390 097**	**11 042 688**

Presented above value of equity securities includes provisions for impairment of PLN 11 422 thousand (31 December 2012: PLN 10 970 thousand).

As at 31 December 2013, listed 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 17 983 776 thousand and debt securities with variable interest rates PLN 7 454 643 thousand (31 December 2012: PLN 13 341 748 thousand and PLN 6 378 692 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 Group held PLN 369 633 thousand, at face value PLN 356 500 thousand of treasury securities (bonds and bills) disclosed in its statement of financial position as at 31 December 2013 (31 December 2012: fair value PLN 345 442 thousand; face value PLN 336 300 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 include:

	Year ended 31 December	
	2013	2012
Sale/redemption of financial assets available for sale, investments in subsidiaries and associates	79 030	43 063
Reversal of impairment of investments in subsidiaries	(452)	1 903
Total gains and losses from investment securities	**78 578**	**44 966**

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 2012, the amount of PLN 43 063 thousand includes mainly the result of the sale of government bonds in amount of PLN 33 557 thousand and profit on sale of CERI International Sp. z o.o. in the amount of PLN 10 369 thousand, as a result of reorganization of outsourcing services in the mBank Group.

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Movements in investment securities

	31.12.2013	31.12.2012
Investment securities		
As at the beginning of the period	**19 993 388**	**20 551 272**
Exchange differences	(35 272)	(23 666)
Additions	434 054 540	261 552 427
Disposals (sale, redemption and forfeiture)	(428 478 060)	(262 671 130)
Gains / (losses) from impairment of equity securities and debt securities available for sale	(452)	1 903
Gains / (losses) from changes in fair value	(192 381)	582 582
As at the end of the period	**25 341 763**	**19 993 388**

Movements in provisions for 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)**
Unlisted		
As at the beginning of the period	**(10 845)**	**(13 132)**
Allowance for impairment	(452)	(605)
Amounts written off during the period as uncollectible	-	384
Amounts recovered during the period	-	2 508
As at the end of the period	**(11 297)**	**(10 845)**
Total provisions for investment securities		
As at the beginning of the period	**(10 970)**	**(13 257)**
Allowance for impairment	(452)	(605)
Amounts written off during the period as uncollectible	-	384
Amounts recovered during the period	-	2 508
As at the end of the period	**(11 422)**	**(10 970)**

24. Intangible assets

	31.12.2013	31.12.2012
Development costs	382	490
Goodwill	4 728	4 728
Patents, licences and similar assets, including:	343 802	282 619
- computer software	289 606	228 750
Other intangible assets	7 067	7 968
Intangible assets under development	99 366	140 318
Total intangible assets	**455 345**	**436 123**

In 2013, the Group 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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Movements in intangible assets

Movements in intangible assets from 1 January to 31 December 2013	Development costs	Acquired patents, licences and other similar assets		Other intangible assets	Intangible assets under development	Goodwill	Total intangible assets
			including: acquired computer software				
Gross value of intangible assets as at the beginning of the period: 01.01.2013	**23 475**	**770 652**	**603 633**	**26 270**	**140 318**	**4 728**	**965 443**
Increase (due to)	**-**	**138 431**	**104 071**	**192**	**93 318**	**-**	**231 941**
- purchase	-	23 414	5 710	192	74 892	-	98 498
- transfer from fixed assets under construction	-	493	247	-	-	-	493
- transfer from intangible assets under development	-	113 129	96 744	-	-	-	113 129
- development costs	-	-	-	-	12 530	-	12 530
- other increases	-	1 395	1 370	-	5 896	-	7 291
Decrease (due to)	**(17 938)**	**(32 752)**	**(11 085)**	**(285)**	**(134 270)**	**-**	**(185 245)**
- liquidation	(17 938)	(28 146)	(7 992)	(283)	-	-	(46 367)
- transfer to intangible assets given to use	-	-	-	-	(113 129)	-	(113 129)
- other decreases	-	(4 606)	(3 093)	(2)	(21 141)	-	(25 749)
Gross value of intangible assets as at the end of the period: 31.12.2013	**5 537**	**876 331**	**696 619**	**26 177**	**99 366**	**4 728**	**1 012 139**
Accumulated amortization as at the beginning of the period: 01.01.2013	**(22 985)**	**(488 026)**	**(374 876)**	**(18 302)**	**-**	**-**	**(529 313)**
Amortization for the period (due to)	**17 830**	**(44 493)**	**(32 137)**	**(808)**	**-**	**-**	**(27 471)**
- amortization	(108)	(76 497)	(42 972)	(1 091)	-	-	(77 696)
- liquidation	17 938	28 138	7 984	283	-	-	46 359
- other decreases	-	3 866	2 851	-	-	-	3 866
Accumulated amortization as at the end of the period: 31.12.2013	**(5 155)**	**(532 519)**	**(407 013)**	**(19 110)**	**-**	**-**	**(556 784)**
Impairment losses as at the beginning of the period: 01.01.2013	**-**	**(7)**	**(7)**	**-**	**-**	**-**	**(7)**
- increase	-	(10)	-	-	-	-	(10)
- decrease	-	7	7	-	-	-	7
Impairment losses as at the end of the period: 31.12.2013	**-**	**(10)**	**-**	**-**	**-**	**-**	**(10)**
Net value of intangible assets as at the end of the period: 31.12.2013	**382**	**343 802**	**289 606**	**7 067**	**99 366**	**4 728**	**455 345**

Movements in intangible assets from 1 January to 31 December 2012	Development costs	Acquired patents, licences and other similar assets		Other intangible assets	Intangible assets under development	Goodwill	Total intangible assets
			including: acquired computer software				
Gross value of intangible assets as at the beginning of the period: 01.01.2012	**27 965**	**812 184**	**643 482**	**26 467**	**108 136**	**4 728**	**979 480**
Increase (due to)	**-**	**51 346**	**37 641**	**69**	**86 855**	**-**	**138 270**
- purchase	-	15 320	4 744	69	67 586	-	82 975
- transfer from fixed assets under construction	-	214	21	-	-	-	214
- transfer from intangible assets under development	-	35 780	32 848	-	-	-	35 780
- development costs	-	-	-	-	12 923	-	12 923
- other increases	-	32	28	-	6 346	-	6 378
Decrease (due to)	**(4 490)**	**(92 878)**	**(77 490)**	**(266)**	**(54 673)**	**-**	**(152 307)**
- liquidation	(4 490)	(91 774)	(76 686)	-	(62)	-	(96 326)
- transfer to intangible assets given to use	-	-	-	-	(35 780)	-	(35 780)
- other decreases	-	(1 104)	(804)	(266)	(18 831)	-	(20 201)
Gross value of intangible assets as at the end of the period: 31.12.20112	**23 475**	**770 652**	**603 633**	**26 270**	**140 318**	**4 728**	**965 443**
Accumulated amortization as at the beginning of the period: 01.01.2012	**(27 176)**	**(498 252)**	**(396 405)**	**(17 236)**	**-**	**-**	**(542 664)**
Amortization for the period (due to)	**4 191**	**10 226**	**21 529**	**(1 066)**	**-**	**-**	**13 351**
- amortization	(282)	(82 203)	(55 627)	(1 024)	-	-	(83 509)
- other increases	-	-	-	(85)	-	-	(85)
- liquidation	4 473	91 733	76 686	-	-	-	96 206
- other decreases	-	696	470	43	-	-	739
Accumulated amortization as at the end of the period: 31.12.2012	**(22 985)**	**(488 026)**	**(374 876)**	**(18 302)**	**-**	**-**	**(529 313)**
Impairment losses as at the beginning of the period: 01.01.2012	**-**	**(7)**	**(7)**	**-**	**(40)**	**-**	**(47)**
- increase	(17)	-	-	-	-	-	(17)
- decrease	17	-	-	-	40	-	57
Impairment losses as at the end of the period: 31.12.2012	**-**	**(7)**	**(7)**	**-**	**-**	**-**	**(7)**
Net value of intangible assets as at the end of the period: 31.12.2012	**490**	**282 619**	**228 750**	**7 968**	**140 318**	**4 728**	**436 123**

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25. Tangible assets

	31.12.2013	31.12.2012
Tangible assets, including:	672 519	733 553
- land	1 267	1 175
- buildings and structures	215 061	219 773
- equipment	147 926	162 573
- vehicles	190 017	212 490
- other fixed assets	118 248	137 542
Fixed assets under construction	37 033	40 351
Total tangible assets	**709 552**	**773 904**

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	**1 175**	**354 336**	**563 252**	**330 624**	**416 971**	**40 531**	**1 706 889**
Increase (due to)	**153**	**3 132**	**44 566**	**59 367**	**25 107**	**38 597**	**170 922**
- purchase	-	447	26 122	54 512	2 756	35 224	119 061
- transfer from tangible assets under construction	-	1 691	16 031	-	22 226	-	39 948
- other increases	153	994	2 413	4 855	125	3 373	11 913
Decrease (due to)	**(61)**	**(1 271)**	**(18 430)**	**(68 114)**	**(28 066)**	**(41 915)**	**(157 857)**
- sale	-	(702)	(2 938)	(63 897)	(2 281)	-	(69 818)
- liquidation	-	(177)	(14 820)	-	(24 784)	-	(39 781)
- transfer to tangible assets	-	-	-	-	-	(39 948)	(39 948)
- transfer to intangible assets	-	-	-	-	-	(493)	(493)
- other decreases	(61)	(392)	(672)	(4 217)	(1 001)	(1 474)	(7 817)
Gross value of tangible assets as at the end of the period: 31.12.2012	**1 267**	**356 197**	**589 388**	**321 877**	**414 012**	**37 213**	**1 719 954**
Accumulated depreciation as at the beginning of the period: 01.01.2013	**-**	**(85 293)**	**(400 472)**	**(118 134)**	**(276 734)**	**-**	**(880 633)**
Depreciation for the period (due to)	**-**	**(6 573)**	**(40 990)**	**(13 726)**	**(18 899)**	**-**	**(80 188)**
- depreciation charge	-	(7 319)	(58 373)	(57 071)	(39 225)	-	(161 988)
- other increases	-	-	(192)	-	(1 230)	-	(1 422)
- sale	-	693	2 672	40 632	2 090	-	46 087
- liquidation	-	21	14 198	-	18 793	-	33 012
- other decreases	-	32	705	2 713	673	-	4 123
Accumulated depreciation as at the end of the period: 31.12.2013	**-**	**(91 866)**	**(441 462)**	**(131 860)**	**(295 633)**	**-**	**(960 821)**
Impairment losses as at the beginning of the period: 01.01.2013	**-**	**(49 270)**	**(207)**	**-**	**(2 695)**	**(180)**	**(52 352)**
- decrease	-	-	207	-	2 564	-	2 771
Impairment losses as at the end of the period: 31.12.2013	**-**	**(49 270)**	**-**	**-**	**(131)**	**(180)**	**(49 581)**
Net value of tangible assets as at the end of the period: 31.12.2012	**1 267**	**215 061**	**147 926**	**190 017**	**118 248**	**37 033**	**709 552**

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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	**1 875**	**361 760**	**617 331**	**309 328**	**413 481**	**66 598**	**1 770 373**
Increase (due to)	**-**	**2 662**	**52 999**	**69 768**	**36 226**	**31 870**	**193 525**
- purchase	-	776	29 252	67 965	4 903	25 903	128 799
- transfer from tangible assets under construction	-	928	22 803	-	31 099	-	54 830
- other increases	-	958	944	1 803	224	5 967	9 896
Decrease (due to)	**(700)**	**(10 086)**	**(107 078)**	**(48 472)**	**(32 736)**	**(57 937)**	**(257 009)**
- sale	(700)	(10 000)	(15 114)	(45 326)	(8 942)	-	(80 082)
- liquidation	-	(67)	(20 488)	-	(2 637)	-	(23 192)
- transfer to tangible assets	-	-	-	-	-	(54 830)	(54 830)
- transfer to intangible assets	-	-	-	-	-	(214)	(214)
- other decreases	-	(19)	(71 476)	(3 146)	(21 157)	(2 893)	(98 691)
Gross value of tangible assets as at the end of the period: 31.12.2011	**1 175**	**354 336**	**563 252**	**330 624**	**416 971**	**40 531**	**1 706 889**
Accumulated depreciation as at the beginning of the period: 01.01.2012	**-**	**(81 251)**	**(448 527)**	**(92 364)**	**(263 823)**	**-**	**(885 965)**
Depreciation for the period (due to)	**-**	**(4 042)**	**48 055**	**(25 770)**	**(12 911)**	**-**	**5 332**
- depreciation charge	-	(7 242)	(56 177)	(57 379)	(42 867)	-	(163 665)
- other increases	-	-	(1)	-	-	-	(1)
- sale	-	3 123	13 846	29 997	7 178	-	54 144
- liquidation	-	59	20 367	-	2 362	-	22 788
- other decreases	-	18	70 020	1 612	20 416	-	92 066
Accumulated depreciation as at the end of the period: 31.12.2012	**-**	**(85 293)**	**(400 472)**	**(118 134)**	**(276 734)**	**-**	**(880 633)**
Impairment losses as at the beginning of the period: 01.01.2012	**-**	**(51 686)**	**-**	**-**	**(131)**	**(136)**	**(51 953)**
- increase	-	(12 500)	(207)	-	(2 619)	(44)	(15 370)
- decrease	-	14 916	-	-	55	-	14 971
Impairment losses as at the end of the period: 31.12.2012	**-**	**(49 270)**	**(207)**	**-**	**(2 695)**	**(180)**	**(52 352)**
Net value of tangible assets as at the end of the period: 31.12.2012	**1 175**	**219 773**	**162 573**	**212 490**	**137 542**	**40 351**	**773 904**

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

As part of its activities as a lessor, the mBank Group presents within tangible assets those assets which are leased to third parties under operating lease agreements. The table below presents future minimum lease payments under non-cancellable operating lease agreements with the Group as a lessor.

	31.12.2013	31.12.2012
Minimum lease payments under non-cancellable operating lease		
Up to 1 year	48 985	57 637
Over 1 year up to 5 years	59 256	77 341
Over 5 years	5	9 799
Total	**108 246**	**144 777**

The Group presents depreciation of tangible assets leased under operating lease agreements as 'Net income from operating lease' (Note 10).

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26. Other assets

	31.12.2013	31.12.2012
Other, including:	**952 236**	**883 626**
- debtors	237 188	122 908
- receivables from income tax	1 251	1 818
- interbank balances	3 306	7 387
- other accruals	66 575	73 885
- accrued income	39 188	28 775
- inventories	355 942	392 876
- receivables resulting from insurance premiums	27 921	43 950
- other	220 865	212 027
Total other assets	**952 236**	**883 626**
Short-term (up to 1 year)	643 472	600 097
Long-term (over 1 year)	308 764	283 529

The value of inventories results primarily from the business of the companies: mLocum and mLeasing.

Throughout the year 2013 and 2012, the Group did not capitalize borrowing costs.

As at 31 December 2013, other assets in amount of PLN 220 865 thousand include receivables of Dom Maklerski from the National Depository of Securities in amount of PLN 134 328 thousand (31 December 2012: PLN 143 923 thousand).

As at 31 December 2013, the above note includes financial assets in amount of PLN 402 743 thousand (31 December 2012: PLN 318 168 thousand).

27. Amounts due to other banks

	31.12.2013	31.12.2012
Current accounts	1 458 250	1 146 772
Term deposits	475 510	113 426
Loans and advances received	14 692 269	18 333 571
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	**19 224 182**	**21 110 939**
Short-term (up to 1 year)	8 432 484	7 031 127
Long-term (over 1 year)	10 791 698	14 079 812

As at 31 December 2013, the fixed rate term deposits accepted from other banks amounted to PLN 475 510 thousand (31 December 2012: PLN 113 426 thousand). In both periods, there were no variable rate term deposits.

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 1.31% (31 December 2012: 1.42%).

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

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28. Amounts due to customers

	31.12.2013	31.12.2012
Individual customers:	**34 203 119**	**33 233 757**
Current accounts	24 260 502	21 059 319
Term deposits	9 889 000	12 121 656
Other liabilities:	53 617	52 782
- liabilities in respect of cash collaterals	24 566	32 763
- other	29 051	20 019
Corporate customers:	**26 752 869**	**24 248 650**
Current accounts	12 849 839	11 731 164
Term deposits	3 601 383	8 336 226
Loans and advances received	2 100 331	1 696 404
Repo transactions	4 629 955	1 883 368
Other liabilities:	3 571 361	601 488
- liabilities in respect of cash collaterals	3 266 163	408 776
- other	305 198	192 712
Public sector customers:	**717 539**	**501 193**
Current accounts	579 319	387 383
Term deposits	129 981	110 765
Other liabilities:	8 239	3 045
- liabilities in respect of cash collaterals	137	152
- other	8 102	2 893
Total amounts due to customers	**61 673 527**	**57 983 600**
Short-term (up to 1 year)	57 590 020	55 788 507
Long-term (over 1 year)	4 083 507	2 195 093

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 have been presented 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
Short-term issues	**498 200**				**502 188**
Bonds (in PLN)	50 000	3.78%	no collateral	07-01-2014	50 445
Bonds (in PLN)	30 000	3.73%	no collateral	15-01-2014	30 238
Bonds (in PLN)	20 000	3.31%	no collateral	06-02-2014	19 867
Bonds (in PLN)	30 000	3.30%	no collateral	21-02-2014	19 933
Bonds (in PLN)	9 900	3.20%	no collateral	28-02-2014	9 849
Bonds (in PLN)	20 000	3.45%	no collateral	12-03-2014	29 858
Bonds (in PLN)	1 600	3.60%	no collateral	17-03-2014	1 576
Bonds (in PLN)	500	3.63%	no collateral	15-04-2014	422
Bonds (in PLN)	15 000	3.58%	no collateral	15-07-2014	15 111
Bonds (in PLN)	30 000	3.60%	no collateral	06-10-2014	30 219
Mortgage bonds (in PLN)	25 000	4.05%	mortgage bond register	28-04-2014	25 174
Mortgage bonds (in PLN)	177 000	4.11%	mortgage bond register	28-07-2014	180 028
Mortgage bonds (in PLN)	89 200	3.94%	mortgage bond register	28-11-2014	89 468

Long-term issues	**4 605 525**				**4 899 868**
Mortgage bonds (in PLN)	78 611	3.70%	mortgage bond register	15-05-2015	78 875
Mortgage bonds (in PLN)	100 000	3.59%	mortgage bond register	07-07-2015	101 613
Mortgage bonds (in PLN)	57 150	4.01%	mortgage bonds publicly registered	28-07-2015	57 992
Mortgage bonds (in PLN)	100 000	4.07%	mortgage bond register	28-09-2015	100 921
Bonds (in EUR)	2 073 600	2.75%	guarantee	12-10-2015	2 080 773
Bonds (in PLN)	450 000	4.22%	no collateral	23-11-2015	451 296
Mortgage bonds (in PLN)	77 000	3.88%	mortgage bonds publicly registered	30-11-2015	77 155
Mortgage bonds (in PLN)	145 750	3.85%	mortgage bond register	20-04-2016	146 515
Mortgage bonds (in PLN)	149 500	4.50%	mortgage bonds publicly registered	28-09-2016	150 915
Mortgage bonds (in PLN)	31 000	4.40%	mortgage bond register	15-11-2016	27 972
Mortgage bonds (in PLN)	172 750	4.00%	mortgage bond register	20-04-2017	173 657
Mortgage bonds (in PLN)	150 000	3.68%	mortgage bond register	16-06-2017	149 537
Mortgage bonds (in EUR)	10 000	2.24%	mortgage bond register	19-10-2017	41 580
Mortgage bonds (in PLN)	98 900	4.39%	mortgage bond register	15-06-2018	98 524
Bonds (in CHF)	675 660	2.50%	guarantee	08-10-2018	676 227
Mortgage bonds (in EUR)	50 000	1.35%	mortgage bond register	22-10-2018	207 085
Bonds (in CZK)	75 604	2.32%	guarantee	06-12-2018	75 725
Mortgage bonds (in PLN)	80 000	3.70%	mortgage bond register	21-06-2019	79 973
Mortgage bonds (in PLN)	30 000	2.75%	mortgage bond register	28-07-2020	123 533
Debt securities in issue (carrying value in PLN '000)					**5 402 056**

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	**846 800**				**850 449**
Bonds (in PLN)	50 000	6.00%	no collateral	07-01-2013	50 723
Bonds (in PLN)	50 000	5.98%	no collateral	15-01-2013	50 637
Bonds (in PLN)	5 000	5.73%	no collateral	15-01-2013	4 989
Deposit certificates (in PLN)	206 900	5.00%	no collateral	29-01-2013	206 105
Bonds (in PLN)	20 000	5.40%	no collateral	30-01-2013	19 909
Bonds (in PLN)	30 000	5.19%	no collateral	27-02-2013	29 744
Bonds (in PLN)	15 000	5.75%	no collateral	12-03-2013	14 833
Bonds (in PLN)	14 200	5.36%	no collateral	15-03-2013	14 193
Bonds (in PLN)	38 000	5.11%	no collateral	18-03-2013	38 071
Bonds (in PLN)	30 000	5.61%	no collateral	05-04-2013	29 566
Mortgage bonds (in PLN)	25 000	6.05%	mortgage bond register	29-04-2013	25 257
Bonds (in PLN)	25 000	5.70%	no collateral	24-05-2013	25 135
Bonds (in PLN)	27 700	5.30%	no collateral	20-06-2013	27 720
Bonds (in PLN)	10 000	5.71%	no collateral	26-08-2013	9 985
Mortgage bonds (in PLN)	100 000	5.46%	mortgage bonds publicly registered	20-09-2013	101 508
Mortgage bonds (in PLN)	200 000	5.79%	mortgage bond register	21-10-2013	202 074

Long-term issues	**3 988 361**				**4 041 826**
Mortgage bonds (in PLN)	25 000	6.10%	mortgage bond register	28-04-2014	25 244
Mortgage bonds (in PLN)	177 000	6.55%	mortgage bond register	28-07-2014	181 702
Mortgage bonds (in PLN)	89 200	5.79%	mortgage bond register	28-11-2014	89 558
Mortgage bonds (in PLN)	78 611	5.64%	mortgage bond register	15-05-2015	78 994
Mortgage bonds (in PLN)	100 000	4.92%	mortgage bond register	07-07-2015	102 710
Mortgage bonds (in PLN)	57 150	6.45%	mortgage bonds publicly registered	28-07-2015	58 523
Mortgage bonds (in PLN)	100 000	6.31%	mortgage bond register	28-09-2015	101 460
Bonds (in EUR)	2 044 000	2.75%	guarantee	12-10-2015	2 048 132
Bonds (in PLN)	450 000	6.10%	no collateral	23-11-2015	452 943
Mortgage bonds (in PLN)	77 000	5.73%	mortgage bonds publicly registered	30-11-2015	77 225
Mortgage bonds (in PLN)	145 750	5.92%	mortgage bond register	20-04-2016	146 964
Mortgage bonds (in PLN)	200 000	5.20%	mortgage bond register	16-06-2016	199 836
Mortgage bonds (in PLN)	140 500	6.74%	mortgage bonds publicly registered	28-09-2016	142 558
Mortgage bonds (in PLN)	25 000	6.20%	mortgage bond register	15-11-2015	24 903
Mortgage bonds (in PLN)	172 750	6.07%	mortgage bond register	20-04-2017	174 187
Mortgage bonds (in EUR)	10 000	2.31%	mortgage bond register	19-10-2017	40 959
Mortgage bonds (in PLN)	96 400	5.91%	mortgage bond register	15-06-2018	95 928
Debt securities in issue (carrying value in PLN '000)					**4 892 275**

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

On 25 September 2013, BRE Finance France S.A. (BFF) - a subsidiary of mBank (the Bank holds 99.98% of its shares) issued the next tranche of Eurobonds with a nominal value of CHF 200 000 thousand (PLN 685 500 thousand at the average exchange rate of the National Bank of Poland as at 25 September 2013) maturing on 8 October 2018. The settlement of the issue took place on 8 October 2013.

On 8 October 2013, on the basis of the agreement concluded on 25 September 2013, the funds coming from the issue in the amount of CHF 198 967 thousand (PLN 681 959 thousand at the average exchange rate of the National Bank of Poland as at 25 September 2013), were placed by BFF in mBank as a security deposit to back the guarantee issued by the Bank to secure payment of any amounts payable on debt securities issued under Eurobond Issue Programme.

On 22 November 2013, BFF issued the next tranche of Eurobonds with a nominal value of CZK 500 000 thousand (equivalent to PLN 77 100 at the average exchange rate of the National Bank of Poland as at 22 November 2013) maturing on 6 December 2018. The settlement of the issue took place on 6 December 2013.

On 6 December 2013, the funds raised from the issue in the amount of CZK 500 000 thousand, on the basis of the agreement concluded on 22 November 2013, were deposited by BFF in mBank S.A. as the security deposit to back the guarantee in amount of CZK 500 000 to secure the payment obligations from the Eurobonds.

On 4 October 2012, BRE Finance France S.A. issued Eurobonds with a nominal value of EUR 500 000 thousand (PLN 2 046 650 thousand at the average exchange rate of the National Bank of Poland as at 4 October 2012) maturing on 12 October 2015. On 4 October 2012, mBank guaranteed the payment of any amounts payable on debt securities issued under Euro Medium Term Note Programme. Guarantee was given for the duration of the Programme.

The funds comprising the security deposit signed on 4 October 2012 under the agreement between mBank and the Company are used to back the guarantee issued by the Bank to secure the payment obligations from the Eurobonds. The amount of security deposit is EUR 497 770 thousand (PLN 2 037 522 thousand at the average exchange rate of the National Bank of Poland as at 4 October 2012).

The amount of the security deposit shall remain the property of the Bank until the date of repayment of Eurobonds on 12 October 2015.

Movements in debt securities in issue

	31.12.2013	31.12.2012
As at the beginning of the period	**4 892 275**	**1 735 988**
Additions (issue)	3 371 571	8 795 542
Disposals (redemption)	(3 141 380)	(5 695 002)
Exchange differences	25 682	-
Other changes	253 908	55 747
Debt securities in issue as at the end of the period	**5 402 056**	**4 892 275**

As at 31 December 2013, the nominal value of receivables constituting collateral for the issue of mortgage covered bonds amounted to PLN 2 404 717 thousand (31 December 2012: PLN 2 619 590 thousand). According to legal requirements, the nominal value of mortgage covered bonds issued cannot exceed 60% of the value of the related real estate. At 31 December 2013, this amount in the register of collateral of mortgage bond amounted to PLN 2 019 926 thousand (31 December 2012: PLN 2 162 039 thousand). Both, as at 31 December 2013 and as at 31 December 2012, covered bonds were secured with receivables secured with mortgage entered as the first item in the land and mortgage register. The value of receivables constituting collateral for the issue of public sector covered bonds amounted to PLN 480 604 thousand as at 31 December 2013 compared with PLN 561 481 thousand as at 31 December 2012.

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. Group	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

* Margin amounting to 0.7% was in force for 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.

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In 2013 and in 2012, the Group 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 received the approvals of Polish Financial Supervision Authority (KNF) for the inclusion of the funds obtained from the issues into the Group'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 Group's supplementary capital and received the consent on 14 February 2014. As at 31 December 2013, these bonds were not included in the Group'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	37 948	22 835
- interbank settlements	384 736	388 965
- creditors	273 834	444 462
- accrued expenses	137 411	135 854
- deferred income	136 652	109 007
- reinsurance liabilities	34 834	26 769
- provisions for post-employment employee benefits	9 015	7 536
- provisions for holiday equivalents	24 513	22 676
- provisions for other employee benefits	155 432	168 498
- other	73 297	68 243
Total other liabilities	**1 267 672**	**1 394 845**

As at 31 December 2013, the presented note includes financial liabilities of PLN 830 815 thousand (as at 31 December 2012: PLN 1 017 339 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 accrual of pension benefits that were calculated on actuarial basis, as a rule, are short term liabilities.

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)	**7 536**	**7 719**
pension and disability provisions	4 005	4 654
provisions for death severance	2 248	1 891
provisions for Social Benefit Fund	1 283	1 174
Change in the period (due to)	**1 479**	**(183)**

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Change in the period (due to)	**1 479**	**(183)**
Provisions created, due to:	**1 083**	**883**
pension and disability provisions	930	129
provisions for death severance	74	310
provisions for Social Benefit Fund	79	444
Interest expense, due to:	**309**	**352**
pension and disability provisions	154	183
provisions for death severance	93	97
provisions for Social Benefit Fund	62	72
Actuarial gains and losses recognised in other comprehensive income (Note 15), due to:	**875**	**(245)**
pension and disability provisions	420	(331)
provisions for death severance	219	47
provisions for Social Benefit Fund	236	39
Reduction / elimination of the plan, due to:	**(31)**	**31**
pension and disability provisions	(31)	31
Benefits paid, due to:	**(757)**	**(1 204)**
pension and disability provisions	(600)	(613)
provisions for death severance	1	(145)
provisions for Social Benefit Fund	(158)	(446)
As at the end of the period (by type)	**9 015**	**7 536**
pension and disability provisions	4 878	4 005
provisions for death severance	2 635	2 248
provisions for Social Benefit Fund	1 502	1 283

Short-term (up to 1 year)	**865**	**794**
pension and disability provisions	632	610
provisions for death severance	190	147
provisions for Social Benefit Fund	43	37
Long-term (over 1 year)	**8 150**	**6 742**
pension and disability provisions	4 245	3 394
provisions for death severance	2 446	2 102
provisions for Social Benefit Fund	1 459	1 246

	31.12.2013	31.12.2012
Breakdown of actuarial gains and losses		
Change in financial assumptions, due to:	**(7)**	**-**
pension and disability provisions	(7)	-
Change in demographic assumptions, due to:	**26**	**(177)**
pension and disability provisions	182	(143)
provisions for death severance	(163)	(35)
provisions for Social Benefit Fund	7	1
Other changes, due to:	**856**	**(68)**
pension and disability provisions	245	(188)
provisions for death severance	382	82
provisions for Social Benefit Fund	229	38

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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
Technical-insurance provisions	87 168	84 512
Other	28 717	35 149
Total provisions	**228 228**	**213 327**

* includes valuation of financial guarantees

Provision policies for technical-insurance provisions and provisions for off-balance sheet commitments granted are described in Note 2.26 and Note 3.4.4 respectively. Estimated dates of granted contingent liabilities realisation are presented in 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)	**213 327**	**153 168**
For off-balance sheet granted contingent liabilities	46 462	30 906
For legal proceedings	47 204	25 644
Technical-insurance provisions	84 512	80 864
Other	35 149	15 754
Change in the period (due to)	**14 901**	**60 159**
- increase of provisions, due to:	151 374	224 404
for off-balance-sheet granted contingent liabilities (Note 13)	118 169	175 869
for legal proceedings	29 199	22 950
technical-insurance provisions	2 656	3 648
other	1 350	21 937
- release of provisions, due to:	(115 307)	(160 168)
for off-balance-sheet granted contingent liabilities (Note 13)	(108 594)	(159 912)
for legal proceedings	(2 190)	(256)
other	(4 523)	-
- write-offs	(20 942)	(2 697)
- utilization	(150)	-
- foreign exchange differences	(74)	(1 380)
As at the end of the period (by type)	**228 228**	**213 327**
For off-balance sheet granted contingent liabilities	56 068	46 462
For legal proceedings	56 275	47 204
Technical-insurance provisions	87 168	84 512
Other	28 717	35 149

Technical-insurance provisions

	31.12.2013	31.12.2012
Insurance provisions and reinsurance assets		
Insurance provisions gross, including:	179 892	169 785
- Provision for losses raised and costs of liquidation	22 221	22 356
- IBNR	93 644	80 194
- Provision for premiums	64 027	67 148
- Provision for the insurers' share in technical profit	-	87
Insurance provisions gross, total	**179 892**	**169 785**

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Reinsurer's share, including:		
- Provision for losses raised and costs of liquidation	16 328	15 270
- IBNR	42 883	34 111
- Provision for premiums	33 513	35 892
Reinsurer's share, total	**92 724**	**85 273**
Insurance provisions net, including		
- Provision for losses raised and costs of liquidation	5 893	7 086
- IBNR	50 761	46 083
- Provision for premiums	30 514	31 256
- Provision for the insurers' share in technical profit	-	87
Insurance provisions net, total	**87 168**	**84 512**

Provisions for off-balance sheet granted contingent liabilities

	31.12.2013	31.12.2012
Incurred but not identified losses		
Off-balance sheet contingent liabilities	21 542 323	17 314 377
Provisions for off-balance sheet contingent liabilities analysed according to portfolio approach (negative amount)	(24 927)	(21 936)
Net off-balance sheet contingent liabilities	**21 517 396**	**17 292 441**
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	70 607	34 446	-	-	**105 053**
Valuation of derivative financial instruments	137 000	(109 897)	-	-	**27 103**
Valuation of investment securities	20 736	(11 678)	-	-	**9 058**
Provisions for impairment of loans and advances	222 228	(27 746)	-	-	**194 482**
Provisions for employee benefits	34 652	(1 270)	166	-	**33 548**
Other provisions	7 635	1 195	-	-	**8 830**
Prepayments/accruals	29 128	(5 398)	-	-	**23 730**
Tax losses carried forward	3 722	12 523	-	-	**16 245**
Differences between carrying and tax value of lease	116 104	2 702	-	-	**118 806**
Other negative temporary differences	95 541	(17 338)	-	(706)	**77 497**
Total deferred income tax assets	**737 353**	**(122 461)**	**166**	**(706)**	**614 352**

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	(50 461)	5 959	-	-	**(44 502)**
Valuation of derivative financial instruments	-	(6 173)	-	-	**(6 173)**
Valuation of investment securities	(162 623)	24 525	44 482	-	**(93 616)**
Interest and fees received in advance	(38 339)	2 572	-	-	**(35 767)**
Difference between tax and book value of tangible and intangible assets	(25 680)	(8 933)	-	-	**(34 613)**
Prepayments regarding amortization of applied investment relief	(18 657)	-	-	-	**(18 657)**
Other positive temporary differences	(52 073)	38 825	-	91	**(13 157)**
Total deferred income tax liabilities	**(347 833)**	**56 775**	**44 482**	**91**	**(246 485)**

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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	44 095	26 512	-	-	**70 607**
Valuation of derivative financial instruments	76 534	60 466	-	-	**137 000**
Valuation of investment securities	21 303	3 925	(4 492)	-	**20 736**
Provisions for impairment of loans and advances	229 590	(7 362)	-	-	**222 228**
Provisions for employee benefits	38 825	(4 120)	(53)	-	**34 652**
Other provisions	5 547	2 088	-	-	**7 635**
Prepayments/accruals	28 962	166	-	-	**29 128**
Tax losses carried forward	7 520	(3 798)	-	-	**3 722**
Differences between carrying and tax value of lease	116 104	-	-	-	**116 104**
Other negative temporary differences	78 280	17 638	-	(377)	**95 541**
Total deferred income tax assets	**646 760**	**95 515**	**(4 545)**	**(377)**	**737 353**

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	(49 329)	(1 132)	-	-	**(50 461)**
Valuation of derivative financial instruments	-	-	-	-	**-**
Valuation of investment securities	(140 765)	40 710	(62 568)	-	**(162 623)**
Interest and fees received in advance	(37 312)	(1 027)	-	-	**(38 339)**
Difference between tax and book value of tangible and intangible assets	(29 114)	3 434	-	-	**(25 680)**
Prepayments regarding amortization of applied investment relief	(18 657)	-	-	-	**(18 657)**
Other positive temporary differences	(44 762)	(7 280)	-	(31)	**(52 073)**
Total deferred income tax liabilities	**(319 939)**	**34 705**	**(62 568)**	**(31)**	**(347 833)**

Deferred income tax included in the income statement	31.12.2013	31.12.2012
Interest	40 405	25 380
Valuation of derivative financial instruments	(116 070)	60 466
Valuation of securities	12 847	44 635
Provisions for impairment of loans and advances	(27 746)	(7 362)
Provisions for employee benefits	(1 270)	(4 120)
Other provisions	1 195	2 088
Prepayments/accruals	(5 398)	166
Interest and fees received in advance	2 572	(1 027)
Difference between tax and book value of tangible and intangible assets	(8 933)	3 434
Differences between carrying and tax value of lease	2 702	-
Tax losses carried forward	12 523	(3 798)
Other temporary differences	21 487	10 358
Total deferred income tax included in the profit and loss account (Note 14)	**(65 686)**	**130 220**

In calculation of deferred tax asset the Group 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.

Due to the improbability of occurrence of taxable income enabling to use tax losses incurred in Garbary Sp. z o.o, the Group does not include those losses in the deferred tax asset calculation. The total amount of unused tax losses not included in the calculation of deferred tax assets amounted to PLN 67 380 thousand at the end of 31 December 2013 and PLN 243 910 thousand at the end of 31 December 2012. Right to tax losses' settlement expires between 2014 and 2019 year.

The Group recognizes deferred tax liabilities or assets related to temporary differences arising from investments in subsidiaries and associates except that the implementation of the temporary differences is controlled by the Group and it is probable that in the foreseeable future, these differences will not be reversed. At the end of 2013 the Group did not include settlements on temporary differences in the total amount of PLN 531 005 thousand incurred due to investments in subsidiaries and affiliated companies in deferred tax calculation and PLN 441 521 thousand at the end of 2012.

Deferred tax assets are recognised, because it is probable that future taxable profit will occur.

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 Group 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 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

On 7 January 2013 Director of the Treasury Control Office in Warsaw (Urząd Kontroli Skarbowej w Warszawie) initiated audit proceedings and then tax audit within audit proceedings in mBank S.A. concerning reliability of declared tax bases and correctness of calculation and payment of corporate income tax for the year 2007. Audit proceedings and tax audit are still pending.

Within the period from 24 August 2012 to 3 September 2012, officer of the First Mazovian Treasury Office in Warsaw (Pierwszy Mazowiecki Urząd Skarbowy w Warszawie) carried out audit proceedings and tax audit in mBank Hipoteczny S.A., concerning correctness of the settlement of the value added tax for June 2012. The audit did not identify any irregularities.

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

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35. Off-balance sheet liabilities

Off-balance sheet liabilities of the Group comprise:

- Loan commitments

The amounts and deadlines by which the Group 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

Where a company of the Group is a lessee, the minimum future lease payments as part of irrevocable operating lease agreements are presented in the table below.

The following table presents the Group's off-balance sheet commitments granted and received as well as nominal value of open positions of derivative transactions as at 31 December 2013 and 31 December 2012.

31.12.2013		Up to 1 year	1 - 5 years	Over 5 years	Total
I	**Contingent liabilities granted and received**	**18 561 294**	**3 687 624**	**879 947**	**23 128 865**
	Commitments granted	**18 006 558**	**2 998 959**	**724 349**	**21 729 866**
	1. Financing	15 836 732	2 163 996	531 559	18 532 287
	a) Loan commitments	15 813 281	2 073 508	521 133	18 407 922
	b) Operating lease commitments	23 451	90 488	10 426	124 365
	2. Guarantees and other financial facilities	2 160 567	834 890	192 790	3 188 247
	a) Banker's acceptances	2 765	-	209	2 974
	b) Guarantees and standby letters of credit	2 035 596	828 110	192 581	3 056 287
	c) Guarantees of issues underwritten	35 000	-	-	35 000
	c) Documentary and commercial letters of credit	87 206	6 780	-	93 986
	3. Other commitments	9 259	73	-	9 332
	Commitments received	**554 736**	**688 665**	**155 598**	**1 398 999**
	1. Financial commitments received	3 375	207 360	-	210 735
	2. Guarantees received	551 361	481 305	155 598	1 188 264
II	**Derivative financial instruments (nominal value of contracts)**	**328 340 664**	**253 718 640**	**20 620 014**	**602 679 318**
	1. Interest rate derivatives	293 192 365	245 105 506	20 568 945	558 866 816
	2. Currency derivatives	33 809 749	8 517 321	12 190	42 339 260
	3. Market risk derivatives	1 338 550	95 813	38 879	1 473 242
	Total off-balance sheet items	**346 901 958**	**257 406 264**	**21 499 961**	**625 808 183**

31.12.2012		Up to 1 year	1 - 5 years	Over 5 years	Total
I	**Contingent liabilities granted and received**	**14 610 884**	**2 793 820**	**910 228**	**18 314 932**
	Commitments granted	**14 240 946**	**2 563 714**	**733 032**	**17 537 692**
	1. Financing	12 221 699	1 905 513	457 972	14 585 184
	a) Loan commitments	12 199 735	1 814 505	427 098	14 441 338
	b) Operating lease commitments	21 964	91 008	30 874	143 846
	2. Guarantees and other financial facilities	1 616 789	658 025	275 060	2 549 874
	a) Banker's acceptances	4 441	-	-	4 441
	b) Guarantees and standby letters of credit	1 544 982	658 025	275 060	2 478 067
	d) Documentary and commercial letters of credit	67 366	-	-	67 366
	3. Other commitments	402 458	176	-	402 634
	Commitments received	**369 938**	**230 106**	**177 196**	**777 240**
	Guarantees received	369 938	230 106	177 196	777 240
II	**Derivative financial instruments (nominal value of contracts)**	**424 132 076**	**204 385 583**	**15 300 549**	**643 818 208**
	1. Interest rate derivatives	386 524 210	202 484 562	14 998 964	604 007 736
	2. Currency derivatives	37 079 839	1 825 041	18 385	38 923 265
	3. Market risk derivatives	528 027	75 980	283 200	887 207
	Total off-balance sheet items	**438 742 960**	**207 179 403**	**16 210 777**	**662 133 140**

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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 Note 20.

As at 31 December 2013, apart from financial commitments granted by the Bank, the largest impact on the amount of financial commitments granted had commitments granted by mFaktoring and mBank Hipoteczny respectively in amount of PLN 1 125 242 thousand and PLN 979 471 thousand.

36. Pledged assets

	31.12.2013	31.12.2012
Pledged assets, including:	**6 018 316**	**3 105 926**
- Trading securities (Note 19), including:	252 278	559 644
pledged asset with the right to repledge	*252 278*	*559 644*
- Investment securities (Note 23), including:	5 766 038	2 546 282
pledged asset with the right to repledge	*2 687 951*	*2 197 220*
Liabilities arising from pledged assets, including:	**9 482 307**	**5 166 200**
- 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	331 593	283 200

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) at PLN 4 nominal value each (31 December 2012: PLN 4). All issued shares were fully paid up.

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**				

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* 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 dated 8 July 2011, the Bank informed in the current report No.46/2011, that ING Powszechny Fundusz Emerytalny (Fundusz) became the owner of mBank shares representing more than 5% of the votes at the General Meeting of mBank.

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

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

On 2 August 2013, mBank 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. Prior to the acquisition of shares Aviva OFE held 2 070 319 shares of mBank, representing 4.91% of the share capital (issued shares) of mBank and carrying 2 070 319 votes at the General Meeting of mBank, which represented 4.91% of total votes.

Following the acquisition, as at 31 July 2013, Aviva OFE held 2 140 284 shares of mBank, representing 5.08% of the share capital (number of issued shares) of mBank and carrying 2 140 284 votes at the General Meeting of mBank, 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 year 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 2012 and 2011 results from the issue of shares under incentive programmes described under Note 43.

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	4 118 312	3 353 504
Other reserve capital	100 057	94 863
General banking risk reserve	989 953	945 953
Profit from the previous year	(15 760)	17 147
Profit for the current year	1 206 375	1 197 321
Total retained earnings	**6 398 937**	**5 608 788**

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 Group 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.

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40. Other components of equity

	31.12.2013	31.12.2012
Exchange differences on translating foreign operations	**(2 010)**	**106**
Unrealized gains (positive differences)	17 153	11 569
Unrealized losses (negative differences)	(19 163)	(11 463)
Available-for-sale financial assets	**320 561**	**483 678**
Unrealized gains on debt instruments	198 266	408 539
Unrealized losses on debt instruments	(7 808)	(9 996)
Unrealized gains on equity instruments	169 890	169 404
Deferred income tax	(39 787)	(84 269)
Actuarial gains and losses relating to post-employment benefits	**(484)**	**225**
Actuarial gains	321	278
Actuarial (losses)	(918)	-
Deferred income tax	113	(53)
Total other components of equity	**318 067**	**484 009**

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 17)	1 650 467	4 819 203
Loans and advances to banks (Note 18)	1 646 914	1 953 017
Trading securities (Note 19)	388 259	806 097
Total cash and cash equivalents	**3 685 640**	**7 578 317**

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 fulfillment 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.

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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).

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.

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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 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.

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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.:

- from 23.08.2010 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 2012 and 2013 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 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.

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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 by the employees (Note 11)	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 11). 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 11 'Overhead costs'.

44. Transactions with related entities

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

Up to 27 December 2012, the direct parent of mBank S.A. was Commerzbank Auslandsbanken Holding AG, 100% subsidiary of Commerzbank AG. Transaction of purchase of mBank's shares by Commerzbank AG from Commerzbank Auslandsbanken Holding AG is described in Note 37.

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 Group 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 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.

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 *		Commerzbank AG	
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**
Statement of Financial Position						
Assets	24 810	12 222	59 390	60 700	948 518	927 505
Liabilities	21 184	39 818	3 403	8 123	18 245 291	21 441 573
Income Statement						
Interest income	813	101	3 822	3 628	113 713	114 886
Interest expense	(1 597)	(1 266)	(114)	(316)	(345 291)	(381 400)
Fee and commission income	85	52	38	105	-	-
Fee and commission expense	-	-	-	-	-	-
Other operating inccome	7	19	3	1	320	113
Overhead costs, amortisation and other operating expenses	0	(1)	(70)	-	(9 022)	(12 309)
Contingent liabilities granted and received						
Liabilities granted	885	769	915	3 441	1 278 880	834 033
Liabilities received	-	-	-	-	717 528	511 959

* Other related persons and entities include: close members of the family 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 and mBank's subsidiaries not consolidated by acquisition method.

In 2013 and 2012 no provisions were created in connection with credits granted to related entities.

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.

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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 2012, 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 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**

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* 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 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.

** 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 Vice-President of the Bank until 15 April 2012, was paid bonus for 2011 in 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, the 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 Bank's Management Board members was PLN 18 751 729 (2012: PLN 23 849 081).

Information on the rules of payment other component of remuneration (severance payment) for the members of the Management Board

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.

Supervisory Board Compensation

The composition of the Supervisory Board 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.

Information about the Supervisory Board members' salaries, bonuses and benefits paid as at 31 December 2013 and 31 December 2012 is presented below.

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		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 Members of the Management Board and by 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, one Member of the Supervisory Board of mBank S.A. held shares of mBank , Mr. Wiesław Thor - 6 463 shares.

As at 31 December 2012, the Members of the Supervisory Board of mBank S.A. had no Bank 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. gross 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 Group, mBank S.A. 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 Group 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 consolidated 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).

In 2013, the strategic goals of mBank Group were aimed at maintaining the consolidated capital adequacy ratio above 15% and the consolidated Tier 1 capital adequacy ratio above 12%.

Capital adequacy ratio

The calculation of the consolidated capital adequacy ratio, the consolidated own funds and the consolidated total capital requirement in mBank Group 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 the consolidated capital adequacy ratio of mBank Group 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). Moreover in the calculation of the consolidated capital adequacy ratio, the capital requirement for credit risk of mBank Hipoteczny with the application of IRB slotting approach is taken into account. Additionally consolidated own funds are calculated with the application of the deduction derived from the A-IRB approach.

The total capital requirement of mBank Group as of 31 December 2013 amounted to PLN 4 705 786 thousand, including PLN 4 096 609 thousand of capital requirement for credit risk.

The consolidated capital adequacy ratio of mBank Group as of 31 December 2013 amounted to 19.38%. Additionally the consolidated Tier 1 capital adequacy ratio of mBank Group amounted to 14.21%.

Data relating to the capital adequacy ratio for comparative periods has not been restated. In the Group 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 Group adjusts the own funds to the level and the type of risk, mBank Group 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 mBank Group, 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 mBank Group.

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The internal capital is the amount of capital estimated for mBank Group to cover all material risks identified in the activity of mBank Group. 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 Group and is composed of six stages implemented by organizational units of mBank and the mBank Group entities. The process includes:

- stock-taking of risk in the activity of mBank Group,
- calculation of internal capital for coverage of risk,
- capital aggregation,
- stress tests,
- planning and allocation of economic capital to business lines and the mBank Group entities,
- monitoring consisting in a permanent identification of risk involved in the business of mBank Group 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 Group calculated according to the Resolution No. 76/2010 (with further amendments) and the internal capital estimated for mBank Group according to the Resolution No. 258/2011 are lower than consolidated own funds, the consolidated own funds as of 31 December 2013 were maintained on the level consistent with the requirements of Banking Act.

Capital adequacy	31.12.2013	31.12.2012
Own funds:		
- Share capital	168 696	168 556
- Supplementary fund	7 461 954	6 686 581
- Reserve fund	1 074 250	1 143 342
- Unrealised gains and losses on available for sale financial instruments and exchange differences from conversion	284 110	452 465
- Profit for the current year	268 403	650 589
- Investments in financial institutions	(32 566)	(30 818)
- Additional increase	27 096	24 491
- Additional decrease	(257 897)	(311 962)
- Intangible assets	(455 345)	(436 123)
- Subordinated liabilities	2 860 834	3 217 460
I. Total own funds	**11 399 535**	**11 564 581**
Capital charges		
II. Credit risk, including	**4 096 609**	**4 403 234**
- with application of standardised approach	1 682 678	1 495 241
- with application of AIRB approach	2 413 931	2 907 993
III. Foreign exchange risk	**-**	**-**
IV. Equity position risk	**3 794**	**2 085**
V. Specific risk of debt instruments	**18 258**	**15 154**
VI. General interest rate risk	**46 459**	**26 409**
VII. Settlement, delivery and counterparty credit risk	**40 516**	**38 623**
VIII. Commodity risk	**-**	**-**
IX. Operational risk	**484 421**	**452 866**
X. Other and transitional capital requirements	**15 729**	**-**
XI. Total capital charge	**4 705 786**	**4 938 371**
XII. Total risk exposure amount	**58 822 325**	**61 729 638**
XIII. Capital adequacy ratio (%)	**19.38%**	**18.73%**
XIV. Internal capital	**4 111 126**	**4 079 786**

48. Events after the balance sheet date

After balance sheet date, significant events did not occur in the Group.