# Management Board Report on the Performance of mBank S.A. in 2014

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# 1. Short overview of mBank

## 1.1. Key financial and business data of mBank

| | 2010 | 2011 | 2012 | 2013 | 2014 | YoY change |
|---|---|---|---|---|---|---|
| **Key Financials (PLN thou.):** | | | | | | |
| Net interest income | 1,532,852 | 1,938,917 | 2,061,948 | 2,021,330 | 2,256,468 | 11.6% |
| Net Fee & Commission income | 533,941 | 632,578 | 637,076 | 665,615 | 745,224 | 12.0% |
| **Total income** | **2,502,994** | **3,026,059** | **3,208,258** | **3,152,546** | **3,387,053** | **7.4%** |
| **Total costs (incl. A&D)** | **-1,259,091** | **-1,365,175** | **-1,375,471** | **-1,397,085** | **-1,465,970** | **4.9%** |
| Loan Loss Provisions | -561,942 | -318,684 | -383,735 | -414,816 | -442,514 | 6.7% |
| **Profit before income tax** | **681,961** | **1,342,200** | **1,449,052** | **1,340,645** | **1,478,569** | **10.3%** |
| **Net profit attributable to shareholders** | **517,724** | **1,066,012** | **1,193,575** | **1,070,306** | **1,174,096** | **9.7%** |
| | | | | | | |
| **Balance Sheet (PLN thou.):** | | | | | | |
| Total assets | 83,519,170 | 93,895,432 | 98,057,913 | 100,232,132 | 113,603,463 | 13.3% |
| Total liabilities | 76,988,212 | 86,284,526 | 88,985,119 | 90,658,912 | 103,333,877 | 14.0% |
| Total equity | 6,530,958 | 7,610,906 | 9,072,794 | 9,573,220 | 10,269,586 | 7.3% |
| | | | | | | |
| **Key Indicators:** | | | | | | |
| Cost/Income ratio | 50.3% | 45.1% | 42.9% | 44.3% | 43.3% | - |
| ROE net | 10.1% | 16.3% | 15.4% | 12.4% | 12.9% | - |
| NIM | 2.0% | 2.3% | 2.3% | 2.2% | 2.3% | - |
| NPL ratio[#] | 5.2% | 4.4% | 4.9% | 6.0% | 6.3% | - |
| Coverage ratio | 70.6% | 69.0% | 65.7% | 47.4% | 51.4% | - |
| Core Tier 1 / CET 1* | 10.8% | 9.5% | 13.6% | 15.0% | 14.1% | - |
| CAR / Total Capital Ratio* | 16.9% | 15.3% | 19.7% | 20.6% | 17.0% | - |
| Employment (FTE, at the end of period) | 4,416 | 4,729 | 4,728 | 4,696 | 4,895 | 4.2% |
| | | | | | | |
| **Investor & Shareholder Information:** | | | | | | |
| Share capital (PLN thou.) | 168,347 | 168,411 | 168,556 | 168,696 | 168,840 | - |
| Number of shares | 42,086,674 | 42,102,746 | 42,138,976 | 42,174,013 | 42,210,057 | 0.1% |
| P/BV | 1.9 | 1.3 | 1.4 | 2.1 | 1.9 | -9.4% |
| | | | | | | |
| **Business Data:** | | | | | | |
| **Retail Banking** | | | | | | |
| No. of customers (thou.) | 3,656 | 3,893 | 4,134 | 4,368 | 4,689 | 7.3% |
| Total loans (PLN M) | 33,597,904 | 38,645,611 | 37,689,621 | 38,301,077 | 40,808,736 | 6.5% |
| Total deposits (PLN M) | 24,308,392 | 26,462,410 | 32,945,390 | 33,888,810 | 39,001,797 | 15.1% |

| Corporate Banking | | | | | | |
|---|---|---|---|---|---|---|
| No. of customers | 13,271 | 13,977 | 15,095 | 16,333 | 17,787 | 8.9% |
| Total loans (PLN M) | 18,166,766 | 21,839,609 | 23,492,184 | 24,975,299 | 28,460,836 | 14.0% |
| Total deposits (PLN M) | 21,562,952 | 27,028,221 | 26,435,364 | 29,402,040 | 39,409,871 | 34.0% |

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

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

## 1.2. History of mBank

| | |
|---|---|
| 1986 | **Establishment of Bank Rozwoju Eksportu as a joint-stock company with aim to service the needs of Poland's expanding export-oriented companies** |
| 1989 | **Receipt of credit line facilities from the World Bank and International Finance Corporation; BRE Bank becomes a member of the international settlement system SWIFT** |
| 1991 | **Start of BRE Bank Group: BRE Brokers, the Group's first subsidiary is established** |
| 1992 | **Listing of BRE Bank on the Warsaw Stock Exchange** |
| 1994 | **Signing of a strategic partnership agreement with Commerzbank AG** |
| 1996 | **Poland's first Private Banking offer is launched** |
| 1998 | **Merger with Polski Bank Rozwoju SA** |
| 2000 | **Establishment of mBank – the first Internet-only bank in Poland – completed in just one hundred days** |
| 2001 | **Launch of MultiBank, the second retail arm of BRE Bank, targeting affluent customers** |
| 2004 | **Start of iBRE, a modern Internet banking system for companies** |
| 2007 | **Foreign expansion of retail operations, the first branches of mBank are set up in the Czech Republic and Slovakia** |
| 2010 | **Successful issue of new shares, in which the Bank raises nearly PLN 2 billion** |
| 2011 | **mBank's mobile transactional platform for iOS and Android is launched** |
| 2012 | **„One Bank" Strategy for 2012-2016 is announced** |
| 2013 | **Rebranding – Group brands are replaced with the strongest name: mBank**<br>**New mBank transactional platform is launched** |
| 2014 | **Launch of cooperation with Orange**<br>**Launch of New mBank platform for clients in Czech Republic and Slovakia** |

## 1.3. Composition of mBank

At the end of 2014 the division of the operations of mBank into segments and business areas was the following:

| Segment | Retail Banking | Corporates and Financial Markets | |
|---|---|---|---|
| | | Corporate and Investment Banking | Financial Markets |
| | ■ Retail customers and microenterprises<br>■ Affluent retail customers<br>■ Private Banking | ■ Corporations and non-banking financial institutions (capital groups) (K1)<br>■ Large Companies (K2)<br>■ SME (K3) | ■ Banks<br>■ Corporate clients in scope of trading and sales<br>■ Market and Liquidity Risk Management |

### Changes in authorities of mBank

**Supervisory Board of mBank S.A.**

The Annual General Meeting held on 31 March 2014 appointed the Supervisory Board for a three-year term. On 20 October 2014 Jan Szomburg resigned from his position of a Member of the Supervisory Board as of 27 October 2014. The resignation was connected with a proposal to take on an advisory function at Commerzbank Group AG. Agnieszka Słomka-Gołębiowska was appointed as a new Member of the Supervisory Board as of 28 October 2014 until the end of the current term of office of the Supervisory Board.

As of December 31, 2014, the Supervisory Board was composed of the following members:

1. Maciej Leśny – Chairman of the Supervisory Board
2. Martin Zielke – Deputy Chairman of the Supervisory Board
3. Martin Blessing – Member of the Supervisory Board
4. Andre Carls – Member of the Supervisory Board
5. Stephan Engels – Member of the Supervisory Board
6. Thorsten Kanzler – Member of the Supervisory Board
7. Teresa Mokrysz – Member of the Supervisory Board
8. Stefan Schmittmann – Member of the Supervisory Board
9. Agnieszka Słomka-Gołębiowska – Member of the Supervisory Board
10. Waldemar Stawski – Member of the Supervisory Board
11. Wiesław Thor – Member of the Supervisory Board
12. Marek Wierzbowski - Member of the Supervisory Board.

**Management Board of mBank S.A.**

As of December 31, 2014, the Management Board was composed of the following members:

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

For more information on Members of the Supervisory Board and the Management Board of mBank please see chapter 14. Statement of mBank S.A. on application of Corporate Governance principles in 2014.

# 2. 2014 – key highlights of mBank

## 2.1. Quarterly summary of 2014

**Q1**

- Implementation of the new transaction platform in mBank in the Czech Republic and Slovakia.
- Strategic alliance with Orange.
- Debut of mBank's new mobile application in Poland.

**Q2**

- Issue of EUR 500 million 5-year Eurobonds within the EMTN Programme.
- Start of mBank's branch network reorganisation in accordance with a new model and opening of the first retail and corporate branch in Szczecin.

**Q3**

- mBank again among the top banks in Poland, according to the rankings of Forbes and Newsweek.

**Q4**

- Start of Orange Finance.
- Launch of the first light branch of mBank in the Manufaktura shopping centre in Łódź.
- Issue of EUR 500 million 7-year Eurobonds within the EMTN Programme.

## 2.2. Key projects of mBank in 2014

### mBank branch network

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

The first advisory centre opened on June 16, 2014 in Szczecin. In H1 2015 further centres are due to open in, among others, Gdyna, Białystok, Kielce, Piła, Tczew, Starogard Gdański. The total number of such branches will reach 89.

In 2014 mBank also opened two "light" branches, where clients are served quickly and efficiently within the basic scope, i.e. cashier service, opening an account, filing an application for a payment card, taking out a cash loan. The first "light" branches were opened in Q4 2014 in the Manufaktura shopping centre in Łódź and in the Kaskada shopping centre in Szczecin. In January 2015 a new branch in Klif shopping centre in Gdynia opened and another branch in Gdynia is planned to be opened in Q1 2015.

The newly opened mBank branches stand out from competitors thanks to modern technological solutions – interactive store front reacting to motion, innovative touch screens which present mBank's offer in an intuitive way or interesting applications in the childrens' zone. According to the sales network reorganisation plan, there will be 44 "light" mBank branches in Poland upon completion of the project.

The changes will be implemented gradually until the end of 2018 in line with neutral contract expiry schedule.

In addition, mBank's network will be supported by around 60 mKiosks operated by Aspiro.


**Mobile banking**

A new mobile application was launched on February 19, 2014. Similar to the electronic platform the application has been built from scratch and is available on all major operating systems (Android, iOS, Windows Phone and Windows 8.1) with a graphic interface emulating the online banking platform interface.

In order to meet the needs and expectations of clients with regard to the new application, the Bank had conducted a survey aimed at identifying the reasons for using mobile banking and focused on developing the most desired functionalities.

The analysis of clients' needs showed that clients most often use the mobile application to check the account balance (95%), make transfers (67%), monitor the transaction history (64%), place standing orders (30%) and look for the nearest ATMs (30%).

It is not necessary to log into the application to have access to the current account balance, which is a real advantage of mBank's latest mobile application. The user sets an individual PIN code and obtains access to all functions and information concerning private finances. Another unique functionality is the rapid and easy payment method, even if the counterparty's account number is not known, a transfer may be made by choosing the recipient's phone number through the application.

The key solutions offered by mBank's mobile application are the following:

- Poland's fastest mobile loans available within 30 seconds;
- P2P payments via a text message using the phone's address book;
- elements of financial management (PFM): possibility of categorising expenses;
- security thanks to device "pairing" and a unique PIN;
- access to key information and offers without logging in;
- mobile mOkazje and geolocation discounts, branches and ATMs;
- option of PUSH notifications: new operations, account events, nearby mOkazje;
- possibility of changing transaction limits.

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

mBank's mobile banking had 892 thousand users at the end of 2014 (the number includes users of light websites as well as mobile applications on all platforms: Android, iOS and Windows Phone).

**Forrester: mBank's banking in the top international league**

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

The Forrester analysts scrutinised online banking services of ten big retail banks and compared them in terms of 9 categories: account management, money transfers, money management, security and login, cross-selling, self-service features, assisted service features, alerts and eDelivery. On the basis of these findings **online banking of mBank was recognised as the best in Europe**, winning in five out of all categories mentioned above.

Functionalities of the service that obtained the best score from Forrester:

- **money transfer:** mBank enables users to make payments by means of telephone numbers, e-mail addresses and Facebook IDs;

- **account management:** mBank became a leader in this area thanks to the speed and user-friendliness of its e-banking service, the possibility of customising the user's interface, transparent visualisations of account balance and advanced search options in the transaction history;

- **money management:** the authors of the report are of the opinion that convenient cash management is the key element of digital banking. mBank is the leader in this area since it is able to combine the categorisation of expenditures with the transaction history and enables users to check their current balance by means of only one click;

- **cross-selling:** mBank overtook the competition thanks to its special section dedicated to its offers, the possibility to decide which ones are to be used within the transaction history and the mDeals application on Facebook;

- **assisted service features:** the research evaluated how easy it is to obtain support of a bank consultant in transactional service. mBank proved to be the best thanks to its video banking (the Online expert service).

mBank reached the podium in two other reports on mobile banking prepared by Forrester as well - in both international and European editions - coming third and overtaking as many as 30 other banks in the global ranking.

Among the major strengths of the mBank's banking application the authors of the report named a wide range of functions offered (e.g. the possibility of opening deposits), security as well as convenience of registration and logging into mBank applications. On the other hand, the tools aiming at cash management and mDeals (mOkazje), which is the first and currently one of the very few solutions of this kind in terms of personalized sale on the European market, were deemed by Forrester to be the benchmark for the entire market.

mBank was one out of two financial institutions from Poland whose offers were analysed by Forrester and the only one which reached the podium in the rankings.

**EMTN Programme**

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

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

The first Eurobond issue with a nominal value of EUR 500 million was carried out in October 2012, another two Eurobond issues with nominal values of CHF 200 million and CZK 500 million respectively, took place in Q4 2013.

In 2014 mFinance France issued another two tranches of Eurobonds:

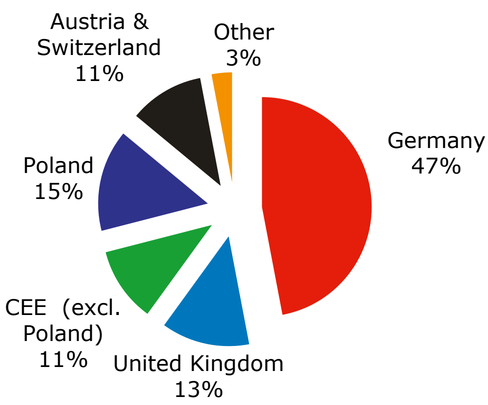
- On March 24, 2014 - issue of Eurobonds with a nominal value of EUR 500 million and maturity in 2019. Interest on the Eurobonds was 2.375% per annum.
- On November 21, 2014 - issue of Eurobonds with a nominal value of EUR 500 million and maturity in 2021. Interest on the Eurobonds was 2.0% per annum.

Both Eurobond tranches received ratings from Fitch Ratings and Standard & Poor's Ratings Services compliant with the rating of the EMTN programme and the long-term rating of mBank.

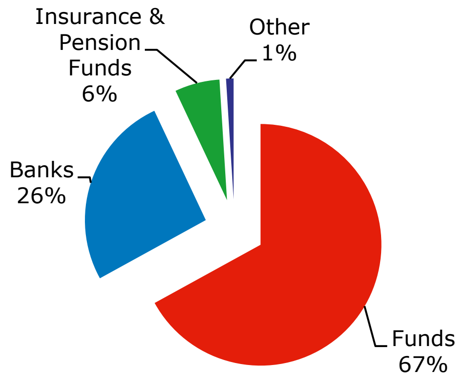
The figures below present the geographic allocation and investor groups of the euro notes issued in 2014.

**Summary of EUR 500 million 5-year unsecured Eurobonds issue in March 2014**

**Distribution by investor location**

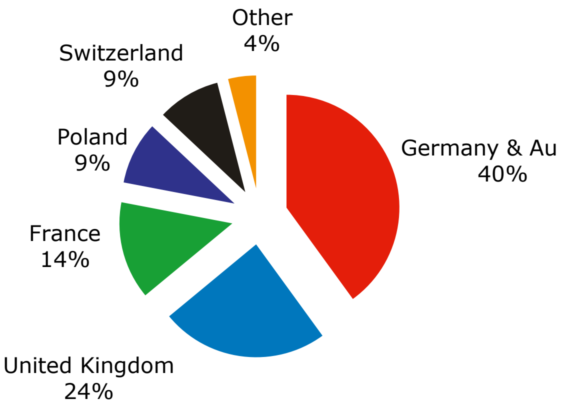



**Distribution by investor type**

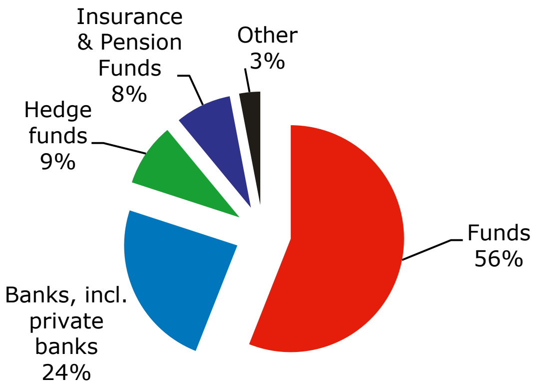



**Summary of EUR 500 million 7-year unsecured Eurobonds issue in November 2014**

**Distribution by investor location**




**Distribution by investor type**




**Strategic alliance with Orange**

On March 22, 2014, mBank established a strategic alliance with Poland's leading telecom operator Orange Polska S.A. Its foremost goal is to provide modern and convenient financial services targeting clients who value easy access and convenient personal finance management regardless where they are.

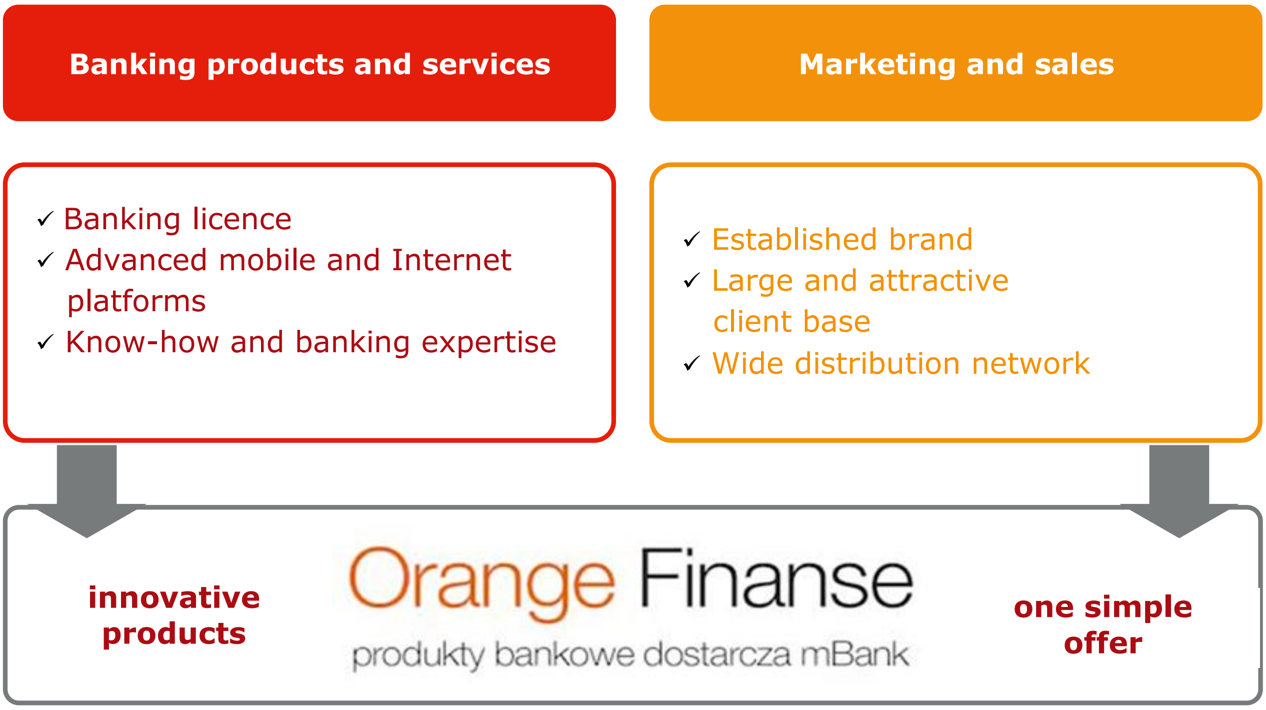
Orange Finanse
produkty bankowe dostarcza mBank

The Bank's new offer available through the Orange network targets existing and prospective clients of Orange including individuals and SMEs. The main objective is to deliver a comprehensive spectrum of financial products which would be available with the use of mobile devices and an Internet platform.

Teams from both organisations have been working since the signing of the agreement to develop a competitive and appealing offer.

The joint-venture of mBank, the best transactional and mobile bank, and Orange, Poland's leading landline telephone, Internet and data transfer provider, called Orange Finance, was launched on October 2, 2014. Orange Finance sets new trends in electronic banking whereby the strengths of the Bank bank are combined with the know-how and technology of a global telecom operator in a rapidly evolving market for financial services.

As part of the joint-venture, mBank provides banking solutions (such as a banking licence, a modern mobile and Internet banking platform and banking know-how), whereas Orange is in charge of marketing and sales.




One of the innovative features of Orange Finance is the possibility of using banking products only via a mobile application dedicated for Android and iOS systems. Clients do not need to sign any documents. Verification of client data is performed with the use of a transfer from a user's account with other bank. The application enables users to top up prepaid mobile phones and make transfers without entering the recipient's bank account number - it is enough to select his/her phone number from the smartphone's contact list or enter his/her Facebook username.

Banking products delivered by mBank are also available in the transaction service at www.OrangeFinanse.com and in c. 900 Orange stores. The Internet transaction service supplementing the mobile application offers features such as an intelligent account history search tool, making it possible to find a phrase after entering just three letters, and a budget planner facilitating management of household finances.

## 2.3. Distinctions and awards

Following table presents selected awards received by mBank in 2014:

| **Product offer and quality of the customer service** | |
|---|---|
| | mBank received an award for best transactional services for retail and corporate clients, and the **"Best Trade Finance Bank in Poland" award from Global Finance magazine.** |
| | In **„Distribution & Marketing Innovation in Retail Financial Services" contest** organized by Efma and Accenture mBank was:<br>$1^{st}$ in **„The Most Disruptive Innovation"** category<br>$1^{st}$ in **„The Most Promising Idea"** category for 30 second loan<br>$1^{st}$ in **"Everyday Banking"** category for mOkazje (mDeals) |
|  | **In the $5^{th}$ edition of the "Golden Banker" ranking** organised by the financial portal Bankier.pl and the Polish online payment market leader PayU, mBank won for the fourth time and received awards for the best retail current account, the best corporate bank and the best social media bank. mBank also received the highest number of nominations in all seven categories of the ranking and thus collected the main award: **the Golden Bank statue**. |
| | **mBank received two Service Quality Stars** in the $7^{th}$ edition of the ranking published by the online service jakoscobslugi.pl, which names the most friendly companies based on consumer opinions and the results of a CAWI survey (i.e. Computer-Assisted Web Interview, a methodology of collecting information in quantitative market and opinion research where respondents are requested to complete electronic questionnaires) covering 15 thousand respondents. |
| | It is **the $3^{rd}$ time that mBank topped the ranking "Quality You Can Bank On TNS Polska"** organised by TNS Polska, Deloitte and Puls Biznesu. Mystery shoppers visited branches of 21 banks to assess the customer service standards. |
| | Experts of the consultancy and research institution **Celent Research** which assists financial institutions in the development of comprehensive business and technology strategies placed mBank **in the $1^{st}$ position in the Digital Model Bank category**. |

**The Bank Innovation Awards**, organised for the second time by Bank Innovation, one of the leading American financial sites focusing on innovations in the banking industry, **awarded mBank for its new transactional service (New mBank)** launched in 2013.

**Marketing activities of mBank**

**The mBank team** responsible for rebranding, which consisted in merging the MultiBank, mBank and BRE Bank brands, was recognised in the competition of Mediarun. mBank was **awarded a Grand Prix in the Marketing Director of 2013 competition.**

mBank was among the best talent-hunting companies in **the Employer Branding Stars contest**, addressed to employees and to the job market, organised by HRstandard.pl, an HR web portal, and Employer Branding Institute, and was ranked number one in the following categories: **best career website (www.bankowetalenty.pl) and best recruitment materials.**

**The concept of mBank's rebranding** was considered **one of 100 best in the world during the Rebrand 100 Global Awards 2014.**

**Awards for management and others**

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

A return rate of 327% on its stock over the last 10 years placed mBank in **the first position of the ranking Złota Akcja biznes.pl** (Golden Stock) organised by biznes.pl, one of Poland’s most popular financial portals.

The prestigious **“The Best of the Best”** award for the best 2013 annual report, in the contest organised by the Tax and Accounting Institute.

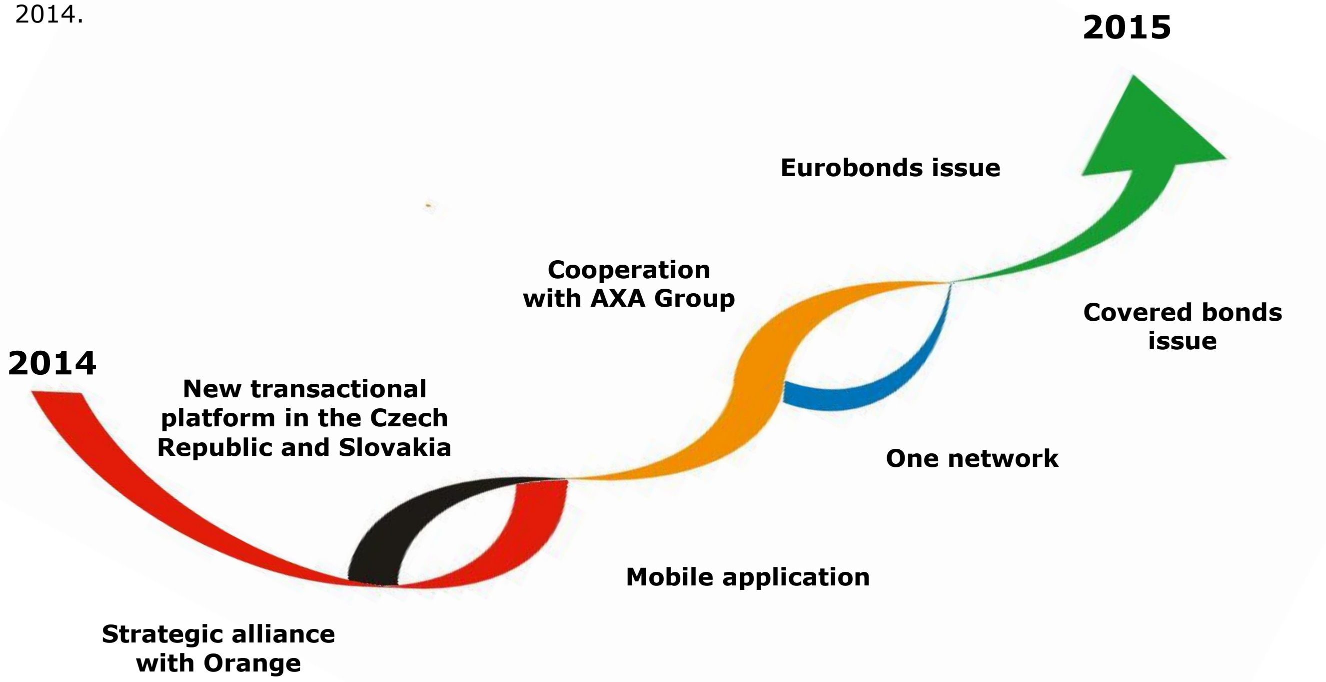
## 3. mBank Group Strategy and plans for the coming years

### 3.1. mBank Group Strategy for 2012-2016

The Group has pursued the objectives of the "One Bank" Strategy since July 2012. The underlying principles of the One Bank strategy provided for improvement of the long-term capacity of generating income and profits within a sound balance sheet with a strong technological support for client relationships and an enhanced integration backed by brand unification and a uniform branch infrastructure. Selected key achievements of the "One Bank" Strategy include:

- improved structure of mBank's balance sheet, in particular a reduced loan to deposit ratio and increasing diversification of funding supported by an EMTN issue programme and the strategic repositioning of mBank Hipoteczny, including the launching of the programme of financing of retail housing loans with issues of covered bonds;
- providing all mBank clients in Poland, the Czech Republic and Slovakia with an innovative online banking offering well ahead of current customer experience standards (New mBank) along with a top-class mobile banking application following the launch of New mBank;
- implementation of an organizational set up of Corporate and Investment Banking integrated around K2 client needs. This is a foundation for mBank long-term focus on deepening relationships with K2 clients through offering a full range of corporate finance solutions within an integrated institution;
- targeted development of relations with the SME segment supported by an integration of competences related to SME services including sales management and business development within a specialized unit in the Bank's Retail Banking area;
- increasing integration focused on synergies across different parts of the banking business and Group subsidiaries, in particular: implementation of the uniform mBank brand across the Group, and a project under implementation to unify and reorganise the retail and corporate branch network covering the range of financial services provided by Group subsidiaries.

A number of steps initiated or completed in 2014 derived from the goals of the "One Bank" Strategy are summarised at the picture below. For more information please see section 2.2. Key Projects of mBank in 2014.



**Plans and Strategy implementation in 2014**

The cornerstone of the "One Bank" Strategy covering the period until 2016 is integration of mBank Group, reflected, especially, in the symbolic unification of the Group's brands. In the following years, mBank will focus on strengthening its leading position in mobile and transactional banking.

From the clients' perspective, the most visible aspect of the integration from the outside is the ongoing reorganisation of retail and corporate branch network aimed at enhancing the availability of the Group's product portfolio and opening of a branch network addressed to all clients of the "former" mBank. Between 2015 and 2018 the Bank will be gradually restructuring its branch network, taking into account the experience gained in the course of the reorganisation and clients' needs while deciding on the design, equipment and functionalities of the branches. The ongoing project of branch network reorganisation does not provide for increasing the number of the Bank's branches, but is intended to better utilize its current physical presence in order to become more convenient to clients. Branches constitute an important channel of client acquisition and cross-selling of mBank Group products and services. At the same time, the Bank is successfully developing sales outside traditional touchpoints. mBank's sales structure already reflects the intended relation between different banking offer distribution channels expected by the market. According to these expectations, the importance of remote channels, i.e. Internet and mobile platforms, will keep growing. Functionalities of mBank's modern Internet banking platform, as well as the most convenient access to mobile banking backed by the Group's inborn ability to quickly develop innovative, technologically advanced solutions favourably position mBank for future challenges. The flexibility of mBank's platform was proved by accomplishments such as the creation of the ultra-modern mBank transaction platform (New mBank) in only 10 months and the development of the Orange Finance banking application which took only 8 months.

Under the current Strategy, the Group's activities until 2016 are to focus on the following financial objectives:

| **Strategy for 2012-2016** | |
|---|---|
| **Financial objectives** | **As at the end of 2014** |
| Loan to deposit ratio: c. 115% by 2016 | 103.0% |
| Net Stable Funding Ratio (NSFR): min. 110% | 109% |
| Core Tier I ratio: c. 11% | 12.2%* |
| Cost to income ratio (C/I): max. 48% | 44.9% |
| Gross ROE: min. 15% | 16.9% |
| Net ROA: min. 1.4% | 1.1% |

** Common Equity Tier 1 Capital Ratio calculated in line with Basel 3 rules.*

**Plans for 2015 and the following years**

In 2015 mBank's activities will first and foremost focus on strengthening the Bank's leading position in mobile and transactional banking.

mBank's strong position in transactional banking is reflected by, among others, its high share in the market of non-cash payments reaching 12.2% at the end of 2014. The current efforts of mBank relating to the development of payment cards are aimed at, among others, increasing the share of transactions with the use of mBank cards in the total number of transactions concluded on the market. In 2014 mBank retail banking clients made card payments worth over PLN 17.6 billion, setting an all-time record and marking a 18.5% increase against 2013. This was accompanied by a continuing drop in the average value of a single transaction as clients are more and more often using cards for small-item shopping.

Coming in line with current trends, in 2014, mBank focused on the development of mobile banking, at the same time offering an innovative approach to application introduction process. The mobile application was built from scratch with actual needs of clients in the limelight. It was given a positive reception by clients, which directly translated into the number of mBank mobile users, giving the Bank the first place in Poland in terms of the number of mobile banking clients (892 thousand at the end of 2014). The Bank is still working on further development of the application and adding new functionalities, including those proposed by clients. In 2015, mBank will give the highest priority to mobile payments and bringing into compliance the functionalities of its mobile banking application and Internet platform. The Bank will focus on purely mobile scenarios in order to enable users to perform them in no more than 30 seconds. mBank wants its mobile application to always keep up with global trends.

Another milestone in the implementation of the "One Bank" Strategy will be the completion of migrating former MultiBank clients to the mBank platform. This will enable a more precise segmentation of mBank Group clients. It will be also reflected in improved cost efficiency, allowing for a more effective adjustment of the Bank's offer, increased effectiveness of the technological development of the transaction platform and marketing communication in the part of mBank's portfolio addressed to individuals.

In 2015, mBank Group will continue its efforts towards obtaining diversified, long-term and attractively priced funding for its business by means of issues of covered bonds by mBank Hipoteczny and next tranches of bonds under the EMTN programme. The Bank plans to issue covered bonds worth an estimated PLN 1.5 billion in 2015.

mBank Group will focus also on improving the profitability of assets by changing the structure of loans and reducing the foreign currency portfolio, which is of an even greater importance in the environment of low interest rates.

mBank, if necessary, will also support its CHF borrowers with a package of workout solutions. This will include, among others, the application of a negative LIBOR rate to all CHF borrowers, lower FX spreads, amendments to the repayment schedule with the possibility of deferring the repayment of the principal amount by 12 months, extending the term of the loan, a flexible repayment schedule, etc.

mBank is planning to formally update its strategy in 2016. New strategic objectives will be based on the main pillars of the "One Bank" Strategy. The heart of mBank's new business strategy will be its clients. The Bank will be to an even greater extent guided by clients' needs which will be better identified and anticipated. mBank will thus strategically position itself as a client-centric institution which, while serving clients, draws on its knowledge of their needs. mBank has already started the implementation of a systematized customer satisfaction measurement process. Activities aimed at carrying out regular identification of client needs and clients' assessment of the Bank have been initiated in the Corporate Banking and Financial Markets areas. Systematic measurement of customer satisfaction and responding to changing expectations of corporate clients will contribute to strengthening the relationship with the Group's clients. Moreover, mBank intends to use this expertise to deepen its relationship with retail banking clients. Stronger relationship with clients should yield a more dynamic increase in mBank's revenues in the following years.

To promote this growth, mBank will also launch business initiatives which are going to focus on the acquisition of new clients and more intense cooperation with clients for whom mBank is not the primary financial institution. The areas of strategic focus for mBank Group in 2015 and in the following years will be:

- Acquisition of new retail clients and activation of the existing Retail Banking clients with special attention to the segment of young clients.
- Increasing revenues generated by mBank's foreign branches in the Czech Republic and Slovakia through dynamic client base development and sale of high-margin products on these markets.
- Systematizing the Group's approach to relationships with affluent clients - a strategy involving integration of solutions addressed to affluent, private banking and wealth management clients in order to better respond to the expectations of this segment.

- Stronger presence in the SME sector by using mBank’s current advantages, i.e. unique Internet banking experience, mobility and speed of banking processes.
- Client acquisition in the K3 segment focused on the most promising companies and improved segmentation of clients between retail and corporate customer service models.
- Cultivating relationships with K2 corporate clients by strengthening mBank’s position in arranging debt issues and issues of shares, as well as on the M&A market.
- More flexible cooperation with the largest K1 companies drawing on the expertise of and relationship with Commerzbank.

# 4. Macroeconomic environment

## 4.1. Economy and the banking sector in 2014

### 4.1.1. Solid growth in a turbulent environment

As generally expected, 2014 brought about accelerated economic growth, which stepped up from 1.7% in 2013 to 3.3%. The growth rate was higher than projected in most forecasts early in the year. Inflation came as an unpleasant surprise in 2014: despite expectations, it was a year of an almost monotonous decline of inflation, which fell below zero for the first time ever in July and stood at -1% at the year's end.

The steady fall of inflation, which postponed the prospect of inflation returning close to the NBP's target, was combined with growing uncertainty about the market conditions in Poland and beyond. A series of adverse events (slow-down in the eurozone, economic crisis in Central and Eastern European countries, mainly Russia and Ukraine) put in question the potential dynamic growth of foreign demand for Polish goods and services. Coupled with a decline of many economic indicators, these factors prompted the Monetary Policy Council to resume monetary policy easing. After cutting the main interest rate by 50 basis points in October, the Monetary Policy Council remained dovish and signalled further cuts. In the opinion of the Bank, the decision will most likely be made in March 2015.

The first weeks of 2014 were not easy for the Polish currency: an outflow of capital from emerging markets, mainly affecting Turkey which wrestled with the external imbalance and political problems, precipitated a sellout of Polish assets as well, and the zloty fell to ca. 4.26 against the euro at the end of January. Subsequent months brought optimistic statistics of the real economy as well as steadily rising expectations concerning European Central Bank initiatives. These drivers gradually allowed the zloty to strengthen to 4.09 against the euro and 2.98 against the dollar in early June. In the latter half of the year, the zloty depreciated due to a combination of adverse factors, from weaker economic activity in Poland and resumed interest rate cuts, to escalation of the Ukrainian-Russian crisis and a collapse of the financial systems of both countries, to a strong appreciation of the US dollar. At the end of the year, on a shallow market in the holiday season, the zloty fell to 4.40 against the euro and 3.60 against the dollar. The Swiss National Bank's decision to drop the cap on the CHF exchange rate on 15 January 2015 added more volatility to the Polish FX market. As a result, the exchange rate of the Swiss franc against PLN rose from ca. 3.6 to more than 4. For more information, please see section 4.4., chapter "Impact of the appreciation of the Swiss franc on the position of borrowers, the banking sector, and mBank".

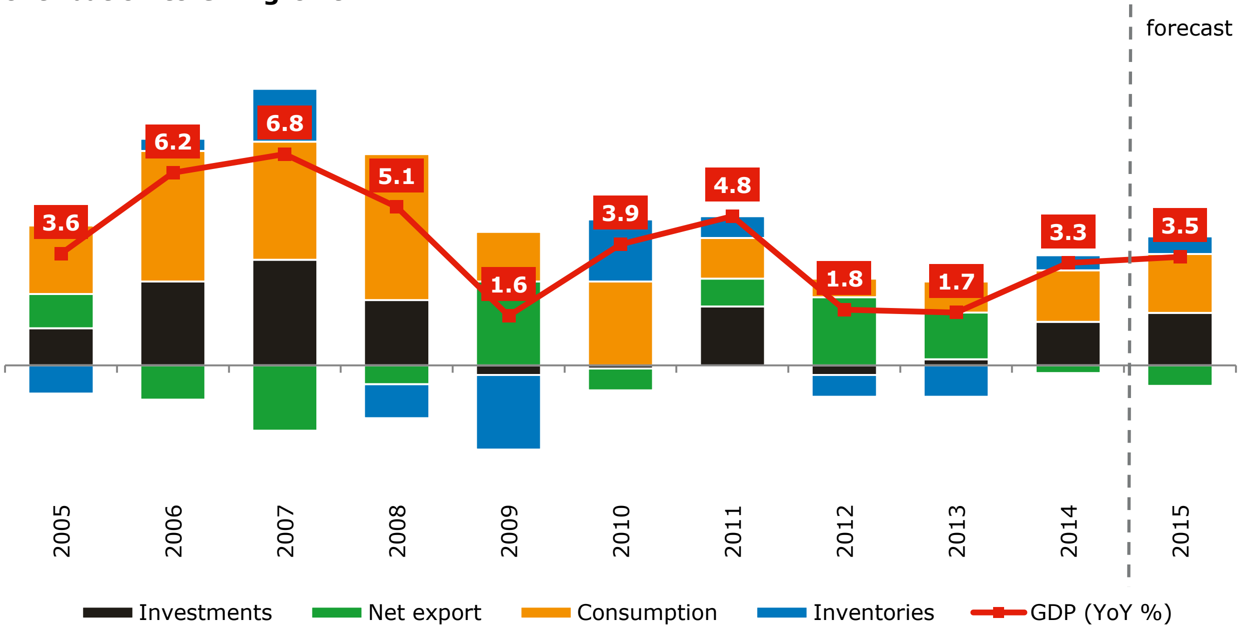
**Growth and inflation**

The Polish economy started the year in full swing as GDP growth was no less than 3.4% in Q1, which came as a nice surprise to economists, and not the only one in 2014. Notwithstanding some risks and resulting concerns about the Polish economy, as well as unpleasant surprises concerning frequently published statistics, economic growth remained above 3% quarter after quarter (3.5% in Q2, most likely ca. 3% in Q4). The very good performance of the Polish economy was driven by several factors:

- Further acceleration of consumption, supported by higher real increase of household incomes (including both salaries and other income, such as social security benefits) and a steadily improving consumer sentiment. While retail sales grew moderately in 2014, the growth of consumption was largely driven by services.
- Strong growth of private investments, which accounted for most of the impressive 10% increase of fixed capital formation in 2014. In the opinion of the Bank, the strength of private investments derives mainly from deferred investment demand (investment projects were postponed during the economic downturn) and strong improvement of corporate sentiment at the turn of the year, as well as the need to expand the production capacity whose utilisation is relatively high.
- Very vibrant Polish labour market: the unemployment rate continued to fall in 2014 and was only 11.4% in December (compared to 13.4% at the end of 2013). In addition, the number of persons employed grew dynamically in 2014, by 0.7% to 2% depending on the measures used and the source of data.
- Drastic easing of the monetary policy in the preceding year, which had immediate effects reducing the debt burden of households and impacted the structure of households' assets (cash was moved

from savings accounts to investment funds or used for consumption) in support of consumer spending.

**Contribution to GDP growth**

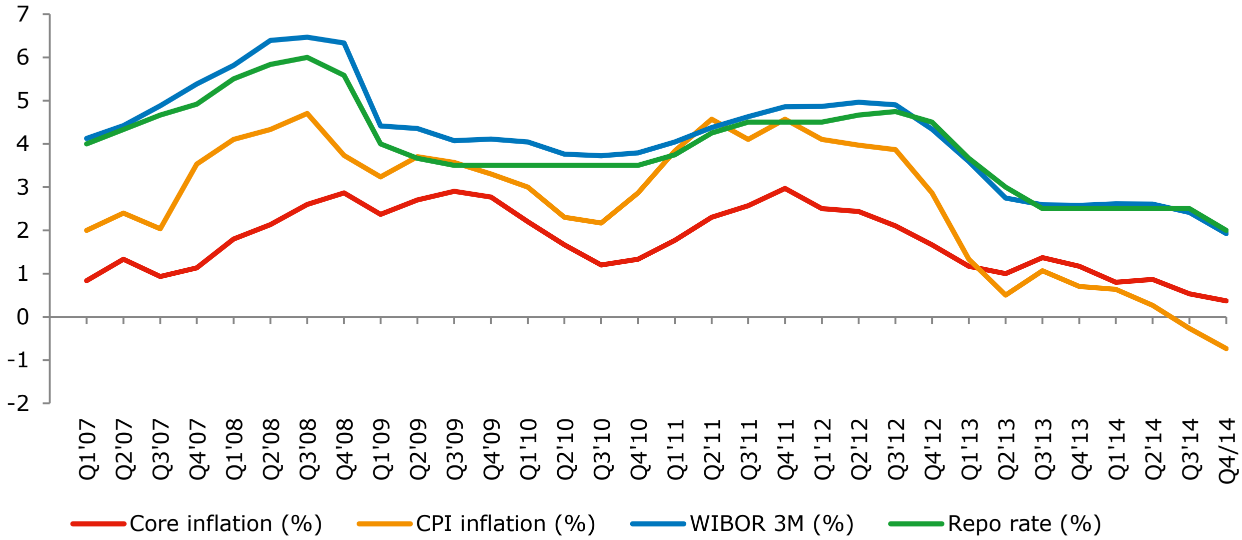



Contrary to general projections and NBP's expectations, inflation did not begin to grow in 2014. Quite the opposite: inflation fell below the zero mark in 2014, hitting one low after the next month after month. Within the year, inflation fell from 0.5% reported in January to -1% in December. This was driven by many factors, from the sharp decrease of food prices thanks to very good harvests and the later trade wars with Russia, to the "oil shock" in late 2014 (as oil prices fell by more than 50%), whose effect is not yet fully reflected in CPI data. These stimuli were coupled with low core inflation, attributable to deflation in the external environment of the Polish economy (negative index of the prices of imported goods for the most part of the year), as well as the still incomplete recovery of domestic demand. Under those conditions, the average annual consumer price index was almost precisely zero in 2014.

**Interest rates**

In the first half of 2014, the monetary policy remained dovish in the absence of inflation pressures in the economy. According to the consensus shared by the Monetary Policy Council with analysts and market participants, the interest rates were to remain record-low for several months. However, a change of the monetary policy took some time. Expectations of interest rate cuts emerged in May and June as domestic macroeconomic statistics declined, the trade wars with Russia escalated, and the European Central Bank initiated a new phase of quantitative easing. Data published in the summer months only reinforced the trend. Eventually, at its September meeting, the Monetary Policy Council signalled a new cycle of interest rate cuts. The decision came in October when the reference rate was cut by 50 bps (the Lombard rate by as much as 100 bps). The decisions of the Monetary Policy Council in the months that followed were affected by internal differences of opinion on what would be an adequate response to the combination of solid growth and declining inflation prospects. Although proposed by the dovish members of the Monetary Policy Council, no cuts were decided at the November and December meetings.

**CPI inflation and NBP reference rate**




### 4.1.2. Banking sector

2014 turned out to be moderately better than 2013 for the financial results of the Polish banking sector. The net profit of the sector stood at PLN 16.2 billion in 2014, compared to PLN 15.2 billion reported in 2013. The increase of the profits of the banking sector was driven mainly by improved net interest income, which grew by PLN 2.5 billion year on year, however, mainly owing to a decrease of interest expenses by PLN 5.5 billion. In the environment of extremely low interest rates, interest income shrank by PLN 3 billion.

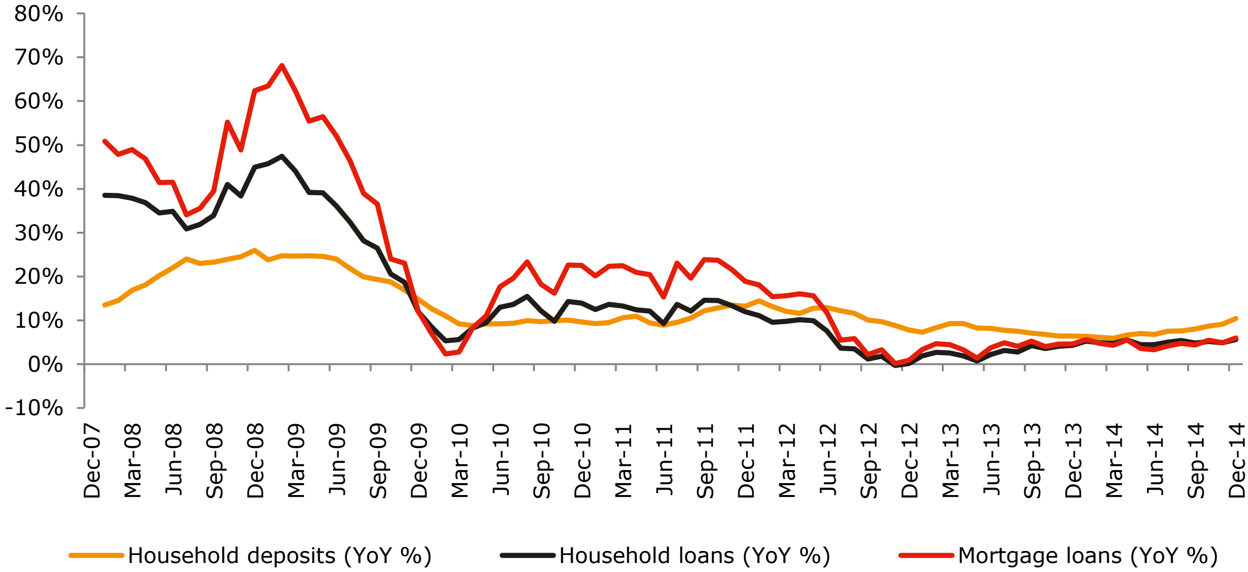
2014 brought further improvement of the quality of banks' loan portfolios. The percentage share of non-performing loans decreased from 8.5% to 8.1% in 2014 (year-end figures), including a decrease from 11.5% to 10.2% for enterprises and a decrease from 7.0% to 6.5% for households.

The year 2014 was another consecutive year when the assets of the banking sector continued to grow. The balance sheet total of the Polish banking sector stood at PLN 1.53 trillion at the year's end (an increase of 9% year on year). Some two-thirds of the growth in assets is attributed to expansion of lending. As for equity and liabilities, in addition to growth of deposits at a pace similar to new lending, equity continued to grow by ca. PLN 13.5 billion year on year.

The offer of the Polish banking sector was characterised by the following trends:

- The criteria and terms of bank loans were gradually relaxed. This concerned nearly all segments of the market but the credit policy was mainly relaxed for small and medium-sized enterprises, as well as consumer loans for households. The terms and criteria of housing loans became stricter, mainly due to the minimum down-payment requirement imposed in early 2014.
- Interest rates on retail and corporate loans and deposits decreased following the NBP's October rate cut.
- Mobile banking and non-cash payments continued to grow.
- Margins on loans and deposits were reduced. With the exception of mortgage loans, credit margins were falling steadily in 2014 as a proxy of lower credit risk and improved financial standing of borrowers. Due to falling interest rates and the aspiration to compete for deposits (mainly in the retail segment), banks were often forced to maintain interest rates on deposits above the interbank rates WIBOR and WIBID.

**Household loans and deposits**



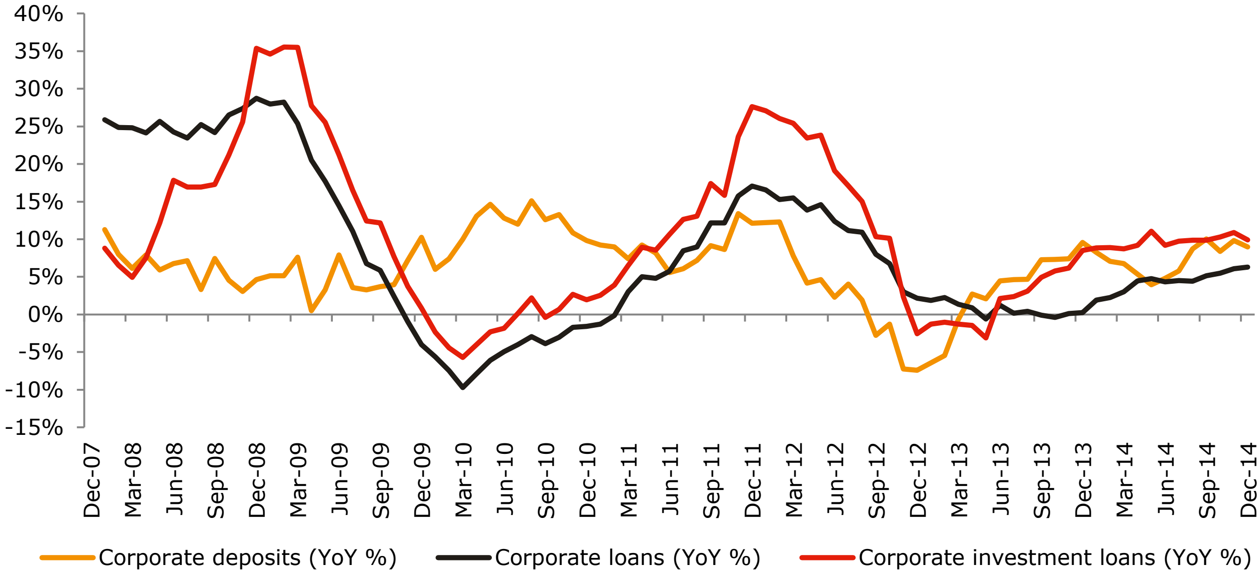

In 2014, further symptoms of recovery emerged on the credit market even if they mainly concerned the corporate segment: the growth rate of loans for enterprises increased from 1.6% at the end of 2013 to ca. 10% a year later. This was largely driven by the fact that the recovery on the corporate lending market, initially boosted only by investment loans, also involved the other segments in 2014. In this context, it should be noted that the de minimis guarantee programme continued: ca. PLN 10 billion of guarantees were extended in 2014 (compared to PLN 7 billion in 2013).

On the other hand, the retail segment (households) did not report a break-through in 2014 due to a very modest increase of mortgage loan volumes and a relatively low growth rate of consumer credit. The former segment reported a growth rate under 5% in 2014 while the modest volume of new loans (under PLN 10 billion per quarter) was offset by growing repayments of the stock of loans built in the previous years. This was the case despite the record-low interest rates on mortgage loans. In terms of volumes, the key development was the decision of the Swiss National Bank to drop the cap on the exchange rate of the Swiss franc, which caused the value of CHF denominated loans to rise from PLN 136.2 billion at the end of December to ca. PLN 154 billion at the end of January 2015 according to the Bank’s estimates. However, the decision is most likely to have a minor impact on the amount of instalments paid by borrowers because the FX effect will be largely offset by the decrease of LIBOR CHF (-0.88% on three-month loans).

On the other hand, the volume growth of consumer loans was limited in 2014. The October cut of the Lombard rate by 100 bps set a new maximum interest rate on consumer loans, which was 4 percentage points lower, but it went practically unnoticed by the market and probably failed to boost demand for loans.

2014 was also a time of deposit base growth. In particular, despite the low interest rates, the inflow of new cash to household deposits not only did not slow down but actually accelerated throughout the year. Household deposits stood at more than PLN 591 billion at the end of 2014, representing an increase of PLN 49 billion year on year. The year-on-year growth rate of household deposits accelerated from ca. 4% to more than 9%. Corporate deposits also grew dynamically in 2014 and stood at PLN 226 billion at the year’s end, representing an increase of PLN 19 billion year on year. Their grow rate ranged within the year from 4.5% to 10.5% year on year, reflecting the turbulent story of Polish corporate finance (effects of the Russian crisis, sharp decrease of costs thanks to falling commodity prices).

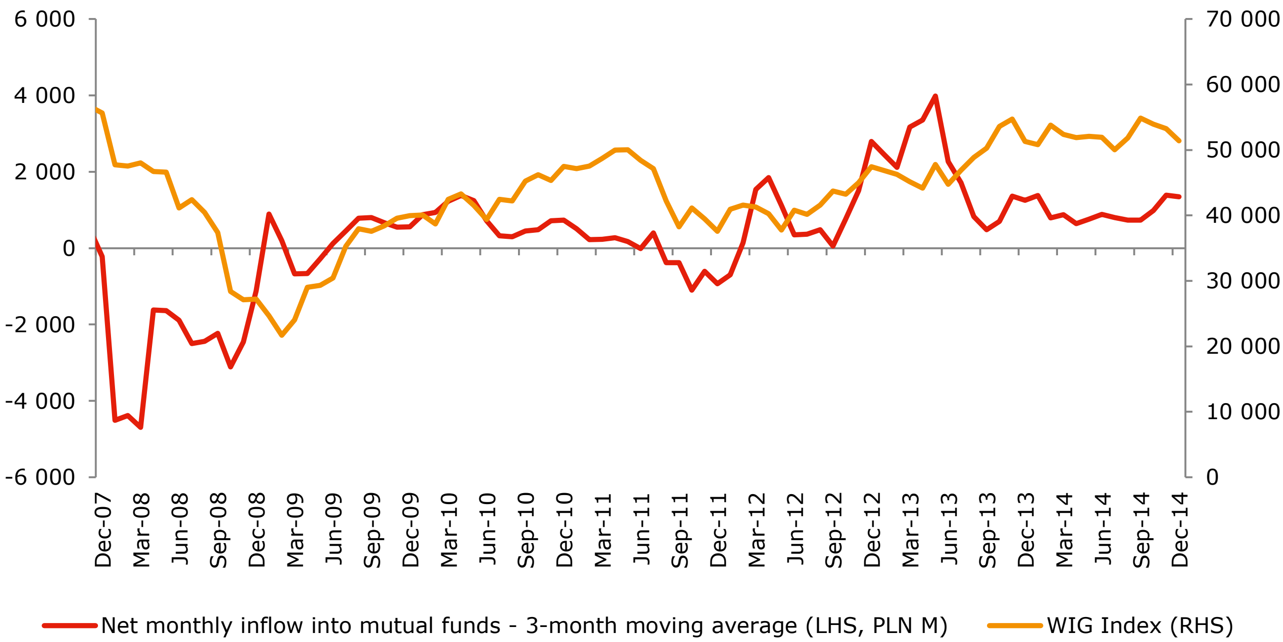
**Corporate loans and deposits**




## 4.2. Capital markets

2014 on the Warsaw Stock Exchange did not favour bullish investors: the broad market index WIG closed the year at a practically unchanged level while WIG20 stocks lost ca. 4% on average. The weakness of the Polish stock market was driven by many factors: the pension system reform and uncertainty about the future inflows of pension fund cash to the stock exchange; the Ukrainian-Russian conflict which affected companies present in Eastern markets and prompted foreign investors to reduce exposure to Russia and its neighbours; weakness of European stock exchanges in the wake of yet another wave of economic slow-down in the eurozone; debt investment funds being a more attractive investment option for individual investors; as well as factors idiosyncratic to the Warsaw Stock Exchange, including interest rate cuts which affected the revenue of banks and falling commodity prices which affected commodity stocks.

**Mutual funds inflows and WIG Index**




Under these conditions, the number of initial public offerings on the WSE was not significantly higher than in the previous years. There were 28 new listings in 2014 (23 IPOs in 2013, 19 IPOs in 2012), including

10 companies transferring from NewConnect, the market for small and medium-sized enterprises with a strong growth potential.

### 4.3. Situation on the Treasury bond market

As expected by the Bank, 2014 proved to be a good year for the Treasury bond market while the final returns on Treasury bond portfolios considerably exceeded the most optimistic expectations. In practice, from the turn of January to February when the sellout of assets from emerging markets (including Poland) peaked, Treasury bond yields were on a decrease while their prices were on an increase. The factors which supported the Polish bond market in 2014 included: low inflation in Poland and beyond; concerns about economic growth of well-developed countries, initially fuelled with the surprising fall of GDP in Q1 and later by the eurozone flirting with yet another recession (which actually did affect some of the eurozone countries); expectations of the European Central Bank's asset purchase programme which would result in an inflow of cash to the Polish bond market; expectations of further interest rate cuts followed by actual decisions to cut the rates; falling bond yields on the base markets, especially German bonds whose yields dropped by ca. 1.5 percentage points within the year.

The bond market was also supported by a steady improvement of fiscal indicators: according to estimates, the government budget was ca. PLN 20 billion (40%) lower that the target at the end of 2014 while the government sector deficit probably dropped below 3% of GDP. This implies an earlier than expected completion of the European Commission's excessive deficit procedure and, in the mid-term, an upgrade of Poland's ratings if public debt follows a downtrend (which is probable). The lower credit risk is combined with lower supply of Treasuries due to the government's smaller borrowing needs in 2014.

In the opinion of the Bank, it is too early to announce that the downtrend of Polish T-bonds is over. Bond yields have hit new records in 2015 and bonds should keep strong in the coming months (at least in Q1). The factors that make Polish Treasury bonds attractive include: further fall of inflation (the Bank expects the lowest inflation readings at -1.5% in February and March); the low yield environment in Europe supported by the ECB as well as global drivers (inflation in well-developed countries will also bottom out in Q1).

### 4.4. Expected trends in the economy in 2015 and their impact on the banking sector

In the opinion of mBank's Chief Economist, economic growth should accelerate in 2015: the growth rate may cross the mark of 4% in Q4 while the average annual growth will be 3.5%. Domestic demand will remain the key growth driver in 2015 although consumption is likely to become the key force in this category while investments will grow less dynamically. This is due to the continued effect of factors bolstering consumption (good household sentiment, very high increase of real disposable income) combined with the phasing out of drivers which boosted investments in 2014 ("catching up" with postponed investment demand of enterprises).

Inflation will hit new lows in 2015 (in the opinion of the Chief Economist, annual inflation may fall to -1.5% in February and March) and then turn around, most likely at the turn of Q1 to Q2. However, deflation (understood as negative annual inflation) will persist in the Polish economy at least until the summer. This means that the average annual consumer price index will be negative for the first time in history. This will give the Monetary Policy Council the comfort to continue with interest rate cuts: the cycle is likely to being in March and to bring the NBP's main interest rate to 1.5% or less (i.e. 50 bps below the current rate).

The continuation of economic recovery will impact the monetary aggregates. In the opinion of mBank's Chief Economist, the following trends will develop in 2015:

- The growth of corporate deposits will continue in 2015 as a proxy to improving financial results of companies, which is even more likely considering that it will take place in the context of accelerating economic growth. According to the Bank's current projections, the growth rate of corporate deposits should reach 10% on average in 2015, compared to 7.8% in 2014.
- In the opinion of the Bank, corporate loans will continue to grow at a rate exceeding the average growth rate of loans in the economy. This is driven by the still considerable investment needs of enterprises, as well as attractive terms of new lending (low interest rates, relaxed criteria and terms of bank loans). Corporate loan volumes are expected to increase by 6.6% on average in 2015

(compared to 4.7% on average in 2014) while investment loans should make the biggest contribution, similar to 2014.

- According to mBank's projections, the annual growth rate of retail deposits will stabilise around 10%. Growth of household deposits will be supported mainly by continued improvement on the labour market and an increase of nominal household incomes (as a result of rising salaries and low inflation). The availability of certain, stable, high real returns on savings will remain an important decision-making factor to choose deposits as the main form of household savings.
- Finally, the volumes of retail loans should significantly increase in 2015. For mortgage loans, the adverse impact of Recommendation S (minimum down-payment requirement) should be more than offset by the impact of improving consumer sentiment. The volumes of consumer loans are also expected to continue growing although the base effect in the latter half of the year will mitigate the growth rate of consumer loans.

The Polish banking sector will also be faced with the CHF appreciation after the SNB decision on January 15, 2015. For more information please see section "Impact of the appreciation of the Swiss franc on the position of borrowers, the banking sector, and mBank" in the following chapter.

In addition to these macroeconomic trends, the banking sector (including mBank) will operate under the following conditions in 2015:

- Regardless of the scale of further monetary policy easing, the banking sector will face an environment of historically low interest rates. This will exert pressures on financial results due to both lower interest income and higher costs of funding (the need to maintain high interest rates on deposits, especially household deposits).
- Another challenge for the banking sector is the increase of the contribution to the Bank Guarantee Fund; the aggregate costs are estimated at PLN 1.1 billion in the first year of the new rules. The effect of the change will be augmented by the concentration of payments in time (one-off payment in Q1) as well as the risk of further increase of the contribution in view of the continued restructuring of the co-operative savings and loans associations SKOK.
- Additional pressures on the financial results of the banking sector will be exerted by reduced income from payment card services. According to the Bank's estimates, the reduction of the interchange fee in 2014 (from 1.3% to 0.5%) entails a decrease of income of the banking sector by ca. PLN 700 million per year. The effect of a further reduction (from 0.5% to 0.3%) is estimated at ca. PLN 200 million per year. According to the Bank's expectations, the direct effect will be offset in the long term by growing volumes of card transactions.
- A further increase of the down-payment requirement for mortgage loans (from 5% to 10%) will impact the banking sector mainly by way of limited demand for household loans, as was the case in 2014. On the other hand, it is expected that the down-payment requirement will bolster the propensity of households to save and, consequently, support the inflow of cash to deposits, providing banks with stable funding for loans.
- Other changes in the regulatory environment, i.e., restrictions on sales of insurance products by banks as well as changes in consumer lending (additional personal bankruptcy options and more restrictive "anti-usury" rules), will play a minor role. The former may slightly boost the cost of funding for banks; in the opinion of the Bank, the latter will affect banks much less than it will other credit institutions.

Changes in the market environment, regulations and recommendations issued by the Polish Financial Supervision Authority may be a challenge for the banking sector in Poland in 2015 and may have an adverse effect on its financial results are presented in the table below:

| Factor | Short overview of a factor | Influence on the main areas of banks<br>YES – the factor has impact on a given area<br>NO – the factor has no impact on a given area, or has a limited impact on a given area | |
|---|---|---|---|
| **The lowest interest rates in history** | In October the Monetary Policy Council (MPC) reduced the reference rate by 50 bps (to 2.0%), and lowered the lombard rate by as much as 100 bps (to 3.0%). The decision resulted from the inflation being continuously below the NBP target (deflation in H2 2014) and slowdown in economic growth. During its December meeting the Monetary Policy Council upheld its October decision, however, in 2015 new cuts are expected. | **Revenues**<br>**Costs**<br>**LLP** | YES<br>NO<br>NO |
| **Lower limit of interest on loans and advances** | Since the MPC lowered the lombard rate by 100 bps to 3.0%, the maximum nominal interest on the loans and advances offered by banks cannot exceed 12%. It results from the so-called Anti-Usury Law applicable from 2006 under which the interest charged per annum on loans and advances cannot exceed the 4-fold lombard rate of the National Bank of Poland, that is 12% at present. | **Revenues**<br>**Costs**<br>**LLP** | YES<br>NO<br>NO |
| **Limiting income from servicing payment cards** | As of July 1, 2014, the amended Act on Payment Services dated August 30, 2013, has entered into force. The aim of this amendment was to regulate the basic operation principles of the market of domestic payment transactions made with the use of payment cards. Under the amendment the maximum interchange rate cannot be more than 0.5% of the commission charged for payment card transaction. This represents a decrease from 1.2%-1.3% of the previously applicable commissions. At the beginning of 2015 the maximum interchange rate will be reduced to 0.2% and 0.3% of transaction value of debit and credit cards, respectively. | **Revenues**<br>**Costs**<br>**LLP** | YES<br>NO<br>NO |

| | | | |
|---|---|---|---|
| **Higher contribution to the Bank Guarantee Fund** | In 2015 the annual fee will grow from 0.1% to 0.189% of the 12.5-fold of total capital requirements. In addition, the prudential levy introduced in November 2013 grew from 0.037% to 0.05% of the 12.5-fold of total capital requirements calculated for each of the banks. | ▪ **Revenues**<br>▪ **Costs**<br>▪ **LLP** | NO<br>YES<br>NO |
| **Obligatory higher own contribution to mortgage loans** | From 2014 the PFSA tightened the rules for granting mortgage loans in the new Recommendation S. In line with the guidelines issued by the PFSA, from January 2014 the own contribution required when purchasing a real property was at least 5%, and from the beginning of 2015 it has been increased to 10% of the value of the real property. The amount of the own contribution will rise each year by 5%, to reach 20% in 2017. Moreover, the amount of own contribution will depend on the additional loan collateral, and the loan cannot be taken out for a period longer than 35 years. | ▪ **Revenues**<br>▪ **Costs**<br>▪ **LLP** | YES<br>NO<br>YES |
| **Introducing additional curbs on insurance product distribution by banks** | Pursuant to Recommendation U concerning good practices relating to bancassurance of June 2014, from April 1, 2015 banks will be obliged to ensure that the client has a free choice of insurance company. The bank cannot simultaneously act in the role of the insurer and insurance intermediary, and the consideration of the bank for offering insurance products is to be set in a relevant proportion to the amount of the costs incurred by the bank. | ▪ **Revenues**<br>▪ **Costs**<br>▪ **LLP** | YES<br>YES<br>NO |
| **Consumer bankruptcy** | An amendment to the Bankruptcy and Reorganisation Law, the Act on the National Court Register and the Act on Court Fees in Civil Cases, entered into force on January 1, 2015. The major change resulting from the new regulations is simplification of procedures concerning consumer bankruptcy. The consumer has now easier access to the procedure of declaring bankruptcy in the case of excessive debt. It will be a new chance for the persons who ran into financial troubles, including the banks' clients who took out loans. | ▪ **Revenues**<br>▪ **Costs**<br>▪ **LLP** | YES<br>NO<br>YES |

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

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

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

The following decisions were made:

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

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

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

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

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

The recommended legal and regulatory amendments include:

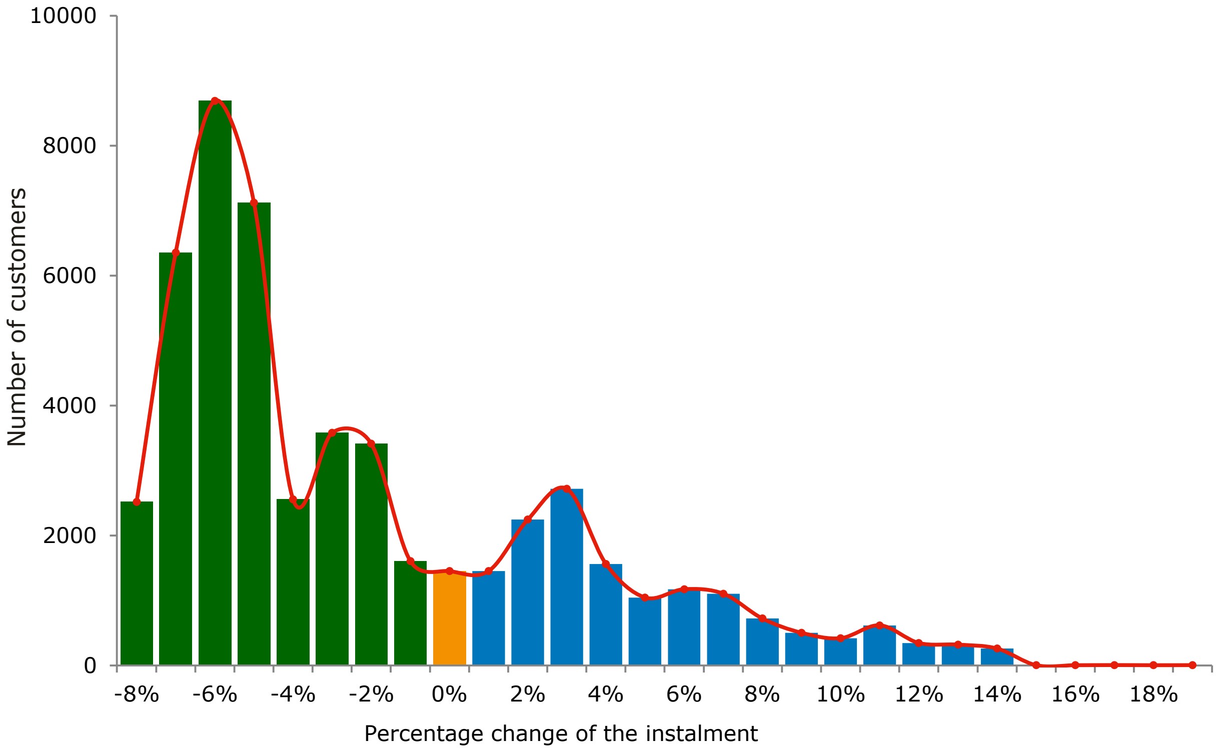
- The FX risk of borrowers should be capped;
- Additional collateral required within the term of an agreement in the event of FX rate volatility should be subject to restrictions;
- Cancellation of a loan in part should not be considered the borrower’s taxable income;
- Credit cancellation costs should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

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

The elevated exchange rate of CHF v. PLN, if persists, will have a moderate adverse impact on the financial performance of mBank in 2015.

While a large majority of mBank's CHF mortgage borrowers should see their monthly instalment reduce compared to December 2014, benefiting from negative Libor rate, certain increase in loan loss provisions, reflecting higher loan values relative to underlying collaterals may be registered. Finally, reduced FX spreads for mBank customers, a slightly delayed adjustment of the bank's funding cost to the negative LIBOR regime compared to the adjustment speed for customer loans and potentially increased competition for domestic deposits (as some Polish banks other than mBank might seek additional liquidity to fund their CHF loan exposures through SWAP instruments) will have a moderately negative impact on mBank's revenues in the medium term horizon.

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




## 4.5. Housing market

The situation on the property market in Poland in 2014 was driven, similar to 2013, by the slow but steady economic growth as well as the relatively low interest rates maintained by the Monetary Policy Council. Consequently, banks relaxed their credit policies, as mirrored by the mortgage loan offer becoming more attractive.

The Polish mortgage lending market saw no revolution in 2014 despite major regulatory changes. Although Recommendation S of the Polish Financial Supervision Authority changed the rules applicable to lending in Poland, no major change on the property market or, consequently, the mortgage lending market has been observed since the Recommendation was issued. While the minimum mandatory downpayment level was set at 5% for any mortgage loan, the number of creditworthy applicants has increased (largely due to the extension of the maximum tenor of loans for the calculation of creditworthiness from 25 to 30 years).

In addition, restrictions have been imposed on fx lending. As of July 1, 2014, only those individuals who earn an income in a given currency may apply for fx loans.

The government programme *Mieszkanie dla Młodych* (Apartments for the Young) was expected to bring major changes to the housing market. Unfortunately, it did not revolutionise the mortgage lending market as planned because it only covered properties on the primary market which were not always attractive to people under 35 years of age among others due to the fact that such properties were not available in smaller towns.

In 2014, the Monetary Policy Council stabilised the interest rates at low levels. The reference rate was 2% while WIBOR 3M was less than 2% in November 2014 and reached 2.1% in December. As a result, new loans (including mortgage loans) offered very low costs to borrowers; due to low interest rates and a more attractive credit offer, their creditworthiness was stronger.

A final change came in December 2014 with the introduction of reverse mortgage. It is a loan for persons who have a legal title to property; the loan is secured with a mortgage on the property. However, no bank in Poland has launched reverse mortgage products to date.

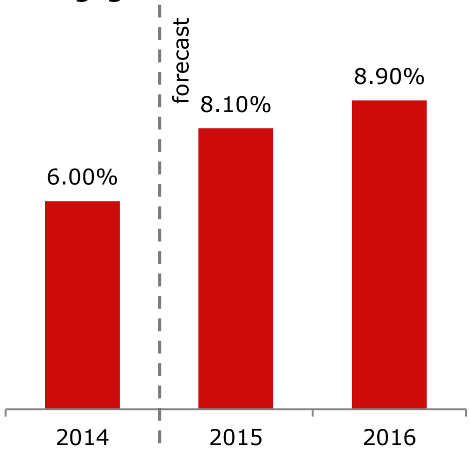
**Situation on the private property market**

On the private property market in 2014, demand for apartments grew while the price per square meter first increased moderately and later stabilised, both on the primary and the secondary market. The government programme *Mieszkanie dla Młodych* (Apartments for the Young) made it easier to meet demand for apartments despite the introduction of Recommendation S, which could pose potential barriers to mortgage lending. Demand for apartments of higher standard at prime locations clearly grew. The average size of the most popular apartments ranged from 40m² to 50m².

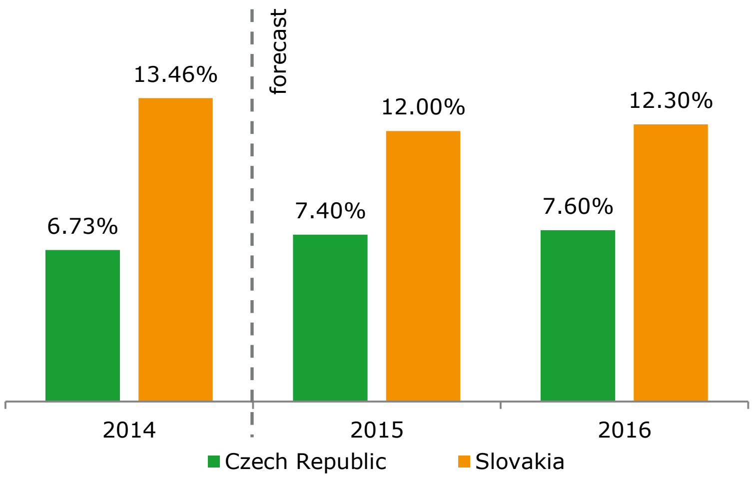
In 2015, the provisions of Recommendation S will continue to be implemented, including among others an increase of the required downpayment by another 5% (to 10% of property value). The Recommendation is designed to unbundle the business of banks and insurers. The government programme *Mieszkanie dla Młodych* (Apartments for the Young) is expected to become more attractive as subsidies to the downpayment grow to 20% of the apartment value for families with two children and to 25% for bigger families while the size of properties eligible for the programme grows from 50m² to 65m². The Monetary Policy Council is also planning further interest rate cuts in order to boost consumption and investments.

The figures below present the expected growth rate of mortgage loans in Poland as well as in the Czech and Slovak markets where mBank is present.

**Expected development of mortgage loans in Poland**




**Expected development of mortgage loans in the Czech Republic and Slovakia**




*Source: mBank's own study based on PSFA figures and the Deloitte report CE Banking Outlook. North-South Divide on the Road to Recovery (September 2014)*

**Situation on the commercial property market**

In 2014, Polish demand for retail and office properties grew as local consumption was on an increase and Polish companies expanded. Demand for new commercial space, especially retail space, was very strong. Investors were mainly interested in prime properties. The biggest share in the commercial property market was that of office properties followed by retail space and industrial properties. The number of transactions in these segments increased by ca. 10% year on year in 2014.

Supply of office space was bigger than demand in 2014 for the first time since 2000. In particular, the number of new investment projects in the segment was high. This augmented the already harsh competition, also price-wise, and encouraged capital investments in such properties but proved insufficient for demand to match supply. At the end of 2014, the total stock of office space in Poland was 7,5 million m², while vacant space in Warsaw and in the regional markets (Kraków, Wrocław, Tricity, Łódź, Poznań, Katowice) was 776,800 m², at 15.5% of the total stock in Warsaw. The vacancy rate in Warsaw is expected to reach 20% in 2015, suggesting a negative trend in the office property segment.

In the retail property segment, demand for space in shopping malls continues to grow. Many retail trade formats, previously located outside shopping malls, are moving to the malls which offer easy and prompt access to customers. New investments are still planned in large commercial properties which attract both potential tenants and their clients, even if the total stock in the segment is no less than 11,5 mn m². New supply in 2014 was 460 thou. m², another 850 thou. m² is currently under construction.

Industrial properties in 2014 enjoyed a boom akin to that witnessed six years ago. Demand for industrial properties was some 50% bigger than a year earlier while supply increased by ca. 30% year on year, suggesting record-high performance of this market segment.

Importantly, while the biggest volume of transactions in commercial properties was still reported in the biggest Polish cities (Warsaw, Kraków, Wrocław, Poznań and Gdańsk), smaller cities (population of 100-400 thousand) were increasingly attractive thanks to lower costs of land and construction. This is good news from the perspective of demographics as it could revert the current trend of migration from rural areas and small towns to the biggest cities.

In 2015 and beyond, the trends on the commercial properties market are likely to continue. With expected further interest rate cuts, investors will pay relatively little to buy retail, office and industrial properties.

Commercial property market data are sourced from the Knight Frank report *Commercial Property Market in Poland, January 2015*.

## 4.6. Changes in recommendations of the Polish Financial Supervision Authority (KNF) and legal acts concerning banks

| A legal act / Recommendation | Date of entry into force | Summary of new challenges | Influence on the main areas of the Bank (YES – the regulation has an impact on a given area; NO – the regulation has no impact on a given area, or has a limited impact on a given area) | |
|---|---|---|---|---|
| **2014** | | | | |
| **Basel III (the Regulatory package CRD IV/CRR)** | **January 1, 2014** | Introduces new requirements in the scope of capital, liquidity, corporate governance and remuneration policy. The process of adjusting domestic regulations to CRD IV/CRR package is underway. | Capital base | YES |
| | | | IT and HR Resources | YES |
| | | | Financial result (excluding IT/HR costs) | YES |
| | | | Client and offer | NO |
| **Foreign Account Tax Compliance Act (FATCA) & Competent Authority Agreement (CAA)** | **July 1, 2014** | FATCA requires identification and monitoring of the status of banks' clients and reporting on assets and investments of US tax residents. Failure to comply with FATCA results in imposing a 30% withholding tax on all financial transfers made from the USA to non-US financial institutions. | Capital base | NO |
| | | | IT and HR Resources | YES |
| | | | Financial result (excluding IT/HR costs) | NO |
| | | | Client and offer | YES |
| **Recommendation D** | **December 31, 2014** | The aim of the amended recommendation is to improve the quality of management in the areas of IT and ICT security at banks, in connection with improvement of the supervision in these areas. | Capital base | NO |
| | | | IT and HR Resources | YES |
| | | | Financial result (excluding IT/HR costs) | NO |
| | | | Client and offer | NO |
| **European Market Infrastructure Regulation (EMIR)** | **2013-2015** | It refers to operation of capital markets, introducing new requirements mitigating risk. The regulation imposes an obligation of clearing transactions via central counterparties and reporting transactions to trade repositories, which results in an increase in costs of concluding transactions in financial and derivative instruments. | Capital base | NO |
| | | | IT and HR Resources | YES |
| | | | Financial result (excluding IT/HR costs) | YES |
| | | | Client and offer | NO |

| | | | |
|---|---|---|---|
| **Recommendation S** | **July 1, 2014** | Changes including limitations in granting loans in foreign currency and in the maximum lending period. Limitations also concern an annual reduction of limits on the debt to income ratio and a minimal own contribution. | ▪ **Capital base** NO<br>▪ **IT and HR Resources** NO<br>▪ **Financial result (excluding IT/HR costs)** YES<br>▪ **Client and offer** YES |
| **Announcement of the Polish Financial Supervision Authority regarding Screen Scraping** | **July 14, 2014** | The ban imposed by the PFSA (KNF) refers to the use of screen scraping, i.e. intra-bank transfer of clients' data bases. Information about finances of clients from other banks was used to customize the banking offer for clients' needs and simplified the lending procedure; however, in the opinion of the PFSA, this solution increased a threat to the security of information in the Internet banking. | ▪ **Capital base** NO<br>▪ **IT and HR Resources** NO<br>▪ **Financial result (excluding IT/HR costs)** NO<br>▪ **Client and offer** YES |
| **Payment Services Act** | **July 1, 2014**<br>**January 1, 2015** | The amendment to the Payment Services Act imposed a maximum interchange fee - reduction from 1.2-1.3% to 0.5% starting from July 1, 2014 and a further drop to 0.2% for debit cards and 0.3 for credit cards from February 1, 2015. | ▪ **Capital base** NO<br>▪ **IT and HR Resources** YES<br>▪ **Financial result (excluding IT/HR costs)** YES<br>▪ **Client and offer** YES |
| | **2015** | | |
| **BRRD (Bank Recovery and Resolution Directive)** | **January 1, 2015** | The directive obliges banks to prepare remedy plans, and a resolution authority appointed for this purpose will draw up resolution plans. Furthermore, banks are obliged to maintain the right structure of obligations to guarantee proper level of instruments, which, in the case of a resolution, may be written down or converted into capital shares. BRRD implementation also entails creation of a resolution fund, which is to gather funds totalling 1% of deposits insured in BGF. | ▪ **Capital base** YES<br>▪ **IT and HR Resources** NO<br>▪ **Financial result (excluding IT/HR costs)** YES<br>▪ **Client and offer** NO |

| | | | | |
|---|---|---|---|---|
| **Recommendation U** | **March 31, 2015** | Introduction of a reporting requirement whereby the bank clearly specifies its role in the offering of insurance services. In addition, under the recommendation, the selection of an insurer is at the client's discretion. | ▪ **Capital base**<br>▪ **IT and HR Resources**<br>▪ **Financial result (excluding IT/HR costs)**<br>▪ **Client and offer** | NO<br>NO<br>YES<br>YES |
| **Recommendation P** | **June 30, 2015** | The amended Recommendation P aims at updating the standards of liquidity risk management after the financial crisis experiences. It provides for defining the acceptable liquidity risk, liquidity measurement and management. | ▪ **Capital base**<br>▪ **IT and HR Resources**<br>▪ **Financial result (excluding IT/HR costs)**<br>▪ **Client and offer** | NO<br>YES<br>YES<br>NO |
| **Act on Macro-prudential Supervision** | **2015** | The Act aims at strengthening the financial system stability and reducing the probability of financial crisis. For this purpose, it appoints a Systemic Risk Council with powers to issue warnings and recommendations to banks. | ▪ **Capital base**<br>▪ **IT and HR Resources**<br>▪ **Financial result (excluding IT/HR costs)**<br>▪ **Client and offer** | YES<br>NO<br>NO<br>NO |
| **Act on the Bank Guarantee Fund** | **2015** | The amended Act on the Bank Guarantee Fund introduces a prudential levy for stabilisation fund (maximum rate is 0.3% of the total risk-weighted exposure). The prudential levy for 2014 totalled 0.037%, whereas for 2015 - 0.05% of the 12.5-fold of total capital requirements calculated for each of the banks. | ▪ **Capital base**<br>▪ **IT and HR Resources**<br>▪ **Financial result (excluding IT/HR costs)**<br>▪ **Client and offer** | NO<br>NO<br>YES<br>NO |

# 5. Financial position of mBank in 2014

## 5.1. Profit and loss account of mBank

mBank reported a profit before tax of PLN 1,478.6 million in 2014, compared to PLN 1,340.6 million in 2013 (+PLN 138.0 million, i.e., 10.3%). The net profit was PLN 1,174.1 million in 2014, compared to PLN 1,070.3 million in 2013 (+PLN 103.8 million, i.e., 9.7%).

Summary of financial results of mBank

| PLN M | 2013 | 2014 | Change in PLN m | Change in % |
|---|---|---|---|---|
| Total income | 3,152.5 | 3,387.1 | 234.6 | 7.4% |
| Net impairment losses on loans and advances | -414.8 | -442.5 | -27.7 | 6.7% |
| Overhead costs and amortization & depreciation | -1,397.1 | -1,466.0 | -68.9 | 4.9% |
| **Profit before income tax** | **1,340.6** | **1,478.6** | **138.0** | **10.3%** |
| **Net profit** | **1,070.3** | **1,174.1** | **103.8** | **9.7%** |
| | | | | |
| ROA net | 1.1% | 1.1% | | |
| ROE gross | 15.5% | 16.2% | | |
| ROE net | 12.4% | 12.9% | | |
| Cost / Income ratio | 44.3% | 43.3% | | |
| Net interest margin | 2.2% | 2.3% | | |
| Common Equity Tier 1 ratio | 15.0% | 14.1% | | |
| Total capital ratio | 20.6% | 17.0% | | |

The main drivers of the financial results of mBank in 2014 included:

- **Increase of total income** which stood at PLN 3,387.1 million. The increase was recorded in the core income, i.e., net interest income and net fee and commission income, as well as net trading income.
- **Increase of operating expenses** (including depreciation and amortisation) to PLN 1,466.0 million.
- **Improved efficiency** as measured by the cost/income ratio which stood at 43.3% at the end of 2014, compared to 44.3% at the end of 2013.
- **Stable costs of risk** at 64 bps, compared to 65 bps in 2013.
- **Continued organic growth and business expansion** as demonstrated by:
    - Increase of the individual client base in Poland, the Czech Republic and Slovakia, and clients of Orange Finance, to 4,689 thousand (+320 thousand clients compared to the end of 2013);
    - Increase of the number of corporate clients to 17,787 clients (+1,454 clients compared to the end of 2013).

Net loans and advances increased by 9.1% year on year in 2014 while customer deposits increased by 23.9%. Consequently, the loan to deposit ratio decreased from 99.6% at the end of 2013 to 87.7%.

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

- Gross ROE of 16.2% (15.5% at the end of 2013).
- Net ROE of 12.9% (12.4% at the end of 2013).

mBank's capital ratios remained high. Total capital ratio stood at 17.0% at the end of December 2014, compared to 20.6% in 2013. Common Equity Tier 1 ratio reached 14.1%, compared to 15.0% at the end of 2013. The change of the capital adequacy ratios in 2014 was mainly driven by the implementation of the Basel III methodology, as well as the retention of part of the 2013 earnings.

**Income of mBank**

Total income generated by mBank was PLN 3,387.1 million in 2014, compared to PLN 3,152.5 million in 2013, representing an increase of PLN 234.6 million, i.e., 7.4%. The increase was mainly driven by improved net interest income and net fee and commission income. Trading income in 2014 also increased.

Income of mBank

| PLN M | 2013 | 2014 | Change in PLN m | Change in % |
|---|---|---|---|---|
| Interest income | 3,632.0 | 3,634.8 | 2.8 | 0.1% |
| Interest expense | -1,610.6 | -1,378.4 | 232.2 | -14.4% |
| **Net interest income** | **2,021.3** | **2,256.5** | **235.2** | **11.6%** |
| Fee and commission income | 1,084.2 | 1,176.6 | 92.4 | 8.5% |
| Fee and commission expense | -418.6 | -431.4 | -12.8 | 3.1% |
| **Net fee and commission income** | **665.6** | **745.2** | **79.6** | **12.0%** |
| Dividend income | 61.9 | 43.9 | -18.0 | -29.1% |
| Net trading income | 326.4 | 354.8 | 28.4 | 8.7% |
| Gains less losses from investment securities, investments in subsidiaries and associates | 78.8 | 16.5 | -62.3 | -79.1% |
| Other operating income | 80.5 | 73.5 | -7.0 | -8.7% |
| Other operating expenses | -82.0 | -103.3 | -21.3 | 26.0% |
| **Total income** | **3,152.5** | **3,387.1** | **234.6** | **7.4%** |

Similar to 2013, net interest income remained mBank's largest revenue source in 2014. It stood at PLN 2,256.5 million, compared to PLN 2,021.3 million in 2013 (+11.6%). The change was mainly driven by a decrease of interest costs by 14.4%. Interest income remained stable despite a series of reference rate decreases carried out by the Monetary Policy Council during the year.

The higher net interest income contributed to the interest margin generated by mBank. The margin, calculated as net interest income to average interest-earning assets, stood at 2.3%, compared to 2.2% in 2013.

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

mBank's average interest rate

| Average interest rate in mBank | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Retail Banking (Poland and foreign branches) | | | Corporate and Investment Banking | | | mBank total | | |
| | | 2012 | 2013 | 2014 | 2012 | 2013 | 2014 | 2012 | 2013 | 2014 |
| **Deposits** | PLN | 3.6% | 2.5% | 1.6% | 4.1% | 2.4% | 1.9% | 3.8% | 2.5% | 1.7% |
| | FX | 0.9% | 0.9% | 0.5% | 0.3% | 0.2% | 0.2% | 0.6% | 0.6% | 0.4% |
| **Total loans** | PLN | 9.8% | 8.8% | 8.1% | 6.1% | 4.5% | 3.9% | 7.5% | 6.3% | 5.8% |
| | FX | 2.1% | 2.0% | 2.1% | 2.3% | 2.3% | 2.3% | 2.2% | 2.1% | 2.1% |
| **Mortgage loans** | PLN | 6.1% | 4.6% | 4.3% | | | | | | |
| | FX | 2.1% | 2.0% | 1.9% | | | | | | |

Loans and advances to customers remained the main source of the Bank's interest income (69.6%). Despite lower annual average market interest rates in 2014, interest income from loans and advances remained stable year on year and stood at PLN 2,531.2 million. An increase in the volumes of loans contributed to the stable interest income from loans and advances. Interest income from investment securities decreased by PLN 50.6 million, i.e., 5.7% in 2014 due to lower average Treasury bond yields in 2014. Interest income from debt securities held for trading decreased by PLN 4.5 million, i.e., 8.1%. Interest income from derivatives on the banking book increased in the period (+PLN 60.5 million, i.e., 97.0%).

Interest income of mBank

| PLN M | 2013 | 2014 | Change in PLN m | Change in % |
|---|---|---|---|---|
| Loans and advances including the unwind of the impairment provision discount | 2.535,6 | 2.531,2 | -4,4 | -0,2% |
| Investment securities | 882,7 | 832,1 | -50,6 | -5,7% |
| Cash and short-term placements | 86,4 | 77,1 | -9,3 | -10,8% |
| Trading debt securities | 55,5 | 51,0 | -4,5 | -8,1% |
| Interest income on derivatives classified into banking book | 62,4 | 122,9 | 60,5 | 97,0% |
| Interest income on derivatives concluded under the fair value hedge | 0,2 | 12,9 | 12,7 | 6350,0% |
| Interest income on derivatives concluded under the cash flow hedge | 0,0 | 1,4 | 1,4 | - |
| Other | 9,2 | 6,2 | -3,0 | -32,6% |
| **Total interest income** | **3.632,0** | **3.634,8** | **2,8** | **0,1%** |

The decrease of interest expenses in 2014 was mainly driven by lower costs of client deposits (a decrease of PLN 180.8 million, i.e., 15.0%) due to lower average annual market interest rates in 2014. Interest expenses paid to banks decreased by PLN 57.8 million, i.e., 23.9% mainly due to the repayment of some of mBank's loans granted by Commerzbank Group. Interest expenses on issued debt securities increased by PLN 6.4 million, i.e., 27.7% in 2014.

Net fee and commission income, accounting for 22.0% of mBank's total income, increased year on year. Net fee and commission income amounted to PLN 745.2 million in 2014, representing an increase of PLN 79.6 million, i.e., 12.0%.

Fee and commission income of mBank

| PLN M | 2013 | 2014 | Change in PLN m | Change in % |
|---|---|---|---|---|
| Payment cards-related fees | 413.7 | 413.6 | -0.1 | 0.0% |
| Credit-related fees and commissions | 153.0 | 173.1 | 20.1 | 13.1% |
| Commissions from bank accounts | 151.5 | 154.3 | 2.8 | 1.8% |
| Commissions from money transfers | 88.0 | 97.3 | 9.3 | 10.6% |
| Commissions due to guarantees granted and trade finance commissions | 36.9 | 42.2 | 5.3 | 14.4% |
| Commissions for agency service regarding sale of products of external financial entities | 159.2 | 180.4 | 21.2 | 13.3% |
| Commissions on trust and fiduciary activities | 19.4 | 21.1 | 1.7 | 8.8% |
| Other | 62.5 | 94.6 | 32.1 | 51.4% |
| **Total fee and commission income** | **1,084.2** | **1,176.6** | **92.4** | **8.5%** |

Commission income increased by PLN 92.4 million, i.e., 8.5% year on year. Payment card-related commission income remained stable year on year. The reduction of interchange fees as of July 1, 2014 was offset by a higher volume and number of non-cash transactions. The volume and number of non-cash transactions increased by 18.5% and 29.7%, respectively, in 2014. Fees and commissions on loans increased by PLN 20.1 million, i.e., 13.1% due to bigger sales of non-mortgage loans. Commissions for money transfers increased (+10.6%), driven by a growing client base and a higher number of transactions. Commissions for agent sales of third-party products of financial entities increased by 13.3% in the period under review.

Dividend income amounted to PLN 43.9 million in 2014, compared to PLN 61.9 million in 2013. The decrease was due to lower dividend payments received from PZU S.A.

Net trading income amounted to PLN 354.8 million in 2014 and was higher by PLN 28.4 million, i.e., 8.7% compared to 2013. The increase in the net trading income was driven by higher other trading income (+PLN 76.8 million, i.e., 149.4%) owing to higher gains realised on interest rate instruments. The FX result decreased year on year (a decrease of PLN 48.4 million, i.e., 17.6%) due to a lower valuation of CIRS.

Gains less losses on investment securities in 2014 stood at PLN 16.5 million in 2014, compared to PLN 78.8 million in 2013. Similar to 2014, mBank realised gains on the sale of part of the Treasury bond portfolio in 2014; however, the gains were lower than in 2013. In addition, mBank had earned additional gains on the sale of MasterCard and VISA shares at PLN 13.4 million in 2013.

Net other operating income (other operating income net of other operating expenses) was negative at PLN 29.8 million, compared to a loss of PLN 1.5 million in 2014. Income from sales of services decreased in 2014. In addition, provisions were set up against legal and operational risk both in Retail Banking and in Corporate and Investment Banking in 2014.

### Net impairment losses on loans and advances

Net impairment losses on loans and advances in mBank amounted to PLN 442.5 million in 2014, compared to PLN 414.8 million in 2013, representing an increase of PLN 27.7 million, i.e., 6.7%.

Net impairment losses on loans and advances in Retail Banking increased by PLN 37.2 million, i.e., 14.0%. The increase of impairment losses on loans and advances was reported by Retail Banking in Poland due to a gradual change in the structure of loans in favour of consumer loans, combined with proactive increase of NPL coverage, amid stable asset quality.

Net impairment losses on loans and advances

| PLN M | 2013 | 2014 | Change in PLN m | Change in % |
|---|---|---|---|---|
| Retail Banking | 265.7 | 302.9 | 37.2 | 14.0% |
| Corporates and Financial Markets | 149.1 | 139.6 | -9.5 | -6.4% |
| **Total net impairment losses on loans and advances** | **414.8** | **442.5** | **27.7** | **6.7%** |

Net impairment losses on loans and advances in Corporates and Financial Markets stood at PLN 139.6 million in 2014, compared to PLN 149.1 million in 2013.

### Costs of mBank

Total overhead costs of mBank (including depreciation and amortisation) stood at PLN 1,466.0 million, representing an increase of 4.9% year on year.

Costs of mBank

| PLN M | 2013 | 2014 | Change in PLN m | Change in % |
|---|---|---|---|---|
| Staff-related expenses | 636.1 | 656.6 | 20.5 | 3.2% |
| Material costs | 511.6 | 546.9 | 35.3 | 6.9% |
| Taxes and fees | 26.0 | 25.4 | -0.6 | -2.3% |
| Contributions and transfers to the Bank Guarantee Fund | 56.5 | 69.0 | 12.5 | 22.1% |
| Contributions to the Social Benefits Fund | 5.4 | 5.5 | 0.1 | 1.9% |
| Amortization & Depreciaiton | 161.5 | 162.6 | 1.1 | 0.7% |
| **Total costs of mBank** | **1,397.1** | **1,466.0** | **68.9** | **4.9%** |
| Cost / Income ratio | 44.3% | 43.3% | - | - |
| Employment (FTE) | 4,696 | 4,895 | 199 | 4.2% |

Personnel costs increased by PLN 20.5 million, i.e., 3.2% in 2014. The change was driven by higher remuneration costs as a consequence of an increased headcount of mBank. The number of FTEs increased from 4,696 at the end of 2013 to 4,895 FTEs at the end of 2014.

Material costs increased by PLN 35.3 million, i.e. 6.9% in the period under review. mBank reported higher marketing costs in 2014 among others due to advertising campaigns in Poland, the Czech Republic and Slovakia.

The contribution to the Bank Guarantee Fund (BFG) paid by mBank increased from PLN 56.5 million in 2013 to PLN 69.0 million in 2014. The change was driven by an additional prudential contribution to the stability fund imposed in November 2013.

Depreciation and amortisation charges remained stable in 2014.

Changes to the income and costs of mBank contributed to improved efficiency measured by the cost/income ratio which stood at 43.3% at the end of 2014, compared to 44.3% in 2013.

## 5.2. Changes in the consolidated statement of financial position

**Changes in assets of mBank**

The assets of mBank increased by PLN 13,371.4 million, i.e., 13.3% in 2014. The assets stood at PLN 113,603.5 million at December 31, 2014.

The table below presents the year-on-year change in the asset lines of mBank.

Assets of mBank

| PLN M | 2013 | 2014 | change in PLN m | change in % |
|---|---|---|---|---|
| Cash and balances with Central Bank | 1,643.1 | 3,046.8 | 1,403.7 | 85.4% |
| Loans and advances to banks | 4,488.9 | 5,648.0 | 1,159.1 | 25.8% |
| Trading securities | 903.9 | 1,251.1 | 347.2 | 38.4% |
| Derivative financial instruments | 2,349.5 | 4,874.9 | 2,525.4 | 107.5% |
| Net loans and advances to customers | 63,756.7 | 69,529.9 | 5,773.2 | 9.1% |
| Investment securities | 25,081.3 | 27,246.0 | 2,164.7 | 8.6% |
| Intangible assets | 408.8 | 425.1 | 16.3 | 4.0% |
| Tangible fixed assets | 442.7 | 468.8 | 26.1 | 5.9% |
| Other assets | 1,157.2 | 1,112.9 | -44.3 | -3.8% |
| **Total assets** | **100,232.1** | **113,603.5** | **13,371.4** | **13.3%** |

Loans and advances to customers retained the largest share in the balance sheet of the Bank at the end of 2014. They represented 61.2% of total assets at December 31, 2014, compared to 62.5% at the end of 2013.

The net volume of loans and advances to customers increased by PLN 5,773.2 million, i.e., 9.1% year on year.

Gross loans and advances to retail customers increased by PLN 2,507.6 million, i.e. 6.5%. The volume of mortgage and housing loans increased by PLN 1,057.1 million, i.e. 3.7% year on year due to active sales of new loans. In 2014, mBank sold PLN 2,776.3 million of mortgage loans, which implies an increase in the volume of sales by 33.3% compared to 2013. In addition, the Bank granted PLN 4,357.6 million of non-mortgage loans, representing a 16.7% increase of sales.

Loans and advances to customers

| PLN M | 2013 | 2014 | change in PLN m | change in % |
|---|---|---|---|---|
| Loans and advances to individuals | 38,301.1 | 40,808.7 | 2,507.6 | 6.5% |
| Loans and advances to corporate entities | 24,975.3 | 28,460.8 | 3,485.5 | 14.0% |
| Loans and advances to public sector | 1,952.7 | 1,749.5 | -203.2 | -10.4% |
| Other receivables | 620.6 | 1,045.4 | 424.8 | 68.4% |
| **Total (gross) loans and advances to customers** | **65,849.7** | **72,064.4** | **6,214.7** | **9.4%** |
| Provisions for loans and advances to customers (negative amount) | -2,093.0 | -2,534.5 | -441.5 | 21.1% |
| **Total (net) loans and advances to customers** | **63,756.7** | **69,529.9** | **5,773.2** | **9.1%** |

At the same time, gross loans and advances to corporate customers increased by PLN 3,485.5 million, i.e. 14.0%. The volume of gross loans and advances to the public sector decreased by PLN 203.2 million, i.e., 10.4%.

Investment securities constituted mBank's second largest asset category (24.0%). In 2014, their value increased by PLN 2,164.7 million, i.e. 8.6%. The government bond portfolio increased by 20.8% year on year while the portfolio of debt instruments issued by the central bank decreased by 31.0%.

The other asset lines on mBank's balance sheet represented 14.8% of total assets in aggregate.

**Changes in liabilities and equity of mBank**

The table below presents changes in the equity and liabilities of mBank in 2014.

Equity and liabilities of mBank

| PLN M | 2013 | 2014 | Change in PLN m | Change in % |
|---|---|---|---|---|
| Amounts due to other banks | 18,863.9 | 13,384.2 | -5,479.7 | -29.0% |
| Derivative financial instruments and other trading liabilities | 2,472.4 | 4,755.9 | 2,283.5 | 92.4% |
| Amounts due to customers | 64,008.4 | 79,312.3 | 15,303.9 | 23.9% |
| Debt securities in issue | 451.9 | 386.4 | -65.5 | -14.5% |
| Subordinated liabilities | 3,762.8 | 4,127.7 | 364.9 | 9.7% |
| Other liabilities | 1,099.5 | 1,367.4 | 267.9 | 24.4% |
| **Total Liabilities** | **90,658.9** | **103,333.9** | **12,675.0** | **14.0%** |
| **Total Equity** | **9,573.2** | **10,269.6** | **696.4** | **7.3%** |
| **Total Liabilities and Equity** | **100,232.1** | **113,603.5** | **13,371.4** | **13.3%** |

Amounts due to customers remained the dominant funding source of mBank. They accounted for 69.8% of equity and liabilities at the end of 2014, compared to 63.9% at the end of 2013.

Amounts due to customers increased by PLN 15,303.9 million, i.e., 23.9% to PLN 79,312.3 million in 2014. The change was driven by an increase of amounts due to both retail and corporate customers.

Amounts due to corporate customers increased by PLN 10,007.9 million, i.e., 34.0%.

Amounts due to customers

| PLN M | 2013 | 2014 | Change in PLN m | Change in % |
|---|---|---|---|---|
| Individual customers | 33,888.8 | 39,001.8 | 5,113.0 | 15.1% |
| Corporate customers | 29,402.0 | 39,409.9 | 10,007.9 | 34.0% |
| Public sector customers | 717.6 | 900.6 | 183.0 | 25.5% |
| **Total amounts due to customers** | **64,008.4** | **79,312.3** | **15,303.9** | **23.9%** |

Amounts due to retail customers increased by PLN 5,113.0 million, i.e., 15.1%. Current accounts increased by 15.6%. Term deposits of retail customers increased by 13.3% year on year.

Amounts due to other banks decreased by PLN 5,479.7 million, i.e., 29.0% year on year to PLN 13,384.2 million at the end of 2014. The change was mainly driven by the repayment of CHF 850 million and USD 100 million of loans granted by Commerzbank Group, as well as a lower volume of repo transactions.

In 2014, the Bank issued PLN 750 million of 10-year subordinated bonds on the Polish market.

The share of equity in equity and liabilities of mBank was 9.0% at the end of 2014, compared to 9.6% at the end of 2013 due to the retention of part of earnings.

## 6. mBank in the financial services market in 2014

At the end of 2014, mBank was among the largest Polish banks across all relevant market segments.

Market share and the position of mBank at the end of 2014 compared to 2013:

| Business category | Market position in 2014* | Market Share | |
|---|---|---|---|
| | | **2013** | **2014** |
| **Corporate Banking** | | | |
| Corporate loans | | 5.9% | 6.2% |
| Corporate deposits | | 8.3% | 8.8% |
| **Retail Banking in Poland** | | | |
| Total loans | | 6.2% | 6.2% |
| Of which mortgage loans | | 7.4% | 7.3% |
| Non-mortgage loans | | 4.4% | 4.6% |
| Deposits | | 5.0% | 5.3% |
| **Retail Banking in the Czech Republic** | | | |
| Total loans | | 0.9% | 1.2% |
| Of which mortgage loans | | 1.3% | 1.6% |
| Non-mortgage loans | | 0.3% | 0.5% |
| Deposits | | 1.1% | 1.3% |
| **Retail Banking in Slovakia** | | | |
| Total loans | | 0.5% | 0.7% |
| Of which mortgage loans | | 0.6% | 0.8% |
| Non-mortgage loans | | 0.2% | 0.3% |
| Deposits | | 1.6% | 1.5% |
| **Investment Banking** | | | |
| Financial markets | | | |
| Treasury bills and bonds | | 10.9% | 14.8% |
| IRS/FRA | | 25.2% | 27.3% |

| | | | |
|---|---|---|---|
| FX spot and forward | | 10.7% | 10.9% |
| Non-Treasury securities | | | |
| Short-term debt securities | 5 | 15.1% | 8.1% |
| Corporate bonds | 3 | 13.7% | 12.9% |
| Bank debt securities** | 1 | 31.7% | 34.3% |

*Source: Own calculations based on data from mBank, NBP, WSE, CNB, NBS, Fitch Polska, Polish Factors Association, Polish Leasing Association, press reports*

** where determinable*

*** excluding “road bonds” issued by Bank Gospodarstwa Krajowego (BGK)*

## 7. Corporates and Financial Markets

The Corporates and Financial Markets segment serves 17,787 corporate clients including large enterprises (K1 - annual sales exceeding PLN 500 million), mid-sized enterprises (K2 - annual sales of PLN 30 – 500 million) and small enterprises (K3 - annual sales below PLN 30 million) through a network of dedicated 47 branches. mBank Group's offer of products and services for corporate clients focuses on traditional banking products and services (including corporate accounts, domestic and international money transfers, payment cards, cash services, and liquidity management products), corporate finance products, hedging instruments, equity capital market (ECM) services, debt capital market (DCM) instruments, mergers and acquisitions (M&A), leasing and factoring. The segment comprises two areas: Corporates and Investment Banking, and Financial Markets.

### 7.1. Corporate and Investment Banking

**Summary of Corporate and Investment Banking segment activity**

| | 31.12.2012 | 31.12.2013 | 31.12.2014 | YoY change |
|---|---|---|---|---|
| **Number of corporate clients** | **15,095** | **16,333** | **17,787** | **8.9%** |
| K1 | 1,228 | 1,255 | 1,838 | **46.5%** |
| K2 | 4,583 | 5,022 | 5,144 | **2.4%** |
| K3 | 9,284 | 10,056 | 10,805 | **7.4%** |
| **PLN M** | | | | |
| **Loans to corporate clients, including** | **25,160** | **26,281** | **30,113** | **14.6%** |
| K1 | 10,749 | 10,783 | 12,812 | **18.8%** |
| K2 | 9,517 | 9,425 | 10,633 | **12.8%** |
| K3 | 2,862 | 2,773 | 2,811 | **1.4%** |
| Reverse repo/buy sell back transactions | 2,022 | 3,285 | 3,840 | **16.9%** |
| Other | 11 | 16 | 17 | **8.4%** |
| **Deposits of corporate clients, including** | **22,017** | **24,893** | **29,203** | **17.3%** |
| K1 | 8,062 | 7,189 | 12,111 | **68.5%** |
| K2 | 8,781 | 9,507 | 9,455 | **-0.5%** |
| K3 | 3,250 | 3,514 | 4,177 | **18.9%** |
| Repo transactions | 1,882 | 4,628 | 3,395 | **-26.6%** |
| Other | 43 | 56 | 63 | **13.1%** |
| **Distribution network** | | | | |
| Advisory Centres within "One Network" Project | - | - | 1 | |
| Light branches within "One Network" Project | - | - | 2 | |
| Corporate branches | 29 | 29 | 29 | |
| Corporated offices | 19 | 18 | 18 | |

### Activity of Corporate and Investment Banking segment in 2014

2014 was a time of moderate but stable economic recovery, which implied stronger business activity for large enterprises. On the other hand, banks had to continue their activity in an environment of record-low interest rates and reduced interchange fees. The economic situation had a positive impact on the volume of corporate loans and deposits. The corporate loan market grew by 7.4% year on year and the corporate deposit market grew by 9.1 % year on year. mBank grew at a higher rate than the market, resulting in an increase of its market shares to 6.2% in loans and 8.8% in deposits, compared to 5.9% and 8.3% in 2013, respectively.

In 2014, the Bank pursued focused sales activities, resulting in record-high acquisition of corporate clients: the corporate client base increased by 1,454 companies year on year to 17,787 clients.

Successful client acquisitions boosted the balances deposited on current accounts which stood at PLN 6,709 million at the end of 2014, representing a 13.9% increase year on year. The high volume of current deposits is a springboard for further growth of transactional banking, which is of special relevance to the Bank with respect to the growth potential and forging of closer relations with clients.

One of the key success factors in the segment of small and medium-sized enterprises (SME) is client acquisition: steady development of the client base as a potential for growth of profitable long-term relationships. 2014 was record-breaking in these terms as SME Advisers acquired 2,180 clients. The K3 client base included 10,805 clients at the end of 2014. In addition, more than 220 highly profitable clients were transferred to segments K2 and K1.

In 2014, the Bank pursued a strategy of growing its market share in the segment of small and medium-sized enterprises among others by launching a new specialised product for SME clients, called the SME Flexible Package, which provides comprehensive financial management functions and preferential terms of service in key areas relevant to the company. In addition, the Bank implemented a new simplified credit process for SME clients. mBank's position on the SME market improved significantly owing to the 2014 online campaign "Pieniądze zawsze na czas" (Money Always On Time) addressed to SMEs. Those initiatives resulted in record-high client acquisition in this segment.

The Flexible Package includes four modules: the transactional, financial, fx, and group modules. Flexibility of the package implies not only that clients can use modules in order to create diverse variants of the offer; it also embraces price flexibility: preferential terms of money transfers for more active transactional clients, as well as preferential terms for bank accounts based on contracted volumes of activity. More than 700 clients were acquired using the package offer by the end of 2014, which means that more than one in two new K3 clients started banking with mBank using a package service.

Following the consolidation of its Corporate and Investment Banking activities in 2014, the Bank became more active on the corporate debt origination market. The low yield environment provided an additional support to market growth. Furthermore, the segment focused on closer relations with non-bank financial institutions as well as clients from the agricultural and food industry.

**Transactional banking is growing further**

**Record acquisition and results in K3 segment**

**mSatisfaction – because client's voice counts**

The quality of corporate client service measured by NPS (Net Promoter Score) improved substantially in 2014. The NPS for clients who consider mBank to be their primary bank stood at 26. By comparison, the average market score was 13 points according to the GfK Polonia syndicated survey "Monitor firm 2014" (Company monitor 2014).

NPS surveys have continued since 2010 in order to gain more expertise and experience in the area. In 2014 mBank launched the mSatisfaction project which focuses on listening to the "voice of the customer" and on improving client relationships, followed by data analysis and calculation of relevant indicators to measure the level of customer experience.

The "voice of customer" surveys and employee opinions, i.e., the surveys carried out in 2014, were analysed to define 15 initiatives aiming to improve corporate customer satisfaction. It is the aspiration of the Bank to ensure that clients' feedback sourced from satisfaction surveys helps to identify the directions of changes to internal processes, procedures, and IT functionalities.

mBank's corporate banking was awarded in 2014 by a number of specialised respected institutions. The high-profile magazine Global Finance named mBank the best trade finance bank in Poland in view of the high quality of trade finance services on offer, the innovative product offer, the volume of transactions, and the competences of the trade finance staff. Global Finance's annual World's Best Internet Banks ranking named mBank CompanyNet the best transactional service for corporate banking clients in Poland (the experts also recognised the retail banking service), and mBank CompanyMobile was awarded as the best mobile application in Central and Eastern Europe. Furthermore, mBank's transactional FX platform, mPlatforma walutowa, was awarded for the third time. Finally, a Euromoney report ranked mBank's transactional banking in the third position in the Domestic Cash Manager Poland category, while the prepaid card "Atlas – Program Fachowiec" was named the Best Polish Loyalty Card of 2014.

**Products and services on offer**

**Corporate loans**

Loans granted to mBank's corporate clients (excluding repo transactions) stood at PLN 26,273 million at the end of 2014, representing an increase of 11.7% year on year (PLN 23,522 million at the end of 2013).

Loans granted to enterprises (NBP category which ensures comparability of results of the banking sector) stood at PLN 17,874 million at the end of 2014, which represented an increase of 13.4% year on year (PLN 15,765 million at the end of 2013). The market of loans granted to enterprises grew by 7.4% year on year. The market share mBank's lending to enterprises in total lending of the sector was 6.2% at the end of 2014, compared to 5.9% at the end of 2013. The loan-to-deposit ratio of enterprises in mBank stood at 86.3% at the end of 2014, which was much below the market benchmark of 121.5%.

Loans granted to local government units stood at PLN 1,324 million at the end of 2014, compared to PLN 1,469 million at the end of 2013.

**Corporate deposits**

Corporate client deposits at mBank (excluding repo transactions) stood at PLN 25,807 million at the end of 2014, representing an increase of 27.3% year on year (PLN 20,265 million at the end of 2013).

Current deposits of mBank's corporate clients stood at PLN 6,709 million at the end of 2014, an increase of 13.9% year on year (PLN 5,890 million at the end of 2013).

Deposits of enterprises (NBP category which ensures comparability of results of the banking sector) stood at PLN 20,709 million at the end of 2014, representing an increase of 15.2% year on year (PLN 17,972 million at the end of 2013). The market of deposits of enterprises grew by 9.1% in that period. The market share of deposits of enterprises at mBank in the total deposits of enterprises was 8.8% at the end of 2014, compared to 8.3% at the end of 2013.

Deposits of local government units stood at PLN 212 million at the end of 2014, compared to PLN 179 million at the end of 2013.

**Structured finance, project finance, syndicated loans**

As part of Corporate and Investment Banking Segment, the Bank offers structured financing, including: M&A finance, project finance and syndicated finance. In 2014, the Bank participated in 47 syndicated and bilateral products. The Bank's total exposure under syndicated and bilateral products stood at PLN 3,689 million at the end of 2014.

### European Union financing

In March and July 2014, the Bank signed new agreements with the European Investment Bank (EIB) to open new credit lines in a total amount of EUR 200 million dedicated to project finance and financing of small and medium-sized enterprises (companies which employ up to 250 people) and mid-caps (companies which employ more than 250 but less than 3 thousand people).

### De minimis guarantee

In June 2014, mBank and Bank Gospodarstwa Krajowego (BGK) signed an Annex to the Portfolio Guarantee Line De Minimis (PLD) Agreement amending among others the terms of calculating de minimis assistance. The PLD Agreement had been signed in 2013 as part of the government programme "Supporting Entrepreneurship with BGK Sureties and Guarantees" which provides guarantees for working capital loans to microenterprises, as well as small and medium-sized enterprises. The guarantee limit assigned to mBank under the PLD Agreement is PLN 900 million. The amount drawn under the limit reached PLN 634 million as of December 31, 2014 (an increase of 138% year on year).

### Corporate debt origination

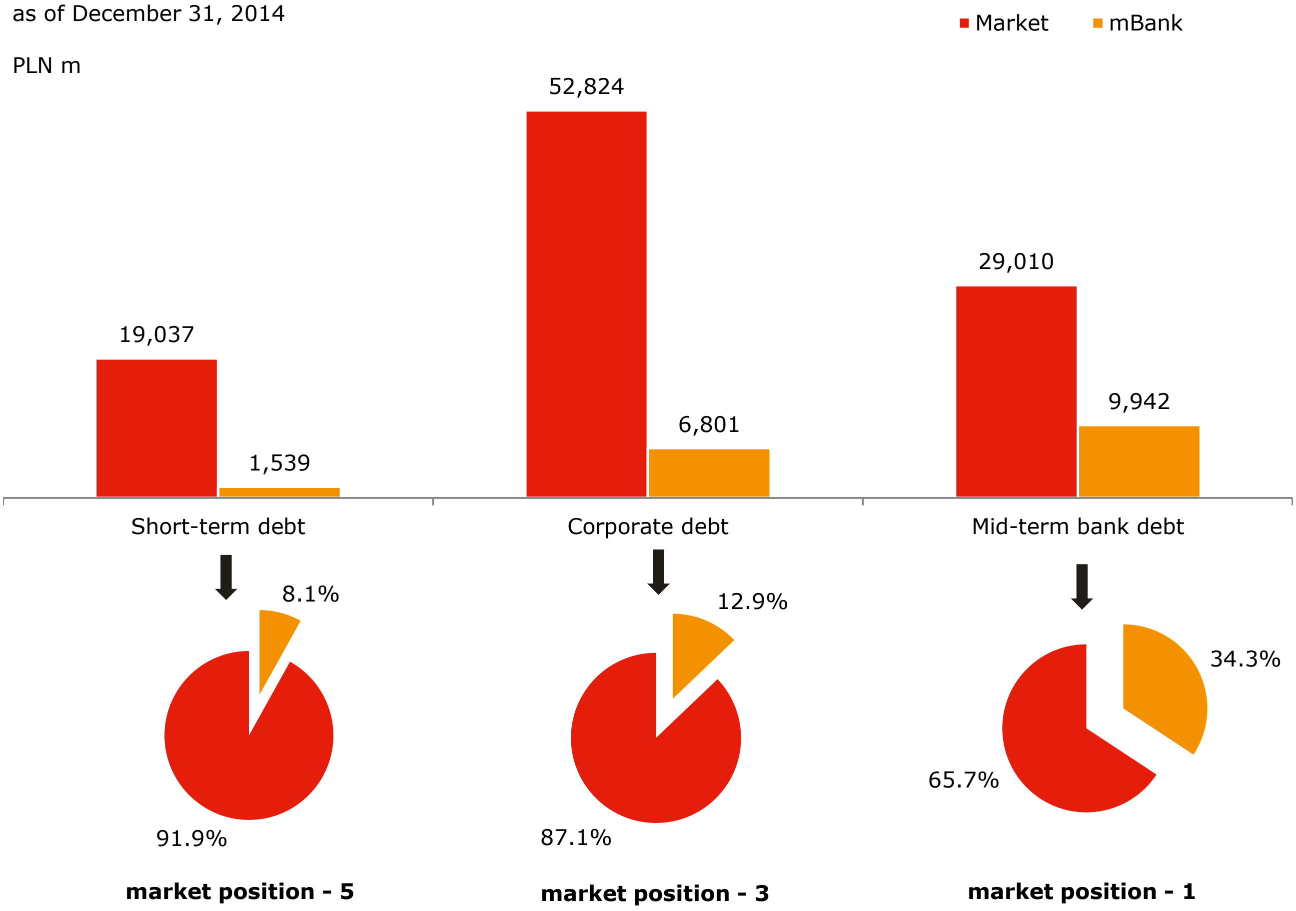
The origination of debt issues for enterprises, local governments, and banks has been a responsibility of the Corporate and Investment Banking Line as of the beginning of 2014.

The figure below presents mBank's non-Treasury debt market share at the end of 2014.

**mBank in the Non-Treasury Debt Market**

as of December 31, 2014

PLN m




Outstanding bank debt arranged by mBank (excluding BGK's "road bonds") stood at ca. PLN 10 billion, compared to PLN 7.2 billion at the end of 2013, which makes mBank the leader with a market share of 34.3%. The largest bank debt issues arranged by mBank in 2014 included the issue of PLN 685 million bonds for BGK and PLN 515 million bonds for Getin Noble Bank. Other large transactions with the participation of the Bank included a EUR 120.5 million and PLN 500 million mBank Hipoteczny covered bond issues, a PLN 210 million Bank Pocztowy S.A. bond issue, a PLN 263 million Credit Agricole Bank Polska bond issue, and a PLN 60 million Santander Bank bond issue.

In the growing corporate bond market, mBank ranked third with a market share of 12.9%. A number of new large issues were arranged, including: Tauron S.A. (PLN 583 million), CCC S.A. (PLN 210 million), Magellan S.A. (PLN 265 million), Echo Investment S.A. (PLN 170.5 million), WB Electronics (PLN 74 million), Robyg SA (PLN 60 million), and Elemental Holding S.A. (PLN 50 million). Outstanding corporate bonds stood at ca. PLN 6.8 billion at the end of 2014, compared to PLN 5.1 billion at the end of 2013.

**Development of transactional banking**

Cash management is an area of Corporate Banking which offers state-of-the-art solutions to facilitate planning, monitoring and management of the most liquid assets, cash processing, as well as electronic banking. The solutions facilitate daily financial operations, enhance effective cash flow management, and optimise interest income and costs.

The balances of corporate current accounts crossed the mark of PLN 6 billion for the first time in history in 2014. The year-on-year growth rate of transactional products in 2014 was as follows:

| | |
|---|---|
| Number of outgoing domestic transfers | +12.0% |
| Number of mass transfer transactions | +33.3% |
| Number of direct debits sent | +11.6% |
| Number of cards | +21.5% |
| Cash service turnovers | +8.9% |
| Number of foreign and SEPA transfers sent | +20.3% |
| Number of foreign and SEPA transfers received | +23.7% |

Attractive transactional products were added to mBank's offer in 2014 including:

- **Open deposits at Poczta Polska (Polish Post) branches** – a new solution which enables clients to deposit cash from the till into mBank accounts. Clients can make deposits in the extensive branch network of Poczta Polska across the country (currently some 9 thousand branches).
- **New functionalities of mBank CompanyMobile** for the FX platform "mPlatforma walutowa".
- **"Lite" version of the mBank platform** which is supplementary to the services available in the mBank CompanyMobile application and provides access on mobile devices, including older phone models which are web browser enabled but do not feature an operating system for which the corporate mobile banking application is available. The service features among others account information, the history of transactions and incoming and outgoing money transfers.
- **Online deposit service** where the client declares the amount to be deposited via the online electronic banking system mBank CompanyNet no later than the agreed time on a given business day when the closed deposit is to be made. The client's account will then be credited with that amount as of such time, and the money is available as soon as the Bank confirms that the amount of the actual deposit matches the amount declared.
- **Housing Escrow Accounts** combined with the Collect product in the electronic banking system. The combination allows property developers to manage cash flows for each investment project. The

developer has access to information on payments of each buyer and may collect the buyer's personal data.

- **Electronic version of the escrow account for online currency exchange platforms.** This innovative solution ensures safety of currency exchange transactions for online currency exchange platforms. The Bank offers an electronic version of escrow accounts which allow clients to make safe currency exchange transactions in high volumes on currency exchange platforms. The solution allows all interested parties to authorise a currency exchange transaction through the Bank's mobile access channels.

It is a strong proof of the quality of mBank's transactional banking that the financial magazine Global Finance named mBank the Best Cash Management Provider in Poland in its Best Treasury & Cash Management Providers 2015 ranking. Global Finance selected the winners in a multi-step evaluation process including reader surveys, opinions of analysts, senior managers and technology experts, as well as independent research.

## 7.2. Financial Markets

**Financial Markets segment activity in 2014**

Since January 2014, the Financial Markets area covers:

- Direct sale of financial market products to Corporate Banking clients and non-banking financial institutions (such as insurance companies, pension and investment funds and asset management companies) as well as selected Private Banking clients;
- Management of mBank's liquidity as well as its assets and liabilities (including deposit and credit portfolio interest risk management). Liquidity management involves money market transactions, currency swaps, interest rate derivative transactions, T-bill, T-bond and NBP bill purchase transactions, repo transactions etc.;
- Management of mBank's interest rate and currency risk, trading in FX instruments on the interbank market (spot transactions and derivatives), trading in interest rate instruments (T-bills and T-bonds, interest rate derivatives), commodity derivatives, shares, equity and stock index derivatives, trading in non-Treasury securities;
- Offering the service of a depositary and a trustee in particular to non-banking financial institutions;
- Supervision over brokerage house operations with regard to its cooperation with financial institutions.

Activities connected with arranging issues of debt securities for Corporate Banking clients and banks, as well as trading in and sales of these securities were transferred to the Corporate and Investment Banking Line (previously Corporates and Institutions). For more information please see section 7.1. Corporate and Investment Banking.

**The highest mark from NBP**

**Accurate forecasts**

**Because it is worth to cooperate**

2014 in the Financial Markets area was marked by extending product portfolio, intensive work on bond issue placements and cross-selling development in line with mBank Group's Strategy.

A strong focus was placed on the development of unique competences in the area of resource risk hedging and enhancing product portfolio with new categories of resources and transaction types. In collaboration with the Corporate and Investment Banking Line the number of clients using the Bank's offer has doubled.

It is also worth to mention the re-introduction of greenhouse gas emission allowances with a cash settlement option to the transaction portfolio with first transactions already being concluded, including those with clients from the largest corporates segment (K1).

Active cooperation between the Financial Markets and Retail Banking Business Lines resulted in the launch of a foreign exchange platform addressed to SMEs. The year was also marked by further development of the foreign exchange platform for corporate clients which won Global Finance magazine's Best Online Treasury Services award.

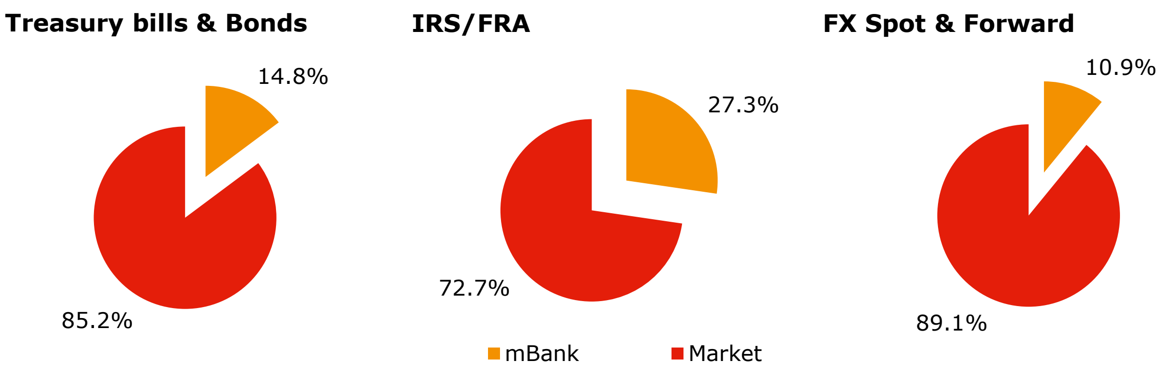
In 2014 mBank was ranked first in the Dealer Activity Index of the National Bank of Poland for the third time. The result achieved by the Bank enables it to conclude an agreement with the NBP on performing the function of a Money Market Dealer in 2015.

Profitability of concluded hedging transactions rose by approximately 30% against 2013, exceeding the amount of PLN 13.5 million (in nominal terms concluded transactions amounted to PLN 1.3 billion).

In nominal terms the largest hedging transactions against interest rate risk concluded in 2014 include:

- Sukcesja Fabryka Biznesu - EUR 25.3 million,
- Netia - PLN 162 million,
- EXPO XXI - EUR 16.5 million,
- Devco, nominal value of EUR 16 million.

The shares of mBank in particular financial instruments markets are presented in the charts below.




**Financial Institutions**

Relations with financial institutions are managed by the Financial Markets business line. The activities include, among others, funding from other banks and placements with other banks.

At December 31, 2014, the Bank had 19 active loans (including subordinated loans) amounting to the equivalent of PLN 21,175 million, of which PLN 15,076 million were drawn. In 2014, three loans denominated in CHF, two loans in USD and one loan in EUR, amounting to PLN 4,061 million in total, were repaid at maturity. Additionally, the Bank took out two new loans in EUR amounting to PLN 852 million in total. The Bank's total exposure under loans from other banks was by PLN 1,627 million lower than at the end of 2013. At 2013 exchange rates the decrease would amount to PLN 327 million.

At the end of December 2014, mBank's exposure under loans granted to other banks reached the equivalent of PLN 1.52 billion. The Bank's portfolio included 30 short-term and medium-term active loans granted to other financial institutions from Poland and from abroad.

Main highlights of the activities of the Financial Institutions Department in 2014 include:

- Obtaining further, considerable funding from the European Investment Bank (EIB). In 2014 the Bank was granted two loans in the amount of EUR 100 million each. Taking into account the current portfolio, mBank ranks first as EIB's largest borrower in the Polish banking sector.

- 2014 was also marked by further acquisition of loro accounts. The Bank managed to maintain its position as one of the leading Polish banks in handling settlements in PLN.

Moreover, in 2014 the Financial Institutions Department continued to actively support trade transactions concluded by Polish exporters by offering short-term financing to financial institutions, mainly from Belarus. At the same time, the Bank was still serving banks from the Commonwealth of Independent States and offering them medium-term loans secured with KUKE insurance policies.

**mBank's Custody Services**

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

mBank provides services including settlement of transactions in securities registered in local and foreign markets, safe-keeping of clients' assets, maintenance of securities accounts and registers of securities in non-public trading, and processing corporate actions. As a depositary bank mBank maintains registers of pension funds' and investment funds' assets and monitors valuations of those assets.

As a consequence of the pension system reform at the beginning of 2014 and the resulting transfer of a part of pension funds' assets to the Social Insurance Institution (ZUS), the value of assets kept by the Bank decreased by 17.3% in February against December 2013. This drop was, however, offset by the acquisition of new clients and rising value of the portfolio.

Finally, 2014 saw a record-high activity of clients with the number of settled transactions increasing by 16.6% against 2013.

## 8. Retail Banking

mBank's Retail Banking segment serves 4,688.6 thousand individual clients and microenterprises in Poland, the Czech Republic and Slovakia online, directly through the call centre, via mobile banking and other state-of-the-art technological solutions, as well as in a network of 256 branches. The Bank offers a broad range of products and services including current and savings accounts, accounts for microenterprises, credit products, deposit products, payment cards, investment products, insurance products, brokerage services, and leasing for microenterprises. In 2013, the Bank launched a modern, user-friendly online platform (New mBank) designed from scratch, which provides more than 200 new functionalities, solutions and improvements.

### Summary of the activity of Retail Banking

| thou. | 31.12.2012 | 31.12.2013 | 31.12.2014 | YoY change |
|---|---|---|---|---|
| **Number of retail clients, including:** | **4,133.9** | **4,368.4** | **4,688.6** | **7.3%** |
| Poland | 3,528.1 | 3,695.3 | 3,926.5 | **6.3%** |
| Foreign branches | 605.8 | 673.1 | 762.1 | **13.2%** |
| The Czech Republic | 443.2 | 486.4 | 534.2 | **9.8%** |
| Slovakia | 162.6 | 186.7 | 227.9 | **22.1%** |
| **PLN M** | | | | |
| **Loans to retail clients, including:** | **37,645.4** | **38,138.7** | **40,615.0** | **6.5%** |
| Poland | 35,874.9 | 36,009.6 | 37,666.1 | **4.6%** |
| mortgage loans | 29,705.4 | 29,248.2 | 29,680.2 | **1.5%** |
| non-mortgage loans | 6,169.5 | 6,761.4 | 7,985.9 | **18.1%** |
| Foreign branches | 1,770.5 | 2,129.1 | 2,948.9 | **38.5%** |
| The Czech Republic | 1,485.9 | 1,712.0 | 2,281.4 | **33.3%** |
| Slovakia | 284.5 | 417.2 | 667.5 | **60.0%** |
| **Deposits of retail clients, including:** | **33,858.9** | **33,897.9** | **38,999.4** | **15.0%** |
| Poland | 29,473.7 | 29,047.7 | 33,381.0 | **14.9%** |
| Foreign branches | 4,385.2 | 4,850.2 | 5,618.5 | **15.8%** |
| The Czech Republic | 2,970.8 | 3,076.8 | 3,788.6 | **23.1%** |
| Slovakia | 1,414.4 | 1,773.4 | 1,829.8 | **3.2%** |
| **Investment funds (Poland)** | **2,654.5** | **4,482.8** | **5,252.1** | **17.2%** |
| **thou.** | | | | |
| **Credit cards, including** | **733.9** | **795.2** | **864.4** | **8.7%** |
| Poland | 701.9 | 757.7 | 817.4 | **7.9%** |
| Foreign branches | 32.0 | 37.5 | 47.0 | **25.3%** |
| **Debit cards, including:** | 5,534.2 | 6,710.3 | **7,556.2** | **12.6%** |
| Poland | 4,783.5 | 5,683.6 | 6,351.3 | **11.7%** |
| Foreign branches | 750.7 | 1,026.7 | 1,204.9 | **17.4%** |
| | | | | |
| **Distribution network** | | | | |
| Advisory Centres within "One Network" Project | - | - | 1.0 | |

| | | | | |
|---|---|---|---|---|
| Light branches within "One Network" Project | - | - | 2.0 | |
| mBank (former Multibank) | 133.0 | 133.0 | 131.0 | |
| mKiosks (incl. Partner Kiosks) | 68.0 | 68.0 | 67.0 | |
| Aspiro Financial Centres | 26.0 | 24.0 | 23.0 | |
| Czech Republic & Slovakia | 35.0 | 35.0 | 35.0 | |

*Data in the table based on internal management system.*

## 8.1. Retail Banking in Poland

**Retail Banking (including Private Banking) in Poland in 2014**

**41 thousand Orange Finance accounts**

**mBank as a no. 1 brand in acquisition**

**2014 – SME's year**

In 2014, the efforts in the Retail Banking segment were in large part focused on a better understanding of clients' needs. Such an approach to building customer relationships produced tangible results, including client acquisition which increased by 6.3% year on year in net terms.

In 2014, the Bank pursued its growth strategy in the segment of SMEs (small and medium-sized enterprises). SME clients were offered finance programmes using investment loans guaranteed by Bank Gospodarstwa Krajowego (BGK). Their volume at PLN 239 million demonstrates the success of the instrument, developed in order to support entrepreneurship in Poland. This performance ranked the Bank as Poland's second largest provider of loans with BGK guarantees. Finally, more than 40 thousand SMEs brought their business to mBank in 2014.

To address clients' needs, the Bank implemented new solutions and effectively used existing solutions. One of such initiatives was to expand clients' financing options through "Leasing in Retail" which targets corporate clients who can enter into leasing contracts for vehicles up to 3.5 tonnes. The project operated together with mLeasing helped to triple the value of leasing contracts year on year.

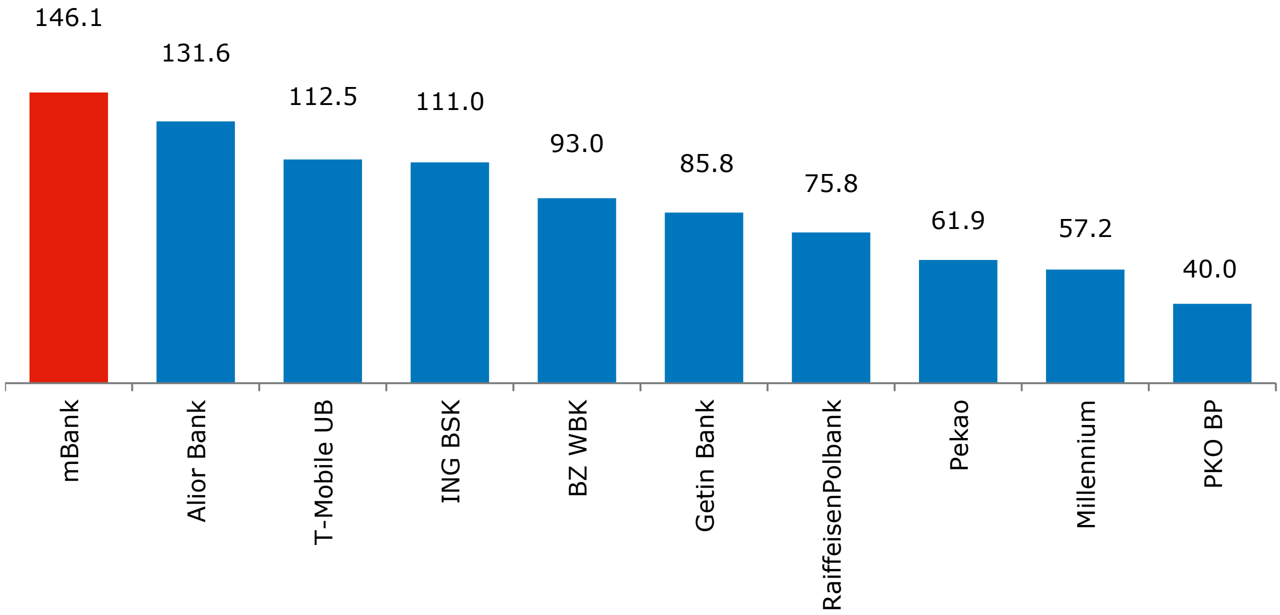
Another revolutionary tool is the FX Platform (mPlatforma walutowa) launched in September 2014. The FX Platform largely improved the currency exchange options for SMEs. Within four months of the launch, more than 2.8 thousand companies moved their currency transactions to mBank. The product demonstrates that mBank's values (functionality, convenience, mobility) can also address more advanced banking needs. This was corroborated by the appreciation of the industry: the World's Best Foreign Exchange Banks and Providers 2015 award.

Intensive efforts to build long-term relationships with retail clients were acknowledged with numerous awards for the Bank. Among others, mBank was awarded by Forbes and named the Most Friendly Corporate Bank in Poland.

In 2014, mBank's Retail Banking put in place a strategic project of co-operation with Orange, one of the biggest telecom operators in Poland, to develop the Orange Finance product offer launched on October 2, 2014. With the state-of-the-art products tailored to the needs of the Bank's clients and Orange Polska users, more than 41 thousand individual accounts were opened with Orange Finance in 2014. The number of new accounts continues to grow month by month, and the development of the offer planned in the coming months will make it even more unique on the market, opening access to an attractive group of customers who use innovative online and mobile solutions.

In 2014, mBank opened 255.7 thousand new accounts, an increase of 8.2% year on year. From August 2014, monthly sales were in excess of 20 thousand accounts. In addition, according to a Bankier.pl ranking, the mBank brand is the first market player in customer acquisition in 2014 with a strong lead over its immediate peers. The Bank owes this performance mainly to the New mBank project: an innovative transactional service, changes to the branch network, and the new mobile banking application launched in 2014.

**Number of personal account at major Polish banks (thou.) - change in 9 months of 2014**




*Source: PRNews.pl/Bankier.pl*

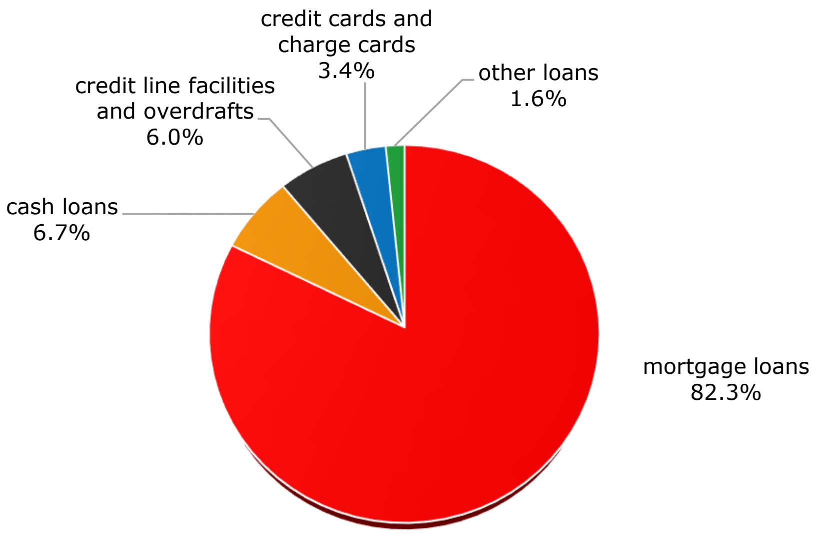
The sales of credit cards also increased year on year in 2014. The number of active mBank credit cards grew as well in 2014.

## Development of the retail banking offer in Poland

### Loans

The loan portfolio structure of Retail Banking in Poland (household loans) at the end of December 2014 was as follows:

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




mBank's activities in the sales of non-mortgage loans were focused on personalised credit offers for selected clients. Owing to implemented improvements, the timing of a credit decision over electronic channels was cut from 15 minutes to 30 seconds without the need to complete any forms or file documents. The implementation was awarded in the global Efma ranking where the 30 second mobile loan was named the Most Promising Idea.

mBank also implemented a number of modifications in the offer for clients, ranging from financing of online shopping at Allegro.pl ("0% PayU Instalments") through Miles and More credit card promotions to revolving loans "0% for Starters".

The sales of non-mortgage loans increased by 13.6% year on year to PLN 3,998.7 million in 2014.

The sales of credit cards also increased year on year in 2014. The number of active mBank credit cards grew as well in 2014, which is particularly important in view of the falling interchange fees.

Starting in February 2014, mBank in co-operation with the Aspiro network promoted consolidation loans with the "Guarantee of the Lowest Instalment", which were well received by clients; as a result, sales through Aspiro doubled.

In early May 2014, mBank launched a new type of loan, mRaty, for online shopping and other e-services. mRaty is an instalment loan dedicated to the online purchase of any product or service up to PLN 20 thousand. In June 2014, the product was launched for clients of the biggest auction platform Allegro.pl, supported by one of the fast payment operators PayU. In November and December 2014, in co-operation with Allegro.pl and PayU, the Bank launched the "0% PayU Instalments" promotion; combined with a marketing campaign on Allegro, it grew the sales of mBank's mRaty by a factor of 5 and attracted 7 thousand new clients.

An important development from the perspective of mBank's strategy came in Q4 2014 when the Lombard rate was cut to 3.0%, resulting in a reduction of the maximum interest rate on loans from 16% to 12%. In response to the significant change of market conditions, mBank implemented modifications to credit fees and commissions which largely offset the adverse financial impact.

Furthermore, in 2014, mBank in co-operation with mBank Hipoteczny pursued a long-term project designed to issue covered bonds secured with liabilities under mortgage loans. In the project, mBank

Hipoteczny grants loans to individuals through mBank. Another part of the project put in place in 2014 was a transfer of a loan portfolio of PLN 338 million from mBank to mBank Hipoteczny. The transfer will allow for increased issues of covered bonds secured with the transferred loans by mBH. The loan transfer process will continue in 2015.

The sales of mortgage loans in 2014 stood at PLN 2,421.4 million, which represents an increase of 71.2% year on year.

The key characteristic of portfolio of mortgage loans for individuals (excluding Private Banking clients) is summarised below:

| | 31.12.2013 | 31.12.2014 |
|---|---|---|
| Balance sheet value (mld zł) | 26.5 | **27.6** |
| Average maturity (years) | 20.8 | **20.3** |
| Average value (thousand PLN) | 273.4 | **275.4** |
| Average LTV (%) | 78.4% | **80.7%** |
| NPL (%)* | 4.4% | **5.0%** |

** The NPL ratio calculated in accordance with a more strict client perspective methodology; data based on internal management system.*

In 2014, mBank also developed sales of car loans for individuals and small companies. The Bank grants loans in co-operation with the BMW brand as well as Jaguar/Land Rover.

**Deposits and investment funds**

The strong results of the sales of savings products were possible thanks to a number of initiatives taken including focused management of the product offer, smart pricing of deposits targeting selected client segments, as well as a new behavioural segmentation of clients. The balances of deposit products increased while the financial discipline was maintained. As an additional measure of success, the growth rate of deposit balances was much stronger than the market average (35% higher).

While the retail deposit base grew, so did the balances of assets allocated by clients to investment funds. In H1 2014, the Bank focused on offering investment products to clients, mainly through the Investment Fund Supermarket in its new version launched early in the year. The new platform allows clients not only to make transactions in shares of domestic and international investment funds but also to access additional tools which facilitate browsing through funds as well as monitoring and analysing of clients' investments in funds.

In addition to the functional development of the Investment Fund Supermarket, mBank's offer of investment funds was extended in 2014 as 11 new funds and a new investment fund company, Altus TFI, were added to those on offer.

Changes in the pension savings system boosted additional interest in pension savings products. In response to clients' needs, a new transactional service for Individual Pension Accounts was launched in H2 2014. It facilitates the monitoring of investment performance and allows clients to check the outstanding amount of the annual investment limit.

In H2 2014, due to unfavourable conditions on the Polish capital market, the Bank focused mainly on working with clients on deposit and savings products. As a result of these activities, amid increasing number of clients with savings, the balance of deposits with the Bank increased substantially.

In 2014, the Bank continued to pursue the strategy of strengthening its position in investments and savings, and diversified the solutions offered to clients, including in particular:

- launch of a new version of the Investment Fund Supermarket;

- launch of new functionalities of the Bank's transactional system for Individual Pension Accounts;
- implementation of a term deposit promotion to attract new clients and new assets;
- implementation of deposits for new cash into the Bank's regular offer;
- implementation of several subscriptions for investment certificates of Closed-end Investment Funds;
- implementation of the Bank's first subscriptions for structured certificates;
- offering clients the option of investing in subsequent subscriptions for structured deposits;
- launch of a public offer of bonds for retail clients.

**Cards**

In 2014, the value of transactions made by mBank retail banking clients with payment cards was more than PLN 17.6 billion and was record-high, growing by 18.5% year on year. As the frequency of use of cards by mBank clients increased by some 30% year on year in combination with smaller amount of payments, mBank's market share in non-cash transactions increased to 12.2% (after 9 months of 2014), from 12.0% in 2013. mBank's credit cards are used to make a very high average number of transactions, which is more than double the market average.

In 2014, most of the initiatives in the credit card segment focused on growing the number of transactions and active use of credit, mainly following yet another reduction of the interchange fee in July 2014 and a significant reduction of the interest rates in October 2014. As part of these initiatives, measures were taken to promote the Repayment by Instalment Service and the Fast Cash service using the card limit; as a result, the value of credit card limits paid by instalment increased by a factor of 8.

In the implementation of its payment development strategy, mBank implemented new payment instruments:

- BLIK mobile payments for all users of mBank's mobile application;
- Orange NFC mobile payments for users of Orange smartphones with NFC functionalities;
- MC PayPass sticker for touchless payments using a mobile phone without NFC functionalities.

In addition, since Q4 2014, mBank is the only bank in Poland to offer **Miles and More** credit cards whose holders collect miles for non-cash transactions. In the last months of 2014, mBank engaged in a number of marketing initiatives to grow the acquisition of such cards.

Furthermore, the migration of debit cards to touchless technology was completed in 2014: most of mBank's payment cards allow users to make quick touchless payments and nearly 80% of POS (point of sale) terminals on the market support the technology.

## 8.2. Retail Banking in the Czech Republic and Slovakia

### 8.2.1. Economy and banking sector in the Czech Republic

| Key macroeconomic parameters | 2014 | Banking sector indicators | 2014 |
|---|---|---|---|
| Real GDP growth rate (forecast) | 2.3% | Base interest rate | 0.05% |
| Nominal GDP per capita (EUR) | 14,200* | Loan to Deposit ratio | 76.7% |
| GDP per capita in PPS (EU-28=100) | 80%* | Non-performing loans ratio | 6.0% |
| Average annual inflation rate | 0.4% | Capital Adequacy Ratio (CAR) | 18.0%* |
| Unemployment rate | 6.1% | Return on Assets (ROA) | 1.3%* |
| Employment rate | 69.8%* | Return on Equity (ROE) | 14.0%* |
| Population | 10.5 M | Number of banks | 45 |

*Source: Eurostat, Česká národní banka (ČNB), Český statistický úřad (ČSÚ).*

** Cumulative 9 month data (as of September 30, 2014), latest available*

**GDP, inflation, interest and FX rates**

The Czech National Bank (CNB) expects real GDP in the Czech Republic to pick up in 2014, after a 0.9% contraction in 2013. It forecasts a GDP growth of 2.3% for the entire 2014, accelerating to 2.6% in 2015 and 3.0% in 2016. An ongoing economic recovery has been driven by domestic demand factors, including fixed capital investment, household consumption, and a build-up of inventories. Investment activity grew strongly in 2014, as the domestic environment improved, foreign industrial orders picked up and the government increased its efforts to make use of EU funds.

On November 7, 2013, the CNB committed to sell the Czech crowns and buy euros as needed in order to prevent the crown from appreciating beyond the historically low rate of CZK 27 per euro, while the currency floats freely on the weaker side of this threshold. In February 2015, the CNB repeated that it was ready to take steps for the crown's further weakening in case of prolonged strengthening of pressures for a price fall able to cause a drop in domestic demand and if inflation expectations decrease and risks of deflationary development in the domestic economy are renewed. The CNB also informed that it will not end the forex intervention regime earlier than in the second half of 2016.

Throughout 2013 and 2014 the interest rates remained unchanged and the repo rate was maintained at 0.05%.

The year on year growth of consumer prices decelerated to 0.1% in December 2014, compared to 1.4% at the end of 2013. The average inflation rate reached 0.4% for 2014, dropping by 1.0 percentage point from the preceding year level of 1.4%, and was the lowest since 2003. The substantial decline in oil prices in recent months is forecast to put further downward pressure on inflation over the next quarters.

The strengthening of the Czech economy is reflected in improving labour market conditions. The country's unemployment rate has stabilised at the lowest level in the Central and Eastern Europe (CEE) region. The seasonally adjusted unemployment rate reached 5.8% in December 2014 and decreased by 1.0 percentage point year on year. The employment rate of 69.8% recorded at the end of 2014 was the highest in the history, increasing by 1.5 percentage point compared to December 2013.

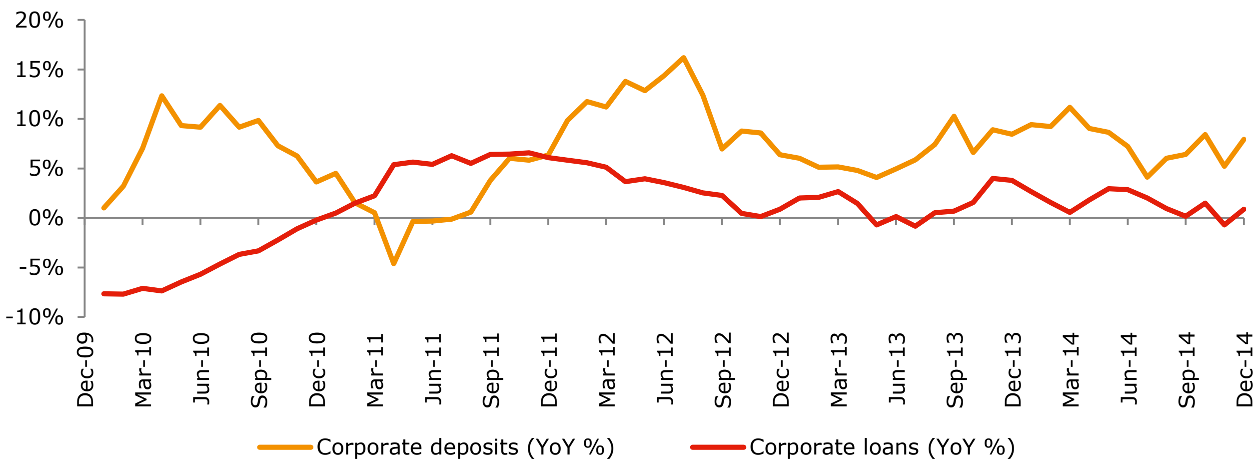
**Banking sector**

The developments recorded in the Czech financial sector in 2014 were mostly positive. Banks strengthened its capital adequacy. Funding and liquidity profiles continued to be solid with the sector's loan to deposit ratio of 76.7%. The asset quality remained resilient as demonstrated by the stable levels of non-performing loans ratio in both 2013 and 2014 (a slight decrease to 6.0% at the end of 2014). The relatively contained levels of NPL ratios in the Czech Republic reflect the country's relatively strong industrial base, and limited foreign-currency lending (predominantly to corporate customers and almost non-existent in retail segment) compared to some other countries in the CEE region.

System-wide net interest margins has been shrinking over recent years, as loan yields have continued to decline at a rapid pace. The average interest rate on outstanding mortgage loans, as measured by local real estate company Hypoindex, has declined every month since October 2013, reaching the historical low of 2.4% in December 2014.

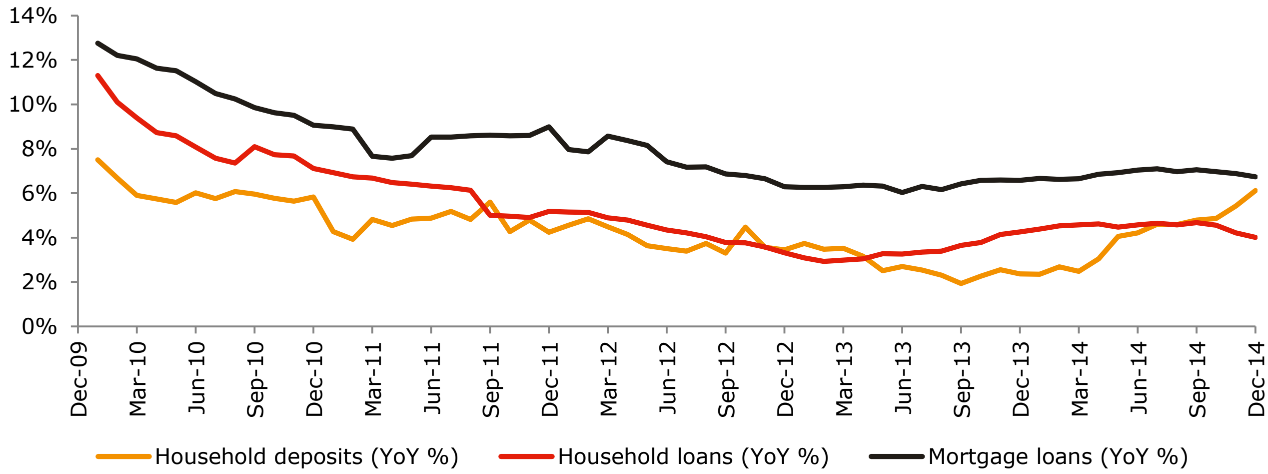
Overall, in spite of lower net interest margins, the profitability of the Czech banking sector is among the highest in the CEE region, as measured by a return on assets close to 1.3%. It is expected to stabilise at the current levels, as net interest income, which constitutes more than 60% of the sector's operating revenues, will continue to be impacted by the low interest-rate environment, in turn, affecting new lending and re-pricing. However, banks' weaker interest income is seen to be partially offset by reduced competition for deposits and by the anticipated economic recovery, translating into the expansion of loan books. In particular, robust capital buffers of Czech banks will enable them to take advantage of the growth in mortgage lending and those corporate sectors which will be more favourably affected by the rebound in economic activity and external demand.

**The Czech Republic: Corporate Loans and Deposits**




A growth in corporate loan volume remained subdued in 2014 with the year on year dynamics not exceeding 3%. The share of non-performing loans in the total volume of loans to non-financial corporations has been declining since 2011, amounting to 6.6% in December 2014. After only moderate growth of corporate deposits observed in H1 2013, the volume started to show cyclical improvement following better business perspectives. An annual deposit expansion oscillated on average around 7-8% in 2014.

**The Czech Republic: Household Loans and Deposits**




The growth in total retail lending was predominantly driven by mortgage loans, which expanded by 6.7% in 2014, while the volume of consumer loans showed a minor contraction of 0.7% during the same period. The share of non-performing loans in the total volume of loans to households was 4.7% in December 2014, declining from 5.0% at the end of 2013. Household deposits have accelerated significantly since Q1 2014, showing the annual growth pace of 6.1% at the end of 2014 compared to 2.4% in 2013.

### 8.2.2. Economy and banking sector in Slovakia

| Key macroeconomic parameters | 2014 | Banking sector indicators | 2014 |
|---|---|---|---|
| Real GDP growth rate | 2.4% | Base interest rate | 0.05% |
| Nominal GDP per capita (EUR) | 13,300* | Loan to Deposit ratio | 95.5% |
| GDP per capita in PPS (EU-28=100) | 76%* | Non-performing loans ratio | 4.8% |
| Average annual inflation rate | -0.1% | Capital Adequacy Ratio (CAR) | 17.0%* |
| Unemployment rate | 13.4% | Return on Assets (ROA) | 0.9% |
| Employment rate | 61.3%* | Return on Equity (ROE) | 7.7% |
| Population | 5.4 m | Number of banks | 27 |

*Source: Eurostat, Národná banka Slovenska (NBS).*

** Cumulative 9 month data (as of September 30, 2014), latest available*

**GDP, inflation and interest rates**

The Slovak National Bank (NBS) forecasts real GDP growth to accelerate to 2.4% in 2014 and then to 2.9% in 2015 and 3.6% in 2016, up from the level of 1.4% in 2013. The key driver behind this rebound is the continuing recovery of domestic demand. Following three consecutive years of decline, private consumption is projected to have increased by 2.1% in 2014, supported by growing disposable income, low inflation, improving labour market conditions, and an increase in consumer confidence. Going forward, private consumption will also be bolstered by a series of labour market reforms that take effect in 2015, including a rise in the minimum wage and a reduction in the social contributions paid by low-income workers.

As a small and open economy, Slovakia is dependent on the general macroeconomic situation in Europe, especially in Germany, Czech Republic and Poland which together accounted for more than 40% of its exports in the recent years. Slovak exports dropped sharply in Q2 and Q3 of 2014, mainly due to weak demand from its main trading partners. Export growth is projected to have slowed down to 4.4% in 2014 and is expected to decline further in 2015, before rebounding the year after. Imports are likely to have grown faster than exports in 2014 due to the recovery in domestic consumption and investment, which would mean that net exports were a drag on GDP growth in 2014. The government's tight fiscal policy has allowed the country to keep its fiscal indicators at healthy levels, which maintain its appeals to foreign investors and capital inflows.

In Slovakia, as a member of euro zone, the key interest rate, set by the European Central Bank (ECB), was lowered by 0.1 percentage point to 0.05% on September 10, 2014. This reduction followed the earlier ECB decision about the cut by also 0.1 percentage point from 0.25% taken on June 11, 2014.

In December 2014, an annual inflation stood at -0.1%, compared to a growth of consumer prices at 0.4% recorded at the end of 2013. The drop was mainly driven by the prices of transport, energy, food and non-alcoholic beverages as well as postal and telecommunication services. The average annual inflation rate for 2014 also reached -0.1%, dropping from 1.4% in 2013.

Throughout 2014 the unemployment in Slovakia was gradually decreasing in line with the improvement in economic activity. The seasonally adjusted unemployment rate reached 12.5% in December 2014 and decreased by 1.5 percentage point year on year. The positive employment trend, resulting from a series of measures supporting the labour market, is expected to have a further downward effect on the unemployment rate in 2015.

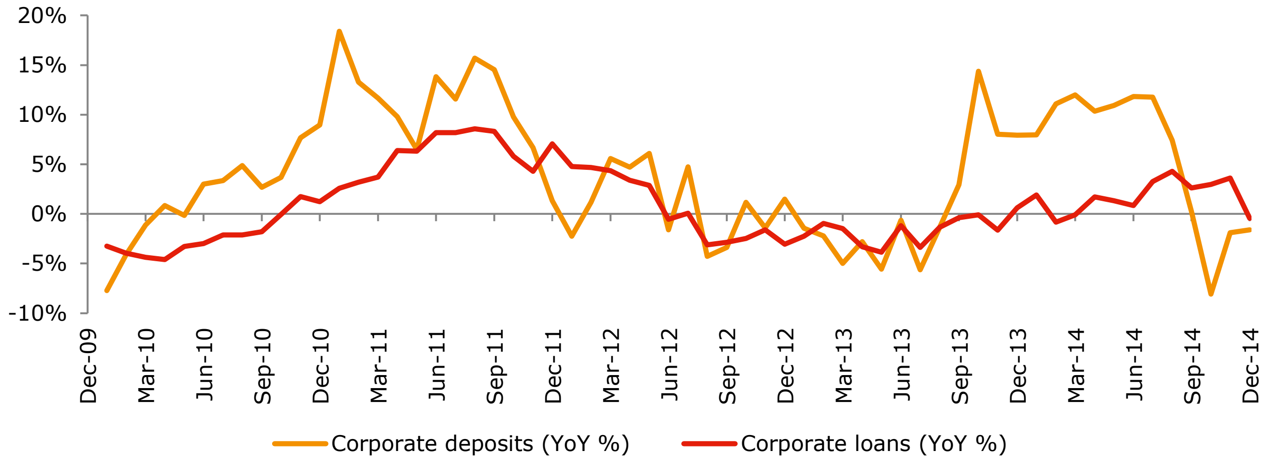
**Banking sector**

Slovak banks have seen a stronger operating environment as economic growth rebounds. Even with slightly stronger loan growth, the overall loan to deposit ratio in the sector is expected to be kept close to its current level of 95%, as banks remain keen to use deposits to fund their lending activity and the reliance on wholesale funding sources is very low. The Slovak banking sector's capital adequacy is among the highest in the CEE region, after the Czech Republic. The banks have strengthened their capital buffers in recent years through some profit retention and optimisation of risk-weighted assets, thereby providing adequate loss-absorption capacity.

The overall stability of the NPL ratio was mainly the result of the high growth in mortgage loans, thus compensating for the mild increase in the stock of non-performing loans. The NPL ratio for Slovakia is the lowest in the CEE region at 4.8% at the end of December 2014. The asset quality can potentially improve further mainly due to strengthening business activities and raising household income.

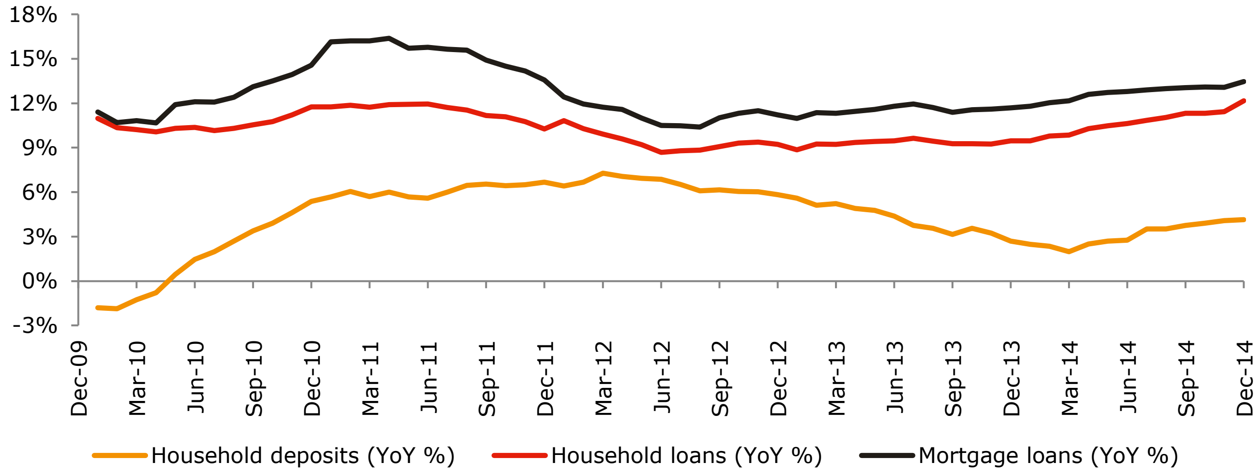
The profitability of Slovak banking sector has faced some challenges and an upside potential for the current level of return on assets at around 1.0% is limited. While the latest ECB rate cut in September 2014 has led to further pressure on net interest margin, a sound credit growth, especially in the higher-margin retail business, accompanied by lower credit costs position the banks to maintain decent profitability. On the other hand, a factor that limits the banks' earnings is the government's bank levy introduced in January 2012. This levy continued to weigh negatively on the profits of banking sector in both 2013 and 2014. However, after the targeted National Resolution Fund reaches EUR 500 million, the levy rate is assumed to decrease from 0.4% to 0.2% of banks' liabilities.

**Slovakia: Corporate Loans and Deposits**




Accelerating economic recovery and low interest rates provide banks with good credit opportunities. Total loans grew at a high single-digit level in 2014, compared with 5.1% in 2013. After negative trends in corporate lending observed in H2 2012 and 2013, a moderate expansion of banks' commercial books was recorded in 2014, supported by higher borrowing needs from SME segment. The share of non-performing loans in the total volume of loans to non-financial corporations amounted to 7.9% at the end of 2014, compared to 7.5% in 2013. The corporate deposit base showed rapid increase in Q4 2013 and the annual growth pace remained high at around 10% until August 2014. During the last three months of 2014, the negative trends in corporate deposits were observed, partially due to the high base effect.

**Slovakia: Household Loans and Deposits**




The improving economy and low credit costs have promoted strong development of household loans in Slovakia. Retail lending has continued to grow rapidly over the recent years, mainly due to housing loan acceleration, with the year on year pace exceeding 10% in 2014. The increase in mortgage lending has not been accompanied by a house price bubble so far, with house prices remaining relatively stable after the 18% decrease experienced between 2008 and 2011. The share of non-performing loans in the total volume of loans to households was 4.3% in December 2014, worsening marginally from 4.2% at the end of 2013. Retail deposits grew at a low single-digit pace during 2014, but started to speed up in the second half of the year to 4.1% recorded in December, compared to 2.7% at the end of 2013. Since the mid-2013 the clear opposite trends within the structure of household deposits have been observed. The volume of term deposits has been decreasing over past quarters, what is more than compensated by accelerating retail demand deposits, which expanded by 12.7% in 2014.

### 8.2.3. Summary of foreign operations of mBank

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

The activity of mBank in the Czech Republic and Slovakia in 2014 was focused on implementing the assumptions of the "One Bank" strategy. In February 2014, the platform of the New mBank was launched and rebranding was carried out. The process of migration of clients to the New mBank platform was completed in November 2014. The Bank has not identified any negative factors (churn, lower client activity) related to this process.

Foreign branches broadened also the offer of investment products – in May the innovative mSaver was added to it. mSaver not only supports the inflow of clients' deposits, but also encourages them to use payment cards more frequently. In December 2014 mBank launched the new mobile application 2.0, and started positioning itself as the Mobility Icon also on the Czech and Slovak markets.

2014 was very favourable for foreign operations of mBank, with regard to acquisition, optimisation as well as in the innovation area. Compared to 2013, income of foreign branches increased by 25.8%, sales of non-mortgage loans (NML) doubled, and the year on year acquisition of clients amounted to 89 thousand which strengthened the position of mBank as the fifth largest bank on the Czech market in terms of the number of clients.

The Project mILKY WAY consisting in new pricing, repositioning and aiming at increasing clients' trust in mBank also turned out to be successful. Moreover, the Tariff of Fees and Commissions was significantly shortened. Additionally, in mid-December 2014, mBank made the new mobile application available to the clients of foreign branches in the Czech Republic and Slovakia (available for major operating systems - Android, iOS, Windows Phone and Windows 8.1).

mBank received a number of awards for its activity in the Czech Republic and Slovakia in 2014, e.g. for the best mortgage loan in Slovakia by the financial service Finparada, the Silver crown for mKonto for companies in the Czech Republic by the financial service Zlata koruna, as well as the first award for a mortgage loan in an independent review mystery shopping, carried out in the Czech Republic by the financial service bankovnipoplatky.com and the advisory firm Mindbridge.

Moreover, the new mBank transactional platform in the Czech Republic and in Slovakia, implemented in Q1 2014, was recognised in the "Bank Innovator 2014" competition organised by Hospodářské noviny, an economic daily. mBank was ranked second in the "Banking Innovator" category. In December 2014, mBank in Slovakia was recognised in the competition for the best banking product of 2014 and received: Zlatá minca (Golden Minca) for mKonto, Zlatá minca (Golden Minca) for mSaver, Strieborná minca (Silver Minca) for the VISA debit card with mKonto, Strieborná minca (Silver Minca) for the VISA credit card, Bronzová minca (Bronze Minca) for its new online banking, Bronzová minca (Bronze Minca) for mKonto Biznes.

# 9. Information for investors

| Share price data | 2013 | 2014 |
|---|---|---|
| Share price | 500.0 | 498.0 |
| Total number of shares | 42,174,013 | 42,210,057 |
| P/E ratio 2014 | 17.5 | 16.3 |
| P/BV ratio | 2.1 | 1.9 |
| Max share price | 568.0 | 545.0 |
| Min share price | 311.4 | 442.1 |
| Market capitalization (PLN B) | 21.1 | 21 |
| Average traded volume (PLN mln) | 11.9 | 12.8 |
| Dividend per share (PLN) | 10.0 | 17.0 |

*Data for mBank Group.*

## 9.1. mBank shareholders and share prices on the WSE

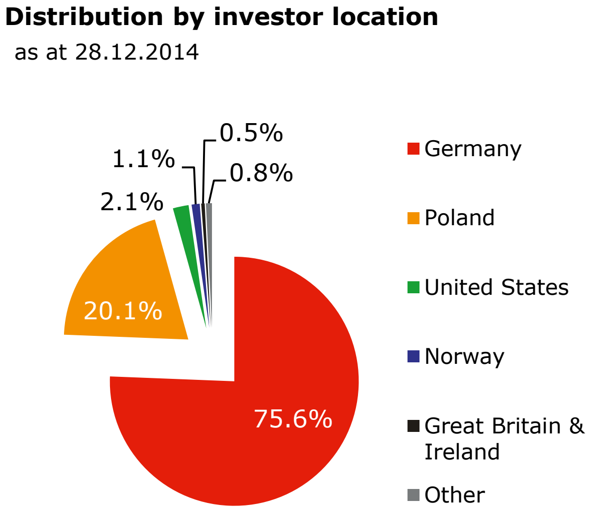
**mBank shareholders**

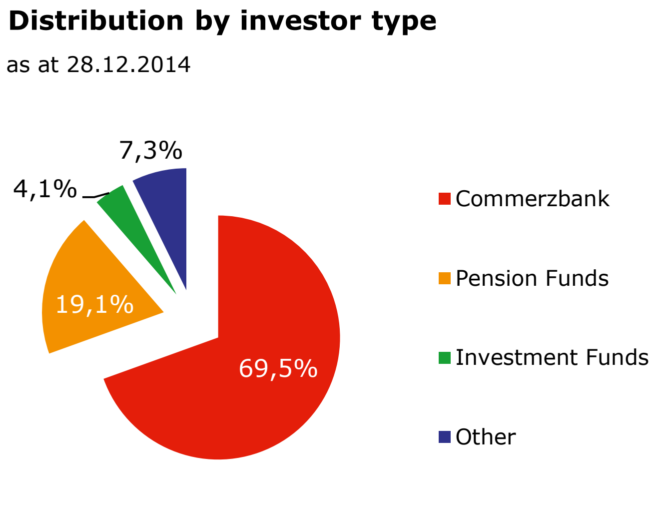
Commerzbank AG has been the majority shareholder of mBank since 1994. The stake of Commerzbank has been increasing gradually, from 21.0% in 1995 through 50.0% in 2000 to 72.2% in 2003. Starting from 2005, Commerzbank's stake has declined slightly due to the implementation of the managerial options programme at the Bank. As at the end of 2014, Commerzbank AG held 69.5% of shares and votes at the General Meeting.

The remaining 30.5% of mBank shares in free float are held mainly by financial investors (Polish pension funds, Polish and foreign investment funds). In 2014, the major one was ING Otwarty Fundusz Emerytalny, which before December 10, 2014 held 2,126,430 shares comprising 5.04% of mBank's share capital. On December 10, 2014 ING OFE informed of holding 2,085,679 shares of the company, i.e. 4.94% of its share capital.

The second major mBank shareholder was AVIVA Otwarty Fundusz Emerytalny Aviva BZ WBK (Aviva OFE), which decreased its share in the total number of votes in the Bank below 5%. As at July 30, 2014 the share of Aviva OFE in the mBank share capital was 4.996%.

The charts below present the geographical allocation and type of investors in mBank shares at the end of 2014.




*Source: Bloomberg*

**Quotations of mBank shares in 2014**

As at December 31, 2014, the following characteristics of mBank shares can be highlighted:

- Nominal value per share: PLN 4.00
- Registered share capital: PLN 168,840 thousand, paid up in full.
- mBank shares have been listed on the Warsaw Stock Exchange (WSE) since 1992.
- mBank shares are part of the following WSE indices: WIG, WIG-Poland, WIG20, WIG30 and WIG-Banki; the shares also participate in the derivative indices based on WIG20.

In 2014, the total number of mBank shares increased by 36,044 shares issued as part of an incentive programme. Consequently, the registered share capital increased by PLN 144.2 thousand.

Quotations of mBank shares in 2014 should be analysed in the context of the situation on the Warsaw Stock Exchange and other worldwide stock markets.

In 2014 the main indices on the WSE: WIG and WIG20 did not report major changes. WIG grew slightly by 0.3%, while WIG20 decreased by 3.5%. mWIG40, the index of 40 medium-sized enterprises quoted on the WSE main market, profited most growing by 4.1% on an annual basis. Small enterprises performed much worse. WIG250, the index of small enterprises, which was withdrawn at the end of 2014, dropped by 16.8%. WIG-Banki Index decreased by 0.7%.

This means that the Warsaw Stock Exchange did not experience the bull market reported in the US, where the S&P500 Index grew by 12.7%, Dow Jones Industrial by 8.8%, and Nasdaq Composite by 14.8%. The Tokyo based Nikkei225 Index gained 7.1% in value. European markets reported worse results - Frankfurt (DAX +2.7%), Paris (CAC40 -0.5%) and London (FTSE250 +0.9%). EURO STOXX Index, grouping 50 largest enterprises from the Eurozone countries, was up by 1.2% at the end of 2014 compared to 2013; whereas EURO STOXX Banks Index fell by 4.9% in 2014.

Stagnation that could be observed in the WSE in 2014 resulted from internal and external factors.

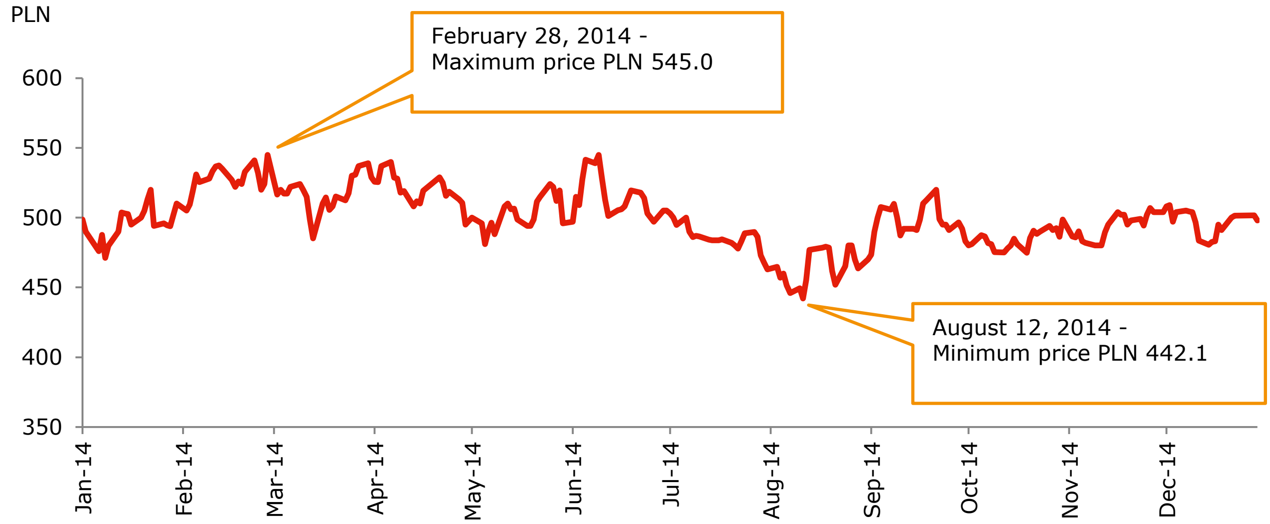
The balance of power on the WSE changed in 2014. Disassembly of open-ended pension funds led to a fall in demand for Polish shares from the largest domestic investors, what mostly affected small and medium sized enterprises. At the same time the flow of capital to the share market was effectively blocked by the bull market of treasury bonds that lasted throughout the entire year. It was strongly affected by deflation pressure in Poland and other European countries and the strategy of investing in safer assets as a result of a tense situation in the East.

Limited flow of external capital to the WSE results mainly from high investment risk due to the Russian-Ukrainian conflict. It is also a consequence of a relatively strong and stable zloty, making the shares of Polish companies less attractive to foreign investors.

Quotations of mBank shares on the WSE in 2014 followed the trend of main WSE indices. The closing price per mBank share during the last session in 2014 (30 December) stood at PLN 498.0. This represents a decrease by 0.4% compared to the price reported at the last session in 2013 (PLN 500), and an increase by 3.0% compared to the dividend-adjusted price at the end of 2013. The lowest price per mBank share was reported on August 12, 2014 (PLN 442.1), while the highest price was reached on February 28, 2014 (PLN 545.0).

Capitalisation at the end of 2014 reached PLN 21.0 billion (EUR 4.9 billion).

**mBank's share price performance during 2014**




**Quotations of mBank shares in 2014 against WIG-Banks and Euro STOXX Banks indices**

| Change | 2013 | Q1 2014 | Q2 2014 | Q3 2014 | Q4 2014 | 2014 |
|---|---|---|---|---|---|---|
| mBank | +53.4% | +7.8% | -6.3% | -2.6% | +1.2% | **-0.4%** |
| WIG-Banki Index | +20.5% | +9.2% | -7.1% | +7.0% | -8.4% | **-0.7%** |
| EURO STOXX Banks Index | +25.9% | +9.8% | -5.6% | +1.8% | -9.9% | **-4.9%** |

**Dividend**

In 2012, after ten years, mBank resumed the payment of the dividend to its shareholders. In its decision recommending the dividend payment to the Supervisory Board, the Management Board of mBank mainly considers current recommendations of the Polish Financial Supervision Authority concerning dividend payments by banks. In 2014, the PFSA issued the following recommendations for banks:

1. Banks holding a significant market share in non-financial client deposits (non-financial client deposits on the bank's balance sheet represent more than 5% of the aggregate non-financial client deposits in the banking sector)

a. It is recommended that a dividend up to 100% of the profit generated in 2014 may be paid by banks with a significant market share in non-financial client deposits which meet all of the following criteria:

- the bank is not subject to a restructuring programme;
- the Tier 1 ratio (CET1) is more than 12% (9% + 3% systemic risk buffer);
- the total capital ratio (TCR) is more than 15.5% (12.5% + 3% systemic risk buffer);
- the overall SREP score is 1 (good) or 2 (satisfactory);
- the SREP capital risk score is not worse than 2 (satisfactory).

b. Banks holding a significant market share in non-financial client deposits which have a total capital ratio (TCR) ranging from 12.5% to 15.5% may pay out 50% of the profit generated in 2014 if they meet the other criteria.

2. Other banks:

It is recommended that a dividend up to 100% of the profit generated in 2014 may be paid by other banks which meet all of the following criteria:

- the bank is not subject to a restructuring programme;
- the Tier 1 ratio (CET1) is more than 9%;
- the total capital ratio (TCR) is more than 12.5%;
- the overall SREP score is 1 (good) or 2 (satisfactory);
- the SREP capital risk score is not worse than 2 (satisfactory).

It is recommended that banks which do not meet the dividend payment criteria retain all profits generated in 2014 in capital.

As a consequence of the SNB decision on January 15, 2015 (for more information, please see section 4.4. Expected trends in the economy in 2015 and their impact on the banking sector) and the appreciation of the CHF rate, the PFSA announced that it considers a modification of its recommendation on the dividend payment for banks.

In addition to the PFSA recommendations described above, the Management Board also considers the Bank’s capital base and business expansion opportunities.

The table below presents information on mBank’s dividend payments since 2012.

| Year | Dividend per share | Total dividend volume (PLN m) | Dividend as a % of net profit* |
|---|---|---|---|
| 2012 | 10.0 | 421.4 | 35 |
| 2013 | 17.0 | 717.0 | 67 |

** The ratio of the total amount of dividends paid to mBank's net profit in the financial year*

## 9.2. Ratings of mBank and Group subsidiaries

**Evaluation of mBank's financial credibility**

mBank has rating agreements with Fitch Ratings (Fitch) and Standard & Poor's Ratings Services (S&P's). Ratings assigned by these agencies in 2014 are presented in the table below.

| Fitch - status as of December 31, 2014 | mBank | Commerzbank AG |
|---|---|---|
| Long–term IDR | A | A+ |
| Short-term IDR | F1 | F1+ |
| Viability rating | bbb- | bbb |
| Support rating | 1 | 1 |
| Outlook for long-term rating | negative | negative |
| Rating of senior unsecured debt issued under the Euro Medium Term Note Programme (EMTN) | A; F1 | - |
| *Bonds' tranches issued by mFinance France in 2012-2014* | *A* | - |
| **S&P's - status as of December 31, 2014** | **mBank** | **Commerzbank AG** |
| Long-term deposits rating | BBB+ | A- |
| Short-term rating | A-2 | A-2 |
| Stand Alone Credit Profile | bbb- | bbb- |
| Outlook for long-term rating | negative | negative |
| Rating of the Euro Medium Term Note Programme (EMTN) | BBB+ | - |
| *Bonds' tranches issued by mFinance France in 2012-2014* | *BBB+* | - |

On March 27, 2014, the Fitch Ratings agency confirmed the long-term foreign currency Issuer Default Rating of mBank at the "A" level, changing its outlook from stable to negative. The adjustment of mBank's rating outlook resulted from changing the Commerzbank's long-term rating outlook from stable to negative due to a global review of assessments of support provided by the state to European banks conducted by the Fitch agency.

On May 19, 2014 Fitch once again confirmed mBank's long-term rating for foreign currency at "A" with a negative outlook. The rating is higher than that for long-term debt of Poland in a foreign currency, which is at "A-". According to Fitch, mBank's viability rating is influenced by its position in the Polish banking sector, a limited risk appetite, solid financial results, high capitalisation and a favourable macroeconomic environment. The still high, although gradually decreasing, share of mortgage loans in foreign currencies in mBank's credit portfolio and a material scale of needs with regard to refinancing in foreign currencies in the next years are considered by the agency to be risk factors. mBank's long-term rating reflects very high probability of support from Commerzbank. On the other hand, Commerzbank's long-term rating provides for potential support of the state. As a result of entry into force of the Bank Recovery and

Resolution Directive (BRRD) which limits to minimum the possibility of state support for banks going bankrupt, according to Fitch agency it is probable that in Q1 2015 the long-term rating of Commerzbank will be reduced to "viability rating", which will entail applying the same action at mBank.

In 2014, the mBank's rating and the rating outlook issued by S&P's did not change. The long-term rating of mBank at "BBB+" is by one notch lower than the assessment of Poland's creditworthiness for a foreign currency ("A-"). On February 3, 2015, S&P listed mBank's long-term and short-term rating on a CreditWatch with negative implications, following the same decision made for Commerzbank.

According to the credit opinion of S&P's of June 6, 2014, mBank's rating is a resultant of the reference level ("anchor") "bbb-" for all commercial banks in Poland and the agency's opinion concerning "adequate" business position of the Bank, "adequate" capital position and profitability, "adequate" risk assessment and liquidity. The risk adjusted high profitability and an established market position with a balanced contribution of retail and corporate banking are considered by the agency to be the most significant strengths of mBank. mBank's long-term rating is positively influenced by potential support from Commerzbank. According to S&P's, mBank's rating level is limited by the following: portfolio of mortgage loans in foreign currencies, "loans/deposits" ratio higher than in the peer group and dependence on wholesale funding.

Next to ratings ordered at Fitch and S&P's, mBank is also assigned the rating of Moody's Investors Service granted on the basis of publicly available information as an entity not participating in the rating process. As at December 31, 2014, Moody's rating was as follows:

- Long-term rating of deposits: Baa3 with a negative perspective (Commerzbank: Baa1).
- Short-term rating:  Prime-3 (Commerzbank: Prime-2).
- Baseline Credit Assessment: ba2 (Commerzbank: ba1) and financial strength rating (BFSR) D (Commerzbank: D+).

On May 29, 2014, Moody's lowered the long-term rating outlook to negative for more than eighty European banks, including Commerzbank and mBank. This was Moody's reaction to the official adoption of the Bank Recovery and Resolution Directive and Single Resolution Mechanism by the Council of the European Union, which could result in negative implications for the support rating.

## 9.3. Investor Relations at mBank

The Investor Relations Team at mBank is responsible for communication with investors interested in mBank's shares and debt securities, and with analysts.  Pursuant to the policy of transparency, the team is responsible for providing complete and relevant information about mBank Group to interested parties.

mBank has paid close attention to ensuring effective communication with its investors and analysts. In 2014 four direct and on-line conferences for analysts and investors were held to discuss the Bank's results. For the viewers' convenience, the meetings with the Management Board convened on this occasion were broadcast on-line in Polish and English, and made available on the official website of the Bank. In addition, after the publication of the Group's quarterly results, institutional investors were invited to participate in individual and group meetings with the President of the Management Board to discuss issues related to the Group and its results (more than 20 meetings with pension and investment fund managers).

Relationships with analysts, shareholders and potential investors are also strengthened by meetings at conferences held in Poland and abroad.  In 2014 mBank participated in 2 conferences in Warsaw, 7 conferences in Europe and USA and 4 roadshows in UK, Germany, Scandinavian countries and USA.

Furthermore, analysts and investors of mBank are kept informed about important events related to mBank Group via monthly newsletters and e-mails.

Like every year, two sessions were organised as part of regular meetings with the Bank's rating agencies.

In 2014, a new, refreshed and more user-friendly website of the Bank's investor relations was released (http://www.mbank.pl/relacje-inwestorskie/). The new Internet service was designed primarily for the recipients, both Polish and English speaking. Taking them into consideration, all information on mBank Group, including financial results, shareholding structure, Annual  Meetings, ratings, performance of mBank's shares on the WSE, current reports, and details on consensus estimates for the Group was grouped thematically and in the order of their relevance to the recipients. What is more, a new, educational part of IR website called "For new investors" was launched. It is dedicated for new, potential investors.

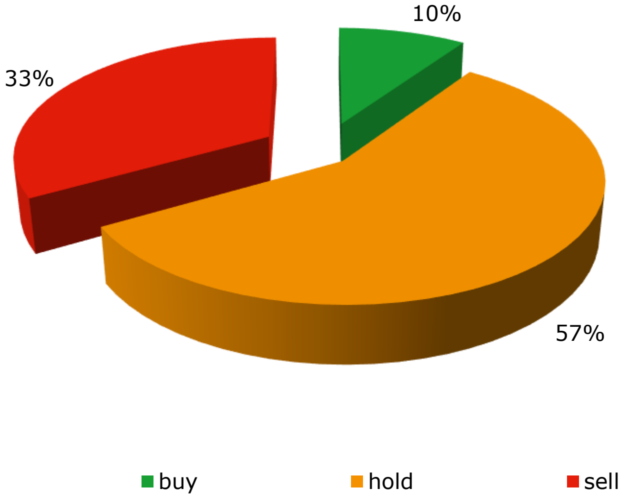
### 9.3.1. Recommendations

mBank Group and its performance are monitored by analysts representing various financial institutions, banks and brokers. mBank is on the watch list of several domestic and foreign banks whose analysts issue their recommendations for mBank shares. These include the following: Citi Investment Research (DM Banku Handlowego), Deutsche Bank, Goldman Sachs International, Millennium DM, BoA Merrill Lynch, Raiffeisen Centrobank, Unicredit CAIB Polska, ING Securities, Espirito Santo Investment Bank Poland, Wood & Company, J.P. Morgan, Keefe, Bruyette & Woods, DM PKO BP, DM BZ WBK, DI Investors, Ipopema Securities, Noble Securities, Trigon DM, Erste Securities Polska and DM BOŚ. In 2014, Trigon DM joined the group of analysts monitoring mBank's shares, while Morgan Stanley resigned from covering mBank.

As at the end of 2014, the structure of recommendations for mBank's shares was as follows:

**Recommendation structure on mBank's stock**

as of December 22, 2014




The current consensus of expected results of the Group for 2014-2015 is available at mBank's website: http://www.mbank.pl/relacje-inwestorskie/akcje-mbank/konsensus.html.

# 10. Main directions of change and types of risk related to mBank activities

## 10.1. Main directions of change in the risk management area

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

Risk management roles and responsibilities in mBank Group are organised around the three lines of defence model:

1. The first line of defence consists of **business segments (Business)** Lines whose task is to take risk aspects into consideration when making business decisions.
2. The second line of defence, **Risk**, provides the methodological framework and is responsible for making risk decisions at the request of Business and for measuring, limiting, monitoring and reporting of risks taken by the Group. Risk provides an independent oversight of the first line of defence.
3. The third line of defence is **Internal Audit**, ensuring independent assessment of Business and Risk.

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

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

A new initiative of the Risk Area was added in 2013 and consequently developed throughout 2014 to the One Bank Strategy: "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.

Risk is the key partner to business segments and the Management Board in creating lasting value for the Bank and ensuring a long term balance between the expected rate of return for investors and the safety of the Bank. These strategic objectives require an integrated approach to risk, capital, financing and profitability management.

As a consequence of the foregoing, the Risk Management Strategy was updated and the Risk Appetite programme was implemented in 2014.

As part of the programme, risk appetite was defined with the participation of the Bank's business units, managers and the Management Board, and it was documented by amending the Strategy, while comprehensive strategic risk limiting rules as well as actual limits were put in place.

Furthermore, the Bank updated the retail and corporate credit risk management strategy, as well as market risk, liquidity risk and operational risk management strategy in 2014.

Moreover, work was underway in 2014 to implement the comprehensive reputation risk management strategy approved by the Bank's Management Board in December.

In 2014, the Bank implemented the Risk Management Effectiveness Self-Assessment process aimed to identify the key risks embedded in processes executed at the Bank and to assess their effective management. Self-Assessment results are used to take measures necessary to optimise and facilitate the Bank's operational risk management system. The implementation of the Self-Assessment was divided

into two stages. The first stage was implemented in H1 2014 and its results were approved by the Bank's Management Board in September 2014. The second stage will be finalised by the end of June 2015.
In support of business projects, Risk took part in activities related to the implementation of the Orange Finance platform in order to ensure the implementation of the adequate credit policy and credit process. Risk continued its co-operation with mBank Hipoteczny in order to transfer mortgage-backed exposures to mBank Hipoteczny in the covered bond issue project (pooling). A new credit process is under implementation in Corporate Banking aiming to significantly enhance its effectiveness. The full path of credit process for large corporate clients was also reorganised ensuring 15 day SLA for complex cases. The decision-making matrix was also changed in a way significantly increasing the decision-making of the Bank's authorities.

The IAAA (Information As An Asset) Project is implemented in the Bank. It aims at the reconstruction and integration of environments and methods of data management in the Bank. Risk area, as one of the leaders of this initiative, shapes actively the designed solutions and at the same time carries out work related to the adjustment of risk architecture in terms of optimal use of the project's products.

**Basel III regulatory standards**

The new rules on prudential requirements for banks set out in the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD IV) on access to the activity of banks and the prudential supervision, implementing provisions of Basel III, are effective in the European Union as of January 1, 2014. The amendments introduced under Basel III include:

- stricter capital requirements including a universal definition and components of the bank's capital as well as implementation of capital ratio specified in relation to the funds of the highest quality,
- introduction of own funds requirement associated with credit valuation adjustment,
- implementation of financial leverage ratio,
- introduction of additional capital buffers, including a capital conservation buffer, a countercyclical buffer, a global systemically important financial institutions buffer and systemic risk buffer,
- liquidity requirements, measured by the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).

The regulatory amendments are mainly designed to protect the capital of banks against adverse effects of financial crises.

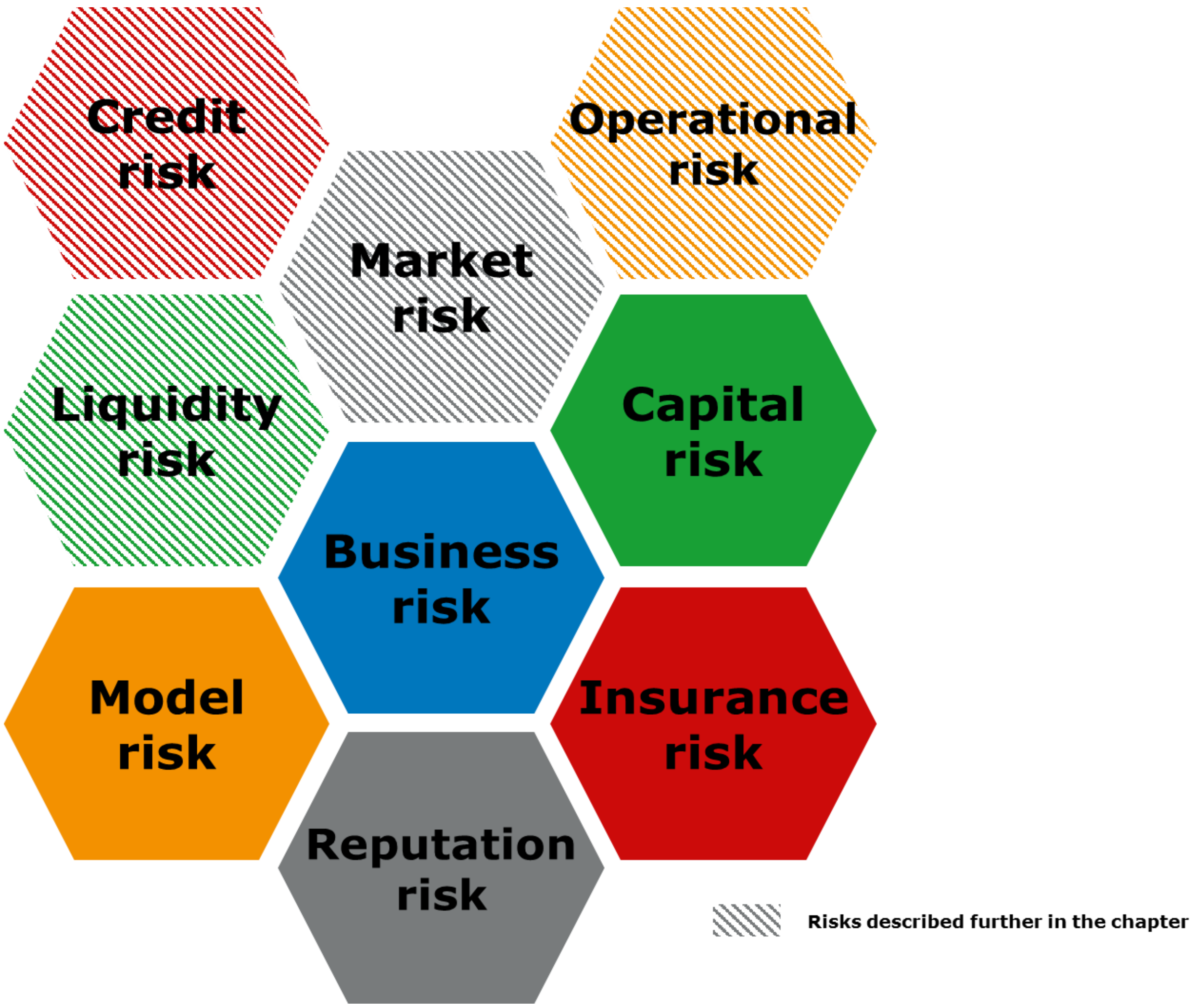
The new provisions of CRD IV must be implemented in a national legislation, while CRR takes effect as of January 1, 2014 without harmonisation with national laws.

Adaptation works in order to meet new regulatory standards in mBank Group are described in the IFRS Consolidated Financial Statements 2014 of mBank S.A. Group.

## 10.2. Main risks of mBank business

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

Within the Bank inventory process implemented under the principles of ICAAP (Internal Capital Adequacy Assessment Process), the following risks were identified in the operations of the Group in 2014:




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

### 10.2.1. Credit risk

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

**Credit risk management tools**

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

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

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

- PD – Probability of Default (%)
- LGD – Loss Given Default (%)
- EAD – Exposure at Default (amount)
- EL – Expected Loss (amount), as well as related measures including:
- RD – Risk Density, which is defined as EL to EAD (%)
- LAD - Loss at Default, where PD=100% (amount).

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

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

- RWA – Risk Weighted Assets used under the AIRB approach to calculate regulatory capital required to cover credit risk (unexpected loss)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Business and Risk Forum of mBank**

In the credit risk management process, the Bank attaches high importance to the communication between the Risk and the business segments. In 2014 the Bank established the Business and Risk Forum which is a formal decision and communication platform for the risk management area and business lines of the Group.

The Business and Risk Forum is constituted by the following bodies:

1. Retail Banking Risk Committee,
2. Corporate and Investment Banking Risk Committee,
3. Financial Markets Risk Committee.

The committees are composed of the representatives of business lines and respective risk management departments.

Each committee is responsible for all types of risk generated by business activity of the given business line and performs the following tasks:

- **Discussing and taking decisions** concerning:
    - introduction of new products/instruments,
    - rules for managing the risk of products/instruments offered or planned to be offered by business lines,
    - risk appetite of business lines, e.g. approval of risk limits imposed on business lines,
    - approval of the risk policies applicable to particular client segments,
    - client segments desired from the point of view of the expected risk portfolio structure,

- priorities and directions of changes in the organisation of processes and risk assessment tools.

- **Mutual exchange of information** about current and planned actions and projects, including sales plans and their implementation, sales campaigns, modifications to risk models, etc.

- **Monitoring of the following aspects on the basis of submitted reports and information:**
    - quality and effectiveness of the risk-bearing portfolios held by business lines,
    - operational risk and other non-financial risk types,
    - quality of data used in risk management processes,
    - early symptoms of risk, and
    - agreeing on preventive or remedial measures.

**Credit risk strategy – Corporate and Investment Banking**

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

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

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

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

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

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

**Credit risk strategy – Retail Banking**

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

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

Apart from the Polish market, Retail Banking credit products are offered (since 2007) through the foreign branches (OZ) of mBank in the Czech Republic (CZ) and Slovakia (SK) in an online banking model similar to that operating in Poland (under the "mBank" brand) since 2000. The share of the foreign branches' exposure portfolio was around 7% of the aggregate retail portfolio at the end of 2013 (by value). The Bank ensures the coherence of the credit risk management policy on all markets; any differences in specific rules or parameter values derive from the specificities of local markets or different goals of business strategies and are at each time subject to approval by the Retail Banking Risk Committee.

As credit exposures are highly granular (more than 1.9 million active loans), the Retail Banking credit risk management process is based on a portfolio approach. This is reflected in the statistical profile of risk rating models including the models which fulfil the regulatory requirements of the Advanced Internal Ratings-Based approach (AIRB). The AIRB parameters (PD, LGD and EL) are used widely in order to estimate credit requirements, to determine acceptance criteria and terms of transactions, and to report risks.

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

- High standardisation and automation of the credit granting process, including decision-making, both in acquisition, post-sale services, and debt collection.
- Low (as compared to Corporate Banking) discretionary competences in the decision-making process (e.g., no discretionary adjustment of clients' ratings).
- Alignment of decision-making endowment with mass acquisition, including automation of decision-making for selected transactions.
- Extensive risk reporting system based on portfolio analysis of credit exposure quality, including vintage analysis and days-past-due analysis.

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

- Ensuring correct alignment of risk rating methods (models, procedures, required documentation) with the client's risk profile, exposure and business requirements.
- Defining homogeneous transaction sub-portfolios to enable adequate quantitative assessment of quality in the context of the generated income margin.

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

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

Taking into account the above assumptions, the general principle underlying the Group's lending strategy is to address the offer to clients who have an established relationship with the Bank or to address it to new clients for whom the loan is a product initiating a long-term relationship of highly transactional nature. Consequently, goals of the Strategy, the Bank continues to focus its NML policies on lending to existing clients with a high creditworthiness while systematically growing the acquisition of external clients. As part of the development of the external customers' segment the Bank has started a strategic cooperation with one of the largest telecommunications operators by developing joint Orange Finanse Project offering transactional and credit services to the retail customers. In order to reduce the risk related to accepting new customers, the Bank develops its credit policy using, among others, credit testing and is actively developing its fraud prevention system.

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

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

Starting from 2014, the Bank introduced modifications to the rules of mortgage lending (mainly to make them more restrictive) as stipulated in Recommendation S, including gradual reduction of the maximum LtV and the requirement of the compliance of the loan currency with the currency of the borrower's income. For more information on Recommendation S, please see section 4.6. Changes in recommendations of the Polish Financial Supervision Authority (KNF) and legal acts concerning banks.

The modifications facilitate a programme of co-operation between mBank and mBank Hipoteczny which started in Q4 2013 and aims at sales of housing loans to retail clients. According to the plan's assumptions, the retail mortgage loan portfolio of mBank Hipoteczny is financed with new issues of covered bonds.

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

**Quality of the loan portfolio**

As at 31 December 2014 the share of impaired exposures in the total (gross) amount of loans and loans for any purpose granted to clients reached 6.3%. Provisions for loans increased from PLN 2,093.0 million at the end of December 2013 to PLN 2,534.5 million at the end of 2014, and the IBNI (Incurred But Not Identified) loss provision fell from PLN 229.6 million to PLN 211.8 million in the analysed period.

The level of coverage of impaired receivables with provisions rose from 47.4% at the end of 2013 to 51.4% at the end of 2014.

To assess impairment, the Bank applies credit risk parameters analogous to those derived from the AIRB methodology.

The manner of identifying evidence of default is based on all available credit data of a given client and encompasses all his liabilities towards the Bank.

The table below presents the quality of mBank credit portfolio as at the end of December 2014 compared to the end of December 2013.

| Quality of mBank Group's Loan Portfolio | 31.12.2014 PLN M | 31.12.2013 PLN M |
|---|---|---|
| **Loans and advances to customers (gross)** | **72,064.4** | **65,849.9** |
| Not impaired | 67,546.0 | 61,915.9 |
| Impaired | 4,518.4 | 3,934.0 |
| **Impaired as % of gross exposure** | **6.3%** | **6.0%** |
| | | |
| **Provisions for loans and advances to customers** | **2,534.5** | **2,093.0** |
| Provisions for not impaired exposures | 211.8 | 229.6 |
| Provisions for impaired exposures | 2,322.7 | 1,863.4 |
| | | |
| **Coverage ratio impaired exposures** | **51.4%** | **47.4%** |
| **Coverage ratio for gross portfolio** | **3.5%** | **3.2%** |
| | | |
| **Loans and advances to individuals (gross)** | **40,808.7** | **38,301.1** |
| Not impaired | 37,946.5 | 35,948.1 |
| Impaired | 2,862.2 | 2,353.0 |
| **Impaired as % of gross exposure** | **7.0%** | **6.1%** |
| | | |
| **Loans and advances to corporate entities (gross)** | **28,460.8** | **24,975.3** |
| Not impaired | 26,804.7 | 23,394.3 |
| Impaired | 1,656.1 | 1,581.0 |
| **Impaired as % of gross exposure** | **5.8%** | **6.3%** |
| | | |
| **Loans and advances - other customers (gross)** | **2,794.8** | **2,573.5** |
| Not impaired | 2,794.8 | 2,573.5 |
| Impaired | | |
| **Impaired as % of gross exposure** | **0.0%** | **0.0%** |

### 10.2.2. Market risk

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

**Tools and measures**

In its business, mBank is exposed to market risk, i.e., the risk of unfavourable changes in the present value of financial instruments in the Bank’s portfolios due to changes in market risk factors: interest rates, FX rates, prices of securities, the implied volatility of options, and credit spreads. The Bank identifies market risk related with positions of the trading book measured at fair value (using the direct measurement method or the model measurement method) which may materialise in the form of losses reflected in mBank's financial performance. Moreover, the Bank attributes market risk to the banking book positions, regardless of the methods for calculating earnings generated from those positions used for the purpose of accounting reporting. In particular, in order to measure the interest rate risk of Retail and Corporate Banking products without a fixed interest revaluation date or with rates administered by the Bank, the Bank uses replicating portfolio models. In 2013, the Bank introduced the capital modelling concept, which is reflected in market risk measurement at the level of the Bank's internal organisational structures. In 2014, the Bank modified the capital modelling concept by changing the investment time horizon from 3 years to 5 years and converting quarterly tranches to monthly tranches. Market risk measures of the interest positions of the banking book are calculated with the use of net present value (NPV) models. Market risk exposure is quantified by measurement of Value at Risk (VaR) and by use of stress tests.

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

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

Value at Risk measures the potential loss of market value (of a financial instrument, a portfolio, an institution) such that the probability of generating or exceeding it within a set time horizon is equal to the set tolerance (confidence) interval assuming an unchanged portfolio structure within a defined period of time. mBank calculates and limits one-day Value at Risk at a 97.5% confidence interval. In March 2014, a new risk factor was added to the VaR calculation: credit spread (credit spread for corporate and government bonds; for government bonds, the spread is measured as the difference between the rates of the zero-coupon bond curve and the swap curve), and the valuation methodology of floating-rate government bonds for risk measurement was modified in order to include the base risk effect between bond and swap curves in the valuation. As a result of the foregoing, some of the risk (previously presented as interest rate risk) related to the volatility of the spread between the curves is presented as of March under VaR CS (credit risk spread). The expected resulting increase of VaR is included in the market risk limits approved for 2014 for mBank and entities subject to market risk limits.

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

**Organisational set up of the market risk management process**

The main principle of organisation of the market risk management process stipulates separation between the market risk monitoring and control function and the functions related with opening and maintaining open market risk positions. The market risk monitoring and control functions are performed by the Financial Markets Risk Department (DRR) in the Risk Area of the Bank supervised by the Deputy President of the Management Board and Chief Risk Officer, whereas operational management of market risk positions takes place in the Financial Markets Department (DFM), the Brokerage House (BM) and the Treasury Department (DS) supervised by the Member of the Management Board of mBank responsible for the Financial Markets Area. BM is an organisational unit of mBank which was separated from the DFM structure and carries out its operations focusing on financial instruments traded on the Warsaw Stock Exchange (WSE). The Debt Origination Department (DCM) was separated from the organisation of DFM in 2014 and is responsible for debt origination and management of positions in non-Treasury securities on the banking book. In addition, investment positions sensitive to market risk factors (to prices of shares listed on the Warsaw Stock Exchange) are managed by the Structured and Mezzanine Finance Department (DFS). DCM and DFS are part of the Corporate and Investment Banking area.

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

**Measuring mBank's risk**

**Value at Risk**

In 2014, the Bank's market risk exposure, measured by Value at Risk (VaR, for one day holding period, at 97.5% confidence level), was moderate in relation to the VaR limits. The average utilisation of VaR limits for the portfolio of the Financial Markets Department (DFM), whose positions consist primarily of trading book portfolios, amounted to 33% (PLN 2.0 million), for the Brokerage Bureau (BM) 15% (PLN 0.34 million), and for the Treasury Department (DS), whose positions are classified solely in the banking book, 59% (PLN 26.1 million) for the positions without capital modelling, and 55% (PLN 23.9 million) for the positions with capital modelling. Value at Risk of the positions of the Debt Origination Department (DCM) was limited as of March 2014. The average utilisation of the limit was 9% (PLN 0.3 million). The average utilisation of the VaR limit for the positions of the Structured and Mezzanine Finance Department (DFS) in shares listed on the Warsaw Stock Exchange was 72% (PLN 6.4 million). In 2014, the VaR figures for the Bank's portfolio were driven mainly by portfolios of instruments sensitive to interest rates – the banking book T-bonds portfolios managed by DS and the trading book portfolios and interest rate swap positions managed by DFM. The second major factor impacting the Bank's risk profile was the DFS equities portfolio, where the PZU share price is a significant risk due to the maintained large position in the company by the Bank. The DFM portfolios of instruments sensitive to changes in exchange rates, such as FX futures and options, and the exposure of the BM portfolios to equity price risk and the risk of implied variability of options traded on the WSE had a relatively low impact on the Bank's risk profile.

The tables below present VaR statistics in 2014 for the Bank's portfolio.

| PLN thousand | 2014 | | | | 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | 31.12.14 | average | max | min | 31.12.13 | average | max | min |
| VaR IR | 16 457 | 14 693 | 19 081 | 8 122 | 15 155 | 16 034 | 22 806 | 6 774 |
| VaR FX | 937 | 348 | 1 162 | 95 | 212 | 348 | 1 196 | 73 |
| VaR EQ | 6 243 | 6 507 | 7 647 | 5 836 | 7 268 | 5 659 | 7 451 | 4 551 |
| VaR CS | 25 142 | 27 245 | 31 279 | 25 049 | | | | |
| VaR | **33 393** | **29 448** | **36 453** | **15 968** | **16 910** | **17 622** | **23 556** | **10 840** |

*VaR IR – interest rate risk*

*VaR FX - FX risk*

*VaR EQ – stock price risk*

*VaR CS – credit spread risk*

**Stress testing**

The average utilisation of the stress test limits in 2014 is presented in the below table:

| PLN million | 2014 | | | | 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | 31.12.2014 | average | max | min | 31.12.2013 | average | max | min |
| Base stress test | 93 | 85 | 130 | 44 | 52 | 70 | 109 | 46 |
| CS stress test | 705 | 699 | 760 | 634 | 643 | 851 | 1 104 | 621 |
| **Total stress test** | **798** | **784** | **888** | **684** | **694** | **921** | **1 198** | **689** |

In 2014, the average utilisation of the stress test limits in mBank was 50% (PLN 783.9 million). The average utilisation of the stress test limits in 2014 was 65% (PLN 618.9 million) for the portfolio held by DS without capital modelling and 59% (PLN 616.7 million) with capital modelling. The average utilisation of the limit was 30% (PLN 121.7 million) for the DFM portfolio, 7% (PLN 0.8 million) for the BM portfolio, 25% (PLN 15.5 million) for the DCM portfolio, and 65% (PLN 32.7 million) for the DFS portfolio. The main part of the presented stress test results is the value of stress tests for change of the credit spread of T-bond portfolios because the stress test scenarios assume on average a 100 bps increase of interest rates.

**Interest rate risk of the banking book**

In 2014, the interest rate risk of the banking book as measured by EaR, i.e., potential decrease of interest income within 12 months assuming an unfavourable 100 bps change of market interest rates and based on a stable value of the portfolio over the period, was at the level of values presented in the below table:

| PLN million | 2014 | | | | 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | 31.12.14 | average | max | min | 31.12.13 | average | max | min |
| PLN | 32.8 | 28.4 | 69.8 | 4.2 | 70.9 | 50.6 | 116.9 | 6.7 |
| USD | 1.0 | 1.4 | 4.0 | 0.2 | 1.0 | 1.2 | 2.3 | 0.1 |
| EUR | 4.5 | 6.6 | 12.6 | 1.4 | 7.2 | 6.5 | 10.0 | 1.8 |
| CHF | 13.3 | 0.8 | 15.7 | 0.0 | 0.5 | 0.4 | 0.6 | 0.2 |
| CZK | 2.3 | 4.2 | 8.5 | 2.2 | 4.6 | 5.6 | 7.4 | 3.0 |

### 10.2.3. Liquidity risk

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

**Tools and measures**

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

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

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

In 2014, mBank continued to harmonise with the CRR requirements for LCR and NSFR liquidity measures. The implementation work was completed when the LCR/NSFR calculation methodology was approved by the Financial Markets Risk Committee in March 2014. Since 31 March 2014, LCR has been calculated according to CRR and reported to the National Bank of Poland.

**Strategy**

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

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

Liquidity risk limiting covers supervisory and internal measures.

The first category includes four liquidity measures determined by the Polish Financial Supervision Authority: M1, M2, M3 and M4, as well as liquidity measures required by the CRD IV/CRR: LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio).

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

The Bank has introduced a centralized approach to the Group's funding management in order to increase the efficiency of liquidity resources used. According to its principles, the mBank Hipoteczny acquires additional financing on the market by issuance of mortgage bonds and from mBank, while mLeasing and other subsidiaries acquire almost entire financing from mBank. Financing of subsidiaries is done via the Treasury Department.

Centralized approach to the financing of the Group subsidiaries enables to ensure better timely matching of the funding and the uniform treatment of particular subsidiaries within the unified system of transactional rates.

**Measuring mBank's liquidity risk**

The liquidity of mBank remained safe in 2014, as reflected in the high surplus of liquid assets over short-term liabilities in the ANL tenors and in the regulatory measures.

The table below presents the ANL gap for tenors up to 1M and 1Y in 2014 as well as the regulatory measures M1, M2 and LCR:

| Measure* | 2014 | | | |
|---|---|---|---|---|
| | 31.12.2014 | average | max | min |
| ANL 1M | 11 169 | 7 104 | 13 052 | 1 142 |
| ANL 1Y | 11 180 | 8 183 | 13 389 | 3 939 |
| M1 | 12 302 | 9 039 | 15 006 | 4 993 |
| M2 | 1,52 | 1,36 | 1,70 | 1,16 |
| LCR** | 149% | 134% | 149% | 114% |

*(*) – ANL and M1 are shown in PLN million, M2 is a relative measure presented as decimals.*

*(**) – LCR statistics cover the period from March 31, 2014 (the LCR calculation methodology was amended as of the end of March 2014).*

The reported minimum ANL gap was a short-term observation resulting mainly from a sudden outflow of cash deposited by a financial client.

The long-term coverage measures (M3, M4) were stable and safe, above the minimum set by the regulator at 1. In particular, M3 ranged from 4.61 to 6.05 and M4 ranged from 1.19 to 1.33 in 2014. LCR remained safe, well above 100%.

### 10.2.4. Operational risk

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

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

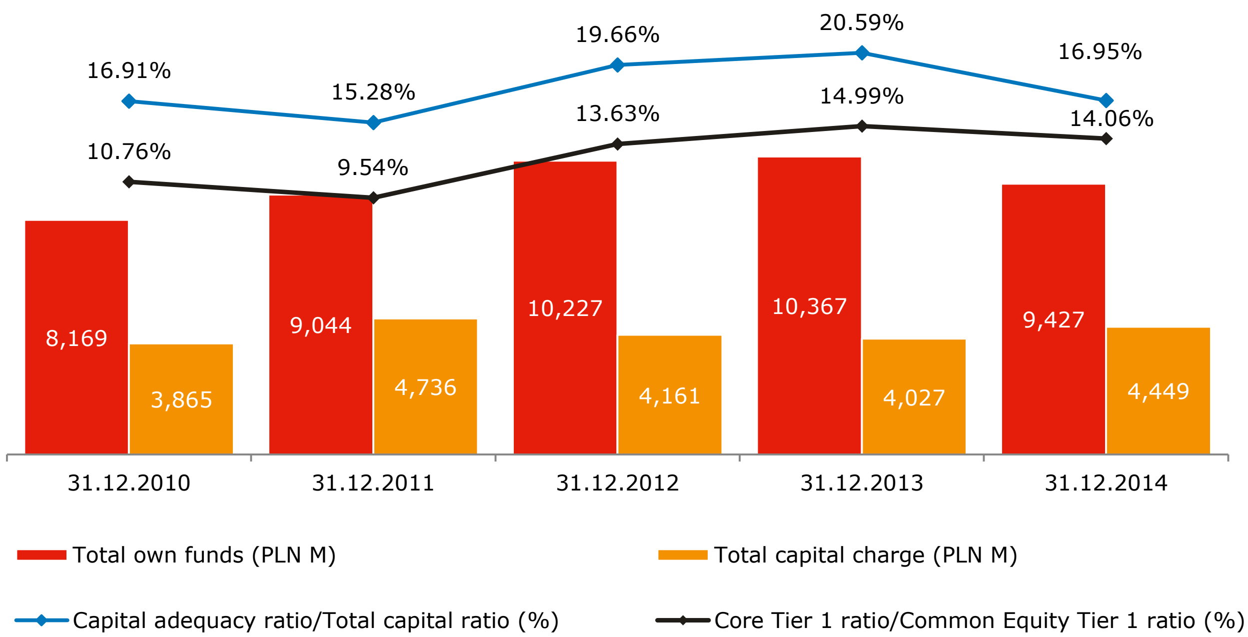
The operational risk control and management system, with its classification of roles and responsibilities, forms an organisational basis and the necessary structures in order to enable expedient and effective control and management of operational risk at every level of mBank's organisational hierarchy.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

The entire operational risk control process is supervised by the Supervisory Board of the Bank through the Risk Committee of the Supervisory Board.

## 10.3. Capital adequacy

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

**Capital Adequacy of mBank**



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

- Maintenance of an optimal level and structure of own funds, with the use of available methods and means (retained net profit, issue of shares, subordinated loans, etc.).

- Effective use of the existing capital by applying a system of capital utilisation measures resulting in reduction of the activity that is not generating the expected return and development of products with lower capital absorption.

Additionally, in the capital adequacy assessment process the following factors are taken into consideration:

**Capital buffers**

In mBank, risk appetite covers all significant risks and key risk concentrations embedded in its business strategy by setting appropriate capital buffers for risk resulting from potential materialization of selected risk factors related to existing portfolios and planned business as well as addresses expected new regulatory requirements and potential negative macroeconomic changes.

**Stress tests**

The **integrated stress tests** are conducted assuming scenario of unfavourable economic conditions that may adversely affect the Bank's financial situation in at least a full 2 year time horizon (for liquidity risk in 1 year horizon). The risk scenario, ie. the most plausible (in at least a full 2 year time horizon) scenario of negative deviations from the base scenario, expressed in terms of macroeconomic and financial ratios is common for all risk types and is aligned with the corresponding scenario accepted at the consolidating entity group level.

Additionally, once a year, the Bank carries out **supplementary stress tests** using much more severe risk scenarios and/or events. The Group and the Bank carries out so called **reverse stress tests**, the goal of which is to identify events potentially leading to unviability of the Group and the Bank.

The Group and the Bank take part in **regulatory stress tests** conducted annually by the PFSA, in order to determine the impact of assumed macroeconomic stress scenarios on the Group's balance sheet and P&L as well as on external supervisory norms.

Extended information on the rules of determining risk appetite taking into consideration capital buffers and stress tests is included in the IFRS Consolidated Financial Statements 2014 of mBank SA Group.

# 11. HR development

## 11.1. Changes in employment

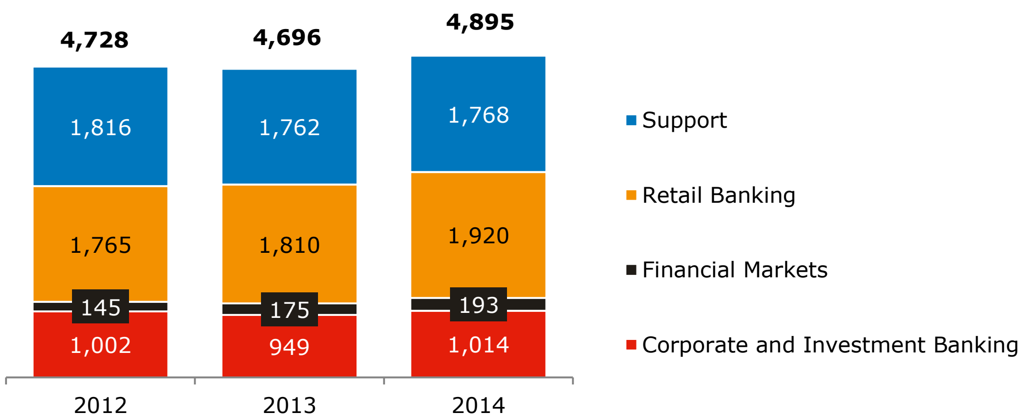
At the end of 2014 employment at mBank amounted to 4,895 FTEs and rose by 199 FTEs compared to 2013 (+4.2%). Rising employment resulted mainly from implementation of strategic projects: Orange Finance and development of relations with SME (for more information please see section 3.1. mBank Group Strategy in 2012-2016).

mBank's employees are relatively young: 52% are below the age of 35. They are also well-educated: 83% are graduates of higher education institutions. Many employees undertake post-graduate studies and internal MBA studies, thus acquiring new professional qualifications.

The chart below illustrates the employment structure in mBank, by areas of operation:

**Headcount in mBank by business lines**

in FTE at the end of 2014




## 11.2. Training and development

In 2014 development activities were determined by business priorities – they developed skills and broadened knowledge needed by teams in order to effectively achieve the goals set for the organisation. Plans developed jointly by development specialists and managers responsible for particular teams representing all levels of management in the organisation (together with Members of the Management Board supervising the business lines) were the basis for undertaking the activities. Special development programmes supported activities of project teams performing key business initiatives for mBank.

Apart from specialised tailor-made training programmes run by experienced Polish and foreign experts (e.g. IESE, DC Gardner), the plans for 2014 also included a number of activities performed internally. It was a consistent continuation of activities started in previous years under the mBank Group's Strategy whose purpose is to fully use the knowledge and skills in the organisation.

The management staff were invited to take part in a development project designed by a consortium of training companies. The programme was adapted to the current challenges faced by the organisation at every management level, adequately to the diversified level of experience in team management. It focused on improving skills of development work with a subordinate team. The programme will be continued in 2015.

**Our people make the difference**

In 2014, the Bank organised the third edition of the "Our People Make the Difference" development programme. For the first time all the subsidiaries of mBank Group were invited to the programme. The programme directly supports development of organisation culture based on the following values - client-centricity, looking ahead, simplifying, commitment and professionalism. The purpose of the programme is an integration of the Group employees as regards the values, forming a team and key attitudes for achievement of strategic goals of the organisation. In 2014, out of all candidates put up by the Bank employees, 28 persons were awarded.

**The Young Talents Programme**

The Young Talents Programme, started 4 years ago, is mBank's response to the current and future needs of the organisation and expectations of candidates – students and graduates.

The programme is a part of mBank Group's strategy of creating the image of an attractive employer in the group of students and graduates. The purpose of the programme is to acquire talented people entering the job market and prepare them to take up independent tasks at the Bank. Consequently, it facilitates the access to the entry-level posts for the candidates, which optimises the recruitment process and increases the importance of internal recruitment.

The Young Talents Programme consisting of internships and traineeships is addressed to students and graduates who intend to work in the banking sector in the future. The programme participants acquire practical skills and knowledge and obtain ongoing support of their supervisor. Moreover, interns and trainees work under an employment contract and have access to employee benefits.

The Young Talents Programme consists of two programmes, which interpenetrate and complement each other. These include:

- **Traineeship programme,** consisting of traineeships conducted with a flexible course, so that trainees may easily combine work and studies or other obligations. Owing to the traineeship programme the participants can become familiar with one area of the Bank's operations. In 2014, 89 students and graduates participated in the traineeship programme at the Bank

- **Internship programme** of mBank is addressed to people who are open, committed and full of enthusiasm, who gained previous experience as trainees or as members of students' scientific associations and student organisations. Cooperation within the internship lasts from 9 to 12 months and the interns work full-time. The internships in Łódź and Warsaw are conducted on a rotational basis which makes it possible for an intern to become familiar with several areas of the Bank - interns have the opportunity to support three organisational units. Candidates applying for an internship choose one profile determining the leading competence during the internship. In 2014 internships of an analytical, business, legal, business and investment, HR as well as business and marketing profiles were introduced under which cooperation with 15 interns was established. In addition, in 2014 all the interns who completed the previous editions of the internship programme conducted in 2013 found employment with the Bank.

## 11.3. mBank incentive system

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

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

In 2014, incentive programmes both for the Management Board Members and Key Managers were implemented at mBank Group.

**Incentive Programme for the Management Board Members of the Bank**

On March 14, 2008, the Ordinary General Meeting of mBank adopted an incentive programme for the Management Board Members of mBank.

Under the programme, the Management Board Members of the Bank have the right to take up bonds with pre-emptive right to take up shares of mBank and, as originally planned, to take up shares of Commerzbank AG. In 2010, the programme was changed in the part concerning shares of Commerzbank, so that the Management Board Members may obtain the right to receive a cash equivalent corresponding to the value of the shares of Commerzbank calculated on the basis of the average share price on the date when the right to receive the equivalent originated.

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

The bonds may be acquired by the Management Board Members over the years 2010 – 2018, provided that their employment continues.

On December 7, 2012, the Supervisory Board decided to replace the 2008 incentive programme with a new incentive programme. Under the new programme, the Management Board Members of the Bank have the right to receive a bonus, including a "non-cash bonus", paid in the Bank's shares, including phantom shares (i.e. virtual shares).

The non-cash bonus under which the Management Board Members are eligible to take up bonds with pre-emptive right to take up shares has been granted under the programme for the years 2012-2013. The right to take up bonds can be exercised in three equal deferred annual tranches. The terms of the entitlement and the amount of the outstanding deferred tranche under the granted non-cash bonus depend on assessment of the financial position of the Bank by the Remuneration Committee and on appraisal of the performance of a Management Board Member over a time horizon which is longer than one financial year.

The bonds may be acquired by the eligible people over the years 2010 – 2018.

On March 31, 2014, the Supervisory Board acting in line with the recommendation of the Remuneration Committee approved the mBank S.A. Incentive Programme Rules which replaced the mBank S.A. Incentive Programme Rules of December 7, 2012.

Under the programme, the Management Board Members of the Bank are eligible to receive a bonus, including a non-cash bonus paid in Bank shares, including phantom shares.

The basis of the acquisition of the right to receive a bonus and of the calculation of the bonus amount for a financial year includes:

- net return on equity (net ROE) of mBank Group;
- monthly remuneration of the Management Board Memeber at December 31, of the financial year for which the bonus is to be awarded.

One part of the base bonus is the equivalent of 50% of the base amount calculated depending on the ROE. As the remaining 50% of the base amount, the Remuneration Committee of the Supervisory Board may award the other part of the bonus if it decides that the Management Board Member has achieved the annual/multi-annual business development target. The decision whether to award the other part of the bonus is made at the sole discretion of the Remuneration Committee of the Supervisory Board which uses its own judgment to confirm whether the MbO are achieved, taking into account the situation on the financial markets in the previous financial periods.

The two parts of the bonus constitute the base bonus of the Management Board Member for the financial year. 40% of the base bonus is not deferred and is paid in the year when it is determined, as follows: 50% in cash and 50% in Bank shares, or bonds with a pre-emptive right to take up shares, or phantom shares.

The remaining 60% of the base bonus is deferred and paid in three equal tranches in three subsequent years after the year when the base bonus is determined, as follows: 50% of each deferred tranche in cash and 50% of each deferred tranche in Bank shares, or bonds with a pre-emptive right to take up shares, or phantom shares.

The Supervisory Board acting on the basis of a recommendation of the Remuneration Committee of the Supervisory Board may decide to withhold the full amount or to reduce the amount of the deferred tranche depending on later assessment of the performance of the Management Board Member in a time horizon longer than one financial year, i.e., for a period of at least 3 years, taking into account the Bank's business cycle as well as the risk inherent in the business of the Bank but only if the action or omission of the Management Board Member had a direct and negative impact on the financial results and the market position of the Bank in the period of the assessment, and only if at least one of the elements covered by the score card is not achieved.

The Remuneration Committee of the Supervisory Board may decide to withhold the full amount or to reduce the amount of the non-deferred and deferred bonus for the financial year, including the deferred tranches not yet paid, in cases referred to in Article 142.1 of the Banking Law Act. Withholding the full amount or reducing the amount of a non-deferred and deferred bonus or any deferred tranche by the Remuneration Committee of the Supervisory Board may also apply to a deferred and non-deferred bonus, including a deferred tranche not paid to a Manager following the expiration or termination of the contract.

**Employee Programme for the Key Staff of mBank**

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

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

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

On April 11, 2013, the Extraordinary General Meeting of the Bank adopted a resolution concerning a new incentive programme for key staff of mBank Group, which replaced the 2008 incentive programme; however, for people who acquired bonds or were granted the right to acquire bonds, the programme will be carried out under the existing principles.

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

The bonds may be acquired by the eligible persons within the duration of the programme but not later than December 31, 2019. The Management Board of the Bank/the Supervisory Board of a subsidiary where the Program is carried out may decide to suspend the programme in whole or to reduce the number of bonds or the number of bonds deferred in a given tranche for an eligible person in justified cases.

On March 31, 2014, the mBank Supervisory Board acting in line with the recommendation of the Remuneration Committee approved a resolution amending the employee programme rules, which replaced the 2013 employee incentive programme for key staff of mBank Group; however, for people who acquired bonds or were granted the right to acquire bonds in Tranche III, IV, V or VI, the programme will be carried out under the existing principles.

The aim of the programme is to ensure growth of the Company's shares value by linking the interest of the key staff of mBank Group with the interest of the Company and its shareholders and implementing an mBank Group policy of variable components of remuneration of persons holding managerial positions in mBank Group.

Starting with Tranche VII, the right to acquire bonds granted to an eligible person will be divided into four parts exercisable as follows: one part – non-deferred bonds representing 50% of 60% of the discretionary bonus amount granted for the financial year in the year when the right was determined, and then subsequent three equal parts – deferred bonds representing 50% of 40% of the discretionary bonus amount granted for the financial year on the lapse of 12, 24, and 36 months after the date that the right was granted, in accordance with internal regulations of mBank Group governing the rules of variable remuneration for mBank risk-takers.

The Management Board of the Bank/the Supervisory Board of a subsidiary may decide to suspend the programme in whole or to reduce the number of non-deferred or deferred bonds in a given tranche for an eligible person in cases referred to in Article 142.1 of the Banking Law Act, i.e., occurrence or risk of a balance-sheet loss, risk of insolvency or bankruptcy, conditions laid down in agreements with programme participants under which work or other services are provided to the Bank and the subsidiaries.

Detailed information on the incentive programmes is presented in Note 44 to the mBank S.A. Financial Statements for 2014 under the International Financial Reporting Standards.

### 11.4. MbO (Management by Objectives) - planning and appraisal system

In the current economic environment the basis for a strong and stable growth as well as a competitive advantage is an effective and efficient Organisation Management System. In 2011 mBank implemented a fully developed, established and, additionally, very flexible System of Management by Objectives (MbO), which in 2014 covered not only mBank employees, but also employees of all the key subsidiaries of mBank Group.

On the basis of more than 4 years of experience, at the end of 2014 the process of setting and cascading objectives for 2015, both in mBank and in selected Group subsidiaries started — strong emphasis was placed on solidarity and integration objectives driving cooperation within the entire mBank Group. It is a long-term process which will, in effect, provide mBank Group with a lasting competitive advantage and a tool which supports its long-term strategy on an ongoing basis.

Knowledge of strategic goals will allow mBank Group to focus employees' involvement on the most important issues, improving their effectiveness and saving time.

The MbO system has the following functions in the organisation:

- It translates directly into mBank's and mBank Group's performance by imposing discipline and involving the entire organisation in the achievement of results,
- It forms a direct communication platform which enables sharing of information on the role and involvement of an individual employee in developing the organisation and achieving the strategic goals of mBank.

## 12. Investments

The investment expenditures incurred by the Bank in 2014 were slightly higher than in previous years and amounted to PLN 160.5 million, compared to PLN 154.7 million a year earlier.

The majority of investment spending at the Bank, i.e. the amount of PLN 132.2 million, was related to the IT and HR areas. The biggest project financed in the area of IT systems was the implementation of Orange Finance.

Expenditures in the logistics and security area, totalling PLN 28.3 million, were spent on further development and modernisation of the branch network and the Head Office as well as on additional equipment for retail outlets. Moreover, a part of the expenditures was connected with the rebranding and outlets being opened within the One Network project.

## 13. mBank and social corporate responsibility

### 13.1. mBank Foundation

mBank Foundation (mFoundation), which is an expression of the social involvement of mBank, was established in 1994 as one of the first corporate foundations in the banking sector. The mission of mFoundation is to act in support of enhancing education and quality of life of the society through actions coherent with the image and policy of the Bank.

In 2014 mFoundation celebrated its 20th anniversary, previously operating as BRE Bank Foundation. The name and the strategy of the Foundation changed in the wake of the Bank's rebranding. mFoundation set a new aim for itself which is included in the strategy for 2012-2016 under the name "m like mathematics" ("m jak matemetyka"). The new strategy focuses on mathematics education. mBank is convinced that, thanks to the new strategy of the Foundation, it will contribute to the development of mathematical skills of young Poles. Recognising that mathematics is the basis of logical thinking, the Foundation wants to develop and stimulate mathematical reasoning as well as prove that the ability to calculate effectively is interesting and necessary in everyday life.

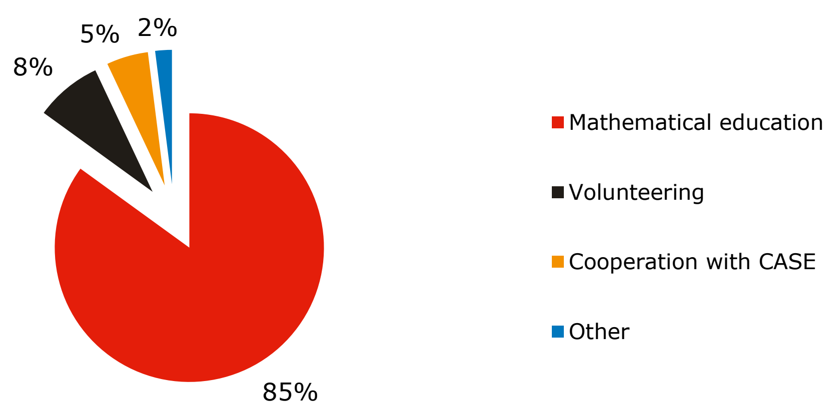
The new strategy was implemented in three main forms: subsidies, the "mPower" ("mPotęga") grant programme and the "Masters of mathematics" ("Mistrzowie matematyki") scholarships. The beneficiaries of the programmes were children, teenagers, their parents and teachers as well as schools, non-governmental organisations and institutes of higher education which make efforts to spread mathematical knowledge in an unconventional and inspiring manner.

Apart from implementing its regular programmes, mFoundation was also engaged in supporting the employee volunteering programme and social activities undertaken by the Bank's employees.

Moreover, in 2014 mFoundation initiated and was a partner of the campaign "Mathematics counts" ("Matematyka się liczy") in the pages of a daily newspaper "Gazeta Wyborcza". Debates with experts, competitions for students and teachers as well as a mathematical picnic with workshops for children and lectures for parents and teachers concerning modern and effective mathematics education were organised as part of the campaign.

An amount of **PLN 2,250 thousand** was dedicated for the performance of the statutory tasks of mFoundation in 2014 with the following structure of expenses:

**The costs of the performance of the statutory tasks of mFoundation in 2014**



### Actions in support of mathematics education

#### The subsidies programme

Through this programme mFoundation provides one-time financial support to development projects regarding mathematics and the related-to-mathematics education. Applications for subsidies are accepted throughout the whole year and they are processed once a month. Non-governmental organisations, educational establishments and higher education institutions may apply for the support. The subsidised projects benefited almost 60 thousand direct recipients. The funds of mFoundation enabled the development of 22 diverse projects of nation- and region-wide scopes, among others: the Competition of Secondary School Pupils in Mathematics, the international photographic competition "Mathematics through the lens", mathematical workshops "Mathematics for nippers" for pre-school children from Babice municipality or the project "Education through chess in school" promoting the royal game as a tool helping to develop mathematical competencies in 250 Polish schools.

Moreover, mathematical talents are supported financially through:

- The grant programme "mPower", which is aimed at developing mathematical skills of the young generation by inspiring teachers, parents, people with passion for mathematics to look for creative, attractive ways for children and teenagers to get to know the world of numbers. The programme is being implemented in cooperation with the Good Network Foundation (Fundacja Dobra Sieć). In 2014, in the first edition of "mPower", schools, social organisations, cultural centres and public libraries in the Masovian and Łódź Voivodeships could apply for grants. Activities performed thanks to the grants of "mPower" benefited 5.5 thousand direct recipients.

- The scholarship programme "Masters of mathematics which consists of granting scholarships to primary, secondary, high school and university students with exceptional talents for science, such as mathematics. Thanks to the programme children from different backgrounds interested in mathematics and or above-average academic performance have a chance to pursue further education. In 2014 the Foundation supported the education of 68 scholarship holders.

#### The employee volunteering programme

mFoundation helped mBank's employees to take actions for local communities through the support of the employee volunteering programme "Let's Do Good Together" ("Zróbmy razem coś dobrego"), of the sports volunteering programme "Let's Run Together for Others" ("Biegnijmy razem dla innych") and through the development of the skills volunteering programme.

In 2014, 21 projects were co-financed by mFoundation within the employee volunteering programme "Let's Do Good Together" and were implemented by 160 volunteers – the Bank's employees together with their families and friends.

Moreover, the Foundation supported selected social activities initiated by the Bank's employees.

#### Cooperation with the CASE Foundation

Since 2005 mFoundation has been cooperating with the Science Foundation CASE (Center for Social and Economic Research), co-organising cyclical seminars and issuing accompanying publications. CASE is a non-profit, international, independent research and advisory centre, focusing on the transformation in Central and Eastern Europe, Transcaucasia and Central Asia, the European integration and the world economy. The seminars cover the key issues of the financial sector, public finances, the monetary union and other current, important questions relating to the economic policy in Poland and in the world. There were 6 seminars organised within the scope of the cooperation in 2014.

In 2015, mFoundation will continue the implementation of the "m like mathematics" strategy by developing the existing projects and initiating new ones.

## 13.2. Other social – oriented activities

**"Tomorrow Belongs to Women"**

Since 2008 mBank organises "Tomorrow Belongs to Women" support programme addressed to all female corporate clients of mBank, managing finances, sitting on management boards or owning enterprises. As part of the project, the Bank organises meetings with experts, networking discussions and other activities making it easier for working women to achieve the work-life balance. The key themes of the meetings were selected based on suggestions from working women given in an Internet questionnaire.

In 2014 3 meetings in the area of "Tomorrow Belongs to Women" initiative took place.

# 14. Statement of mBank S.A. on application of Corporate Governance principles in 2014

## 14.1. Application of corporate governance principles

mBank is subject to corporate governance principles contained in the following documents:

1. "Code of Best Practice for WSE Listed Companies"
2. "Principles of Corporate Governance for Supervised Institutions"

The text of the "Code of Best Practice for WSE Listed Companies" is available on the website of the Warsaw Stock Exchange (http://www.corp-gov.gpw.pl/), and the Principles of Corporate Governance for Supervised Institutions are available on the website of the Polish Financial Supervision Authority (http://www.knf.gov.pl/regulacje/praktyka/index.html).

**"Code of Best Practice for WSE Listed Companies"**

Since the introduction of its shares into public trading in securities, the Bank has made efforts to provide all shareholders with access to corporate information and to respect shareholders' rights irrespective of the size of their stake. The aspiration to ensure full transparency of operation and to pursue the code of ethics inspired compliance with the best practices of listed companies starting with the "Code of Best Practice of Public Companies 2002". Both the Management Board and the Supervisory Board of the Bank have passed resolutions expressing the intention to apply the recommendations and principles defined in the "Code of Best Practice" and the commitment to report any breach. The currently applicable version of the "Code of Best Practice for WSE Listed Companies" including amendments introduced by Resolution No. 19/1307/2012 of the WSE Supervisory Board of 21 November of 2012 came into effect on 1 January 2013. In December 2014, the Warsaw Stock Exchange opened consultations on draft amendments of the "Code of Best Practice for WSE Listed Companies". The draft provides for amendments to the content, layout, and thematic organisation of the "Code of Best Practice", as well as modifications of the corporate governance compliance reporting system.

In 2014, similarly to 2013, mBank applied the principles of the "Code of Best Practice for WSE Listed Companies" with the exception of Rule no. 10 point 2 in chapter IV of the "Code of Best Practice for WSE Listed Companies".

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

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

Furthermore, in the opinion of the Management Board of the Bank, in the absence of developed market practice, the organisation of General Meetings with the use of means of electronic communication carries legal, organisational and technical risks. Binding provisions of the law do not define the status of a shareholder participating in a General Meeting with the use of means of electronic communication who does not take a part in voting, which generates unnecessary legal risks. It should be noted that mBank has a stable majority shareholder while a large part of minority shareholders are represented at each General Meeting even if participation in General Meetings with the use of means of electronic communication is not available.

In the opinion of the Management Board, the rules for participating in General Meetings of the Bank, currently applicable at the Company, allow for adequate protection of the interests of all shareholders, including the minority shareholders, allowing them to exercise all rights attached to shares. It should be noted that the draft new "Code of Best Practice" has largely relaxed the requirements to organise electronic General Meetings.

With respect to the Recommendations listed in the "Code of Best Practice for WSE Listed Companies", Point 9 of the Recommendations, which calls for ensuring a balanced proportion of women and men in management and supervisory functions in companies, requires an additional commentary.

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

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

As at the end of 2014, the 12-member Supervisory Board of mBank had two female members: Teresa Mokrysz and Agnieszka Słomka-Gołębiowska. The 7-member Management Board of mBank had one female member: Lidia Jabłonowska-Luba, Chief Risk Officer.

**"Principles of Corporate Governance for Supervised Institutions"**

The "Principles of Corporate Governance for Supervised Institutions" approved by the Polish Financial Supervision Authority on 22 July 2014 are in effect since 1 January 2015. Although this report concerns the year 2014, reference should be made to the "Principles of Corporate Governance for Supervised Institutions" as well because the Management Board and the Supervisory Board of mBank passed decisions concerning the scope of their application as early as Q4 2014.

The "Principles of Corporate Governance for Supervised Institutions" cover relations with shareholders and clients, issues relating to the organisational structure, an effective and efficient internal control system, as well as the risks of business activities. The document emphasises that supervised institutions as institutions of public trust should exercise utmost care in their activities. Therefore, it is crucial that members of the authorities of supervised institutions represent the highest professionalism and ethics. Furthermore, a company's shareholders are expected to act in a responsible and loyal manner.

mBank has accepted for application the "Principles of Corporate Governance for Supervised Institutions" excluding the rules defined in § 8 point 4 and § 16 point 1 of the "Principles".
The rule in § 8 point 4, which provides as follows: "A supervised institution, when justified by the number of shareholders, should strive for facilitating the participation of all shareholders in the meeting of the General Meeting of the supervised institution, among others, through ensuring the possibility of electronic active participation in the meetings of the General Meeting", is similar to rule 10 point 2 in chapter IV of the "Code of Best Practice for WSE Listed Companies". As a large part of mBank's shareholders are represented at General Meetings even if active participation with the use of means of electronic communication is not available, with a view to mitigating the risk inherent in active participation in General Meetings with the use of means of electronic communication, mBank has decided that non-compliance with the rule defined in § 8 point 4 was justified.

Likewise, mBank does not comply with the rule defined in § 16 point 1, which provides as follows: "It is proper that meetings of a management body shall be held in Polish. In case of need, necessary assistance of an interpreter should be ensured." The non-compliance derives from the fact that all Members of mBank's Management Board speak fluent English. Communication without an interpreter is more effective as discussions and decisions can be made without the participation of a third party (interpreter). In some circumstances, the participation of an interpreter could make discussions at Management Board meetings more difficult or prolonged due to the complex nature of issues under discussion as well as the specialised language. Furthermore, given that Management Board meetings review information that constitutes the company's secret, it is legitimate to limit to the bare minimum the participation of non-members of the Management Board at its meetings. At the same time, most of mBank's Management Board Members speak Polish, which implies that the Bank can be represented whenever participation of Management Board Members is required including communications in Polish without an interpreter. Furthermore, minutes of Management Board meetings as well as resolutions of mBank's Management Board are prepared in two language versions, ensuring compliance with the provisions of § 16 point 2 of the "Principles".

Some of the "Principles of Corporate Governance for Supervised Institutions", especially those defined in chapter II, are addressed to shareholders of supervised institutions rather than such institutions; consequently, such principles cannot be approved for application by the Management Board or the Supervisory Board. The principles addressed to the shareholders will be presented to mBank's shareholders at the Ordinary General Meeting.

**"Code of Banking Ethics"**

Irrespective of the corporate governance principles, mBank has for many years complied with best banking industry practices developed by the Polish Bank Association (ZBP). The currently applicable version of the Code of Banking Ethics was approved at the 25th General Meeting of the Polish Bank Association held on 18 April 2013. The Code of Banking Ethics is a set of principles referring to banks, their employees, and persons acting as intermediaries in banking activities. The Code of Banking Ethics includes two parts: Code of Best Banking Practice and Code of Employee Ethics. The Code of Banking Ethics is available on the website of the Polish Bank Association (http://zbp.pl/dla-bankow/zespoly-rady-i-komitety/dzialania-w-obszarze-legislacyjno-prawnym/komisja-etyki-bankowej).

**Transparent information policy**

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

mBank has been also publishing an on-line version of its annual report, which provides convenient and highly interactive access to financial data of mBank Group. The Bank's website features mBank Analyzer, an innovative and interactive tool which allows users to analyse financial and business data of mBank Group from different angles. Additionally, the information is accompanied by webcasts of meetings with analysts at which the financial results of mBank Group are presented (for more information please see section 9.3. Investor Relations at mBank).

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

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

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

The internal control system includes the following:

- functional control which covers all organisational units and all processes
- risk monitoring and risk control mechanisms
- monitoring compliance of the Bank's operation with the provisions of law and internal regulations
- internal audit.

The adequacy and effectiveness of the internal control system is subject to independent assessment of the Internal Audit Department (DAW). The audit results are reported, among others, to the President of the Management Board, the Chief Risk Officer, and the Chairman of the Supervisory Board of the Bank.

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

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

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

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

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

Pursuant to a resolution of the 26th Ordinary General Meeting of the Bank in 2013, Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. was the entity authorised to audit the Bank's financial statements and consolidated financial statements of the Capital Group for 2013 and 2014. PricewaterhouseCoopers Sp. z o.o. was the previous auditor.

The amount of fees paid to Ernst & Young is presented in Note 47 to the Consolidated Financial Statements.

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

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

The aspiration to ensure the highest standards of financial statements is reflected in the high quality of reporting. mBank was the winner of "The Best Annual Report 2013" contest and received the special award "The Best of the Best". These are yet further awards won by mBank in contests organised by the Institute of Accounting and Taxes (IRiP). Following previous editions, the Bank is a four-time winner in the category of financial institutions and it has received other distinctions, including for the on-line annual report.

### 14.3. Significant blocks of shares

Commerzbank AG is the majority shareholder of mBank.

At the end of 2014, Commerzbank held 29,352,897 shares of mBank, which accounted for 69.54% of the share capital and votes at the General Meeting. 30.46% of mBank shares in free float are held by institutional investors, in particular Polish pension funds and Polish and foreign investment funds as well as individual investors.

The pension funds ING Otwarty Fundusz Emerytalny and AVIVA Otwarty Fundusz Emerytalny Aviva BZ WBK, which exceeded the 5% threshold of shares in 2013, reduced their stake in the share capital and votes of mBank to less than 5% in 2014. Following the admission to exchange trading of mBank's new shares issued under the incentive scheme, the stake of AVIVA Otwarty Fundusz Emerytalny Aviva BZ WBK in the share capital and votes at the General Meeting of mBank decreased to 4.996% on 30 July 2014. As ING OFE sold some of mBank shares it held, its stake was reduced to 4.94% at 10 December 2014.

Commerzbank is a leading international commercial bank with branches and offices in more than 50 countries. The core markets of Commerzbank are Germany and Poland. With the business areas Private Customers, Mittelstandsbank, Corporates & Markets and Central & Eastern Europe, its private customers and corporate clients, as well as institutional investors, profit from a comprehensive portfolio of banking and capital market services. Commerzbank finances more than 30 per cent of Germany's foreign trade and is the unchallenged leader in financing for SMEs. With its subsidiaries comdirect and Poland's mBank it owns two of the world's most innovative online banks. With approximately 1,100 branches and approximately 90 advisory centres for business customers Commerzbank has one of the densest branch networks among German private banks. In total, Commerzbank boasts approximately 15 million private customers, as well as 1 million business and corporate clients. The Bank, which was founded in 1870, is represented at all the world's major stock exchanges. In 2014, it generated gross revenues of more than EUR 9 billion with an average of approximately 52,000 employees.

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

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

### 14.4. Principles of appointing and dismissing Management Board Members

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

The President of the Management Board, the Deputy Presidents of the Management Board and the other Members of the Management Board are appointed and dismissed by the Supervisory Board, acting pursuant to the provisions of the Banking Law and considering relevant qualifications for the assigned functions. The Polish Financial Supervision Authority (PFSA) approves two Members of the Management Board of the Bank: the President of the Management Board and the Chief Risk Officer.

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

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

## 14.5. Amendments to the Company's By-Laws

Amendments to the By-Laws of mBank require adoption of a resolution by the General Meeting of mBank and registration of the adopted amendment in the National Court Register. Before the General Meeting of mBank is presented with a draft resolution concerning amendment to the By-Laws, the Management Board of mBank adopts a resolution on the proposed amendment by approving the draft resolution of the General Meeting, and then the draft is presented to the Supervisory Board of mBank for approval.

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

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

## 14.6. General Meeting and shareholder rights

### General Meeting procedures and powers

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

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

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

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

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

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

Voting takes place with the use of a computer system, which also counts the votes. The By-laws and Standing Rules of the General Meeting do not provide for the possibility to vote by mail or with the use of electronic means of communication.

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

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

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

**Shareholder Rights**

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

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

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

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

A shareholder has the right to:

- Vote, propose motions and raise objections.
- Justify his or her position briefly.
- Stand for election for Chairman of the General Meeting and propose a candidate for Chairman of the General Meeting to be noted in the minutes.
- Take the floor during the proceedings and make a reply.
- Table draft resolutions concerning the items put on the agenda.

- Propose amendments and additions to draft resolutions on the agenda for the General Meeting before the discussion on the item covering the draft resolution concerned by the proposal is closed.
- Propose formal motions relating to the proceedings and the voting procedure.
- Propose candidates for the Bank's Supervisory Board in writing to the Chairman of the General Meeting or orally to the minutes.
- Review the book of minutes and request a copy of resolutions authenticated by the Management Board.
- Take legal action to have a resolution of the General Meeting annulled where the shareholder voted against a resolution of the General Meeting and after its adoption raised an objection to the minutes or the shareholder was unreasonably prevented from participating in the General Meeting or the shareholder was not present at the General Meeting as a result of it being convened incorrectly or the adopted resolution not being on the agenda.
- Take legal action against the Company to have a resolution of the General Meeting annulled where the resolution is in breach of law.

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

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

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

**27$^{th}$ Ordinary General Meeting in 2014**

The 27$^{th}$ Ordinary General Meeting was held on 31 March 2014. The Meeting was attended by shareholders or their proxies representing in total 79.83% of shares in the Company's share capital.

The 27$^{th}$ Ordinary General Meeting passed resolutions on approving the financial statements and the reports of the Management Board of mBank and mBank Group for 2013, the distribution of the net profit of 2013, the vote of discharge of duties for members of the Supervisory Board and the Management Board, determining the number of Supervisory Board Members, election of Supervisory Board Members, amendments to the By-laws of the Bank and amendments to the Rules of the General Meeting.

The Resolution concerning amendments to the By-laws of the mBank was required in order to bring the By-laws in line with amendments of generally applicable provisions of law and changes of the names of positions of Bank Directors other than Management Board Members, to accommodate policies issued by standing committees appointed by the Management Board of the Bank in the catalogue of internal regulations, and to update the amount of the Bank's share capital stated in the By-laws.

The Resolution of the General Meeting concerning amendments to the Standing Rules of the General Meeting of the Bank was required in order to bring the provisions of the Rules in line with the changed name of the Bank as decided by the 26$^{th}$ Ordinary General Meeting of the Bank.

The resolutions adopted by the 27$^{th}$ Ordinary General Meeting and the detailed voting results are available on the Bank's website in the section dedicated to General Meetings (http://www.mbank.pl/relacje-inwestorskie/walne-zgromadzenia/).

## 14.7. Composition, powers and procedures of the Management Board and the Supervisory Board

### Composition of the Management Board

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

The composition of the Management Board of the Bank did not change in 2014. The composition of the Management Board appointed for a joint term of 5 years by the Supervisory Board on 11 April 2013 is as follows:

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

Detailed information on mBank Management Board Members is presented below:

**Cezary Stypułkowski - President of the Management Board, Chief Executive Officer**

Cezary Stypułkowski holds a Ph.D. in Law from the University of Warsaw. In the late 1980s, he studied at Columbia University Business School in New York as a participant of the Fulbright Program. Starting in 1991, he chaired the management board of Bank Handlowy S.A. (currently Citibank Group) for nearly thirteen years. Mr Stypułkowski was appointed as president of the management board of the PZU Group in 2003.

He managed the company for three years. From 2006 to 2010 he worked for J.P Morgan in London, and from 2007 as Managing Director of J.P. Morgan Investment Bank in Central and Eastern Europe. Mr Stypułkowski was also a member of the International Advisory Board for Deutsche Bank Management Board, INSEAD International Advisory Board and the Geneva Association. Since 2012, Mr Stypułkowski has been a joint chairman of the Emerging Markets Advisory Council of the IIF in Washington.

He was appointed President of the Management Board of the Bank on 2 August 2010, President of the Management Board of the Bank as of 1 October 2010 and approved as a President of the Management Board by the KNF on 27 October 2010.

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

Przemysław Gdański graduated from the University of Gdańsk with a Master of Science in Economics and completed a one-year program in international banking and finance at Loughborough University in the UK. In 2012, he completed the Advanced Management Program (AMP) at IESE Business School.

He has over 20 years of experience in corporate and investment banking. From 1993 to 1995 he worked for IBP Bank S.A., then for ABN AMRO Bank in Poland, Romania and in the headquarters in Amsterdam. From 2002 to 2006, he was the Managing Director of the Large Corporates Division in Bank BPH Bank S.A.. From May to November 2006 he was CEO and General Director of Calyon Bank Polska and Calyon S.A. Branch in Poland. In November 2006, he took the position of Deputy CEO in BPH Bank, responsible for corporate banking and real estate financing. After the merger of part of BPH Bank and Pekao S.A., he became the Deputy CEO of Pekao S.A. responsible for the Corporate Banking, Markets and Investment Banking Division.

Mr Gdański has been a Member of the Management Board since November 19, 2008.

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

Jörg Hessenmüller graduated from Hochschule für Bankwirtschaft in Frankfurt am Main in 1997 and was awarded a Master's in Management (Diplom–Betriebswirt (FH)). From 1998 to 2009 he worked for Dresdner Bank, holding the position of, among others, Head of Financial Control responsible for London, New York, Moscow, Sao Paulo and Asia. In 2009, Mr Hessenmüller was appointed Managing Director in Commerzbank Group and worked as the Head of Investment Banking Finance, Group Finance and was also responsible for controlling and management reporting on Corporates & Markets, the Portfolio Restructuring Unit, Group Treasury and Public Finance.

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

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

Lidia Jabłonowska-Luba graduated from the Mathematics Institute of the University of Gdańsk. From 1994 to 2001, Ms Jabłonowska-Luba was Vice-President of Schroder Salomon Smith Barney Poland, where she advised a number of clients, financial institutions in particular, on M&A and public equity transactions. In 2002, Ms Jabłonowska-Luba joined Citigroup in Poland, first as the Head of the Financial Institutions & Public Sector Division and from November 2003 as the Member of the Management Board in charge of finance and operational risk management, capital management and the implementation of the New Capital Accord. From 2008 to 2010, she served as Vice-President of the Management Board of Kredyt Bank and Advisor to the CEO of Warta S.A. and TUnŻ Warta S.A., acting as Chief Finance and Risk Officer. From 2010 to 2012 Ms Jabłonowska-Luba was the Senior General Manager at KBC Group in Brussels, where she was responsible for managing all risk types in the group, including model development and valuation, risk policies and procedures, risk support for business decisions, supervision and reporting, ICAAP and ORSA processes, capital adequacy policy and technological support for risk management. Her main task was to implement a new approach to risk management within KBC Group. Additionally, Ms Jabłonowska-Luba held the position of Vice Chairman of the Group Risk Management Committee and also served as a member of the Group Risk and Capital Oversight Committee and ALCO at KBC Group. In 2012, she served as a member of the Supervisory Board of Kredyt Bank.

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

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

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

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

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

Cezary Kocik graduated with a degree in Banking and Finance from the University of Łódź. He is a licensed stockbroker. From 1994 to 1996 Mr Kocik was employed with the brokerage house of Bank PBG as a securities broker. Starting in 1996 he worked for Bank PBG in the Investment Banking and Debt Collection and Restructuring divisions. In 1999, Mr Kocik was employed with the Debt Collection and Loan Restructuring Department of Bank Pekao S.A. In 2000 he was appointed director of a Pekao Branch in Łódź.

Since 2004, he has been working for mBank. Until 2006 he was the Director of the Retail Loans Department. In 2007, he was appointed Director of the Sales and Marketing Department responsible for MultiBank. From 2008 to 2010 he held the position Managing Director for MultiBank and in 2010 he was appointed Managing Director for Retail Banking Sales and Business Processes.

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

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

Born in 1972, he graduated in 1996 from the Faculty of Economy and Foreign Trade, and the Faculty of Management at the University of Łódź. He holds a certificate of the Association of Chartered Certified Accountants. From 1996 to 1998 he worked as a consultant in PricewaterhouseCoopers. In 1998 he started to work for the Zurich Group. Initially, he was responsible for the organisation and market strategy of the pension fund, and then he took over the position of Marketing Director and became a member of the Management Board. Starting in 2000, he served as the Member of the Management Board responsible for the retail client segment of the Zurich Group in Poland, and from 2001 - as Financial Director. From January 2003 to the end of June 2006, he was a Member of the Management Board and the Financial Director of Generali T.U. S.A and Generali Życie T.U. S.A. From January 1, 2003, he was responsible for the financial department, the actuarial office, controlling and bancassurance. In 2002, he participated in the process of merging Zurich companies with Generali companies. On July 20, 2006, he was appointed Chief Executive Officer of BRE Ubezpieczenia, then as Chief Executive Officer of BRE Ubezpieczenia Towarzystwo Ubezpieczeń S.A. He was responsible for developing and integrating insurance programmes offered within the BRE Bank Group as well as providing process management services in distributing insurance to external partners.

In August 2007, Jarosław Mastalerz was appointed by the Supervisory Board as member of the Management Board of BRE Bank SA, Head of Retail Banking, responsible for the coordination of all the business and communication activities of mBank in Poland, Czech Republic and Slovakia, as well as MultiBank, Private Banking and Aspiro S.A., a subsidiary set up during his term of office. In April 2012 r. has been Mr Mastalerz appointed Member of the Management Board, Chief Operations Officer responsible for IT and logistics area.

**Powers and procedures of the Management Board**

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

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

- Resource Management Committee (chairperson: Cezary Stypułkowski)
- Capital Management Committee (chairperson: Jörg Hessenmüller)
- Data Quality and IT Systems Development Committee (chairperson: Jörg Hessenmüller)
- Assets and Liabilities Management Committee of mBank Group (chairperson: Hans-Dieter Kemler)

- Foreign Branch Supervision Committee of mBank S.A. (chairperson: Cezary Kocik)
- Credit Committee of the Bank's Management Board (chairperson: Lidia Jabłonowska-Luba)
- Retail Banking Risk Committee (chairperson: Lidia Jabłonowska-Luba)
- Corporate and Investment Banking Risk Committee (chairperson: Lidia Jabłonowska-Luba)
- Financial Markets Risk Committee (chairperson: Lidia Jabłonowska-Luba)
- IT Architecture Committee of mBank S.A. (chairperson: Jarosław Mastalerz)
- IT Projects Committee of mBank S.A. (chairperson: Jarosław Mastalerz).

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

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

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

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

The rules of the incentive programme for the Management Board as well as the principles of allocating bonuses to Management Board Members are defined in Resolutions of the Supervisory Board.

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

Detailed information on the incentive system for the Management Board is presented in the section 11.3. mBank incentive system.

The section below presents a brief description of the 2014 incentive programme for the Management Board which replaced the Incentive Programme Rules of 7 December 2012.

Under the programme, the Members of the Bank's Management Board have the right to receive a bonus, including a non-cash bonus paid in the Bank's shares, including phantom shares (i.e. virtual shares).

The net ROE of mBank Group and the monthly remuneration as at the end of the financial year for which the bonus is to be awarded constitute the basis for the acquisition of the right to a bonus and for the calculation of the amount of the bonus for a given financial year. One part of the base bonus is the equivalent of 50% of the base amount calculated depending on the ROE. The other part of the bonus may be granted by the Remuneration Committee of the Supervisory Board on the basis of its appraisal of the Management Board Member and achievement of the MbO objectives. The two parts of the bonus constitute the base bonus. 40% of the base bonus is paid in the year when it is determined: 50% in cash and 50% in Bank shares, or bonds with a pre-emptive right to take up shares, or phantom shares. The remaining 60% of the base bonus is deferred and paid in three equal tranches in three subsequent years: 50% in cash and 50% in Bank shares, or bonds with a pre-emptive right to take up shares, or phantom shares.

The remuneration of the Management Board in the last two years is presented below:

| 2014 (PLN'000) | Basic remuneration | Other benefits | Bonus for 2013 | Cash settlement of the incentive programme based on Commerzbank shares |
|---|---|---|---|---|
| **Remuneration paid in 2014** | | | | |
| Members of the Management Board who performed their functions as at 31 December 2014 | 9 372.2 | 1 150.2 | 5 374.0 | 3 015.0 |
| Former Members of the Management Board | - | - | 248.8 | 309.0 |
| **Total** | **9 372.2** | **1 150.2** | **5 622.8** | **3 324.0** |

| 2013 (PLN'000) | Basic remuneration | Other benefits | Bonus for 2012 | Cash settlement of the incentive programme based on Commerzbank shares |
|---|---|---|---|---|
| **Remuneration paid in 2013** | | | | |
| Members of the Management Board who performed their functions as at 31 December 2013 | 9 038.2 | 1 229.3 | 4 920.0 | 249.7 |
| Former Members of the Management Board | 488.3 | 1 535.0 | 1 249.3 | 382.6 |
| **Total** | **9 526.5** | **2 764.3** | **6 169.3** | **632.3** |

Detailed information on the remuneration paid to the Management Board Members is presented in **Note 45** to the Consolidated Financial Statements of the mBank S.A. Group under the International Financial Reporting Standards for 2014 and a detailed description of the rules of the incentive programme for the Management Board based on shares is presented in Note 44 of the Consolidated Financial Statements.

**Composition of the Supervisory Board including changes in 2014**

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

At least half of all Supervisory Board Members, including the Chairman, shall have Polish citizenship. Pursuant to the statutory requirement, at least two Supervisory Board Members are independent, unless the General Meeting decides otherwise. The independence criteria of the Supervisory Board Members are stipulated in the Rules of the Supervisory Board.

The 27th Ordinary General Meeting of mBank held on 31 March 2014 elected 12 Members of the Supervisory Board for a joint term of three years as follows:

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

On 20 October 2014, the Chairman of the Supervisory Board of mBank received a letter from Dr Jan Szomburg, Member of the Supervisory Board of mBank and Member of the Executive Committee, with his resignation from these functions as of 27 October 2014. The resignation was due to his assuming new advisory functions in the Commerzbank AG Group.

The Supervisory Board of mBank in its resolution elected Dr Agnieszka Słomka-Gołębiowska as a new Member of the Supervisory Board of mBank replacing Dr Jan Szomburg until the end of the current term of office of the Supervisory Board. Agnieszka Słomka-Gołębiowska was also appointed Member of the Risk Committee of the Supervisory Board of mBank.

The composition of the Supervisory Board at the end of 2014 is presented in the table below.

**Maciej Leśny - Chairman of the Bank's Supervisory Board**

In 1969 Maciej Leśny completed his studies at the Faculty of Economic Sciences at the Warsaw University. During his professional career, Mr Leśny worked for 6 years in the shipbuilding industry in Gdańsk and 8 years for Zakłady Elektronicznej Techniki Obliczeniowej. For more than 22 years he had worked in the central state administration, including 8 years in the position of Undersecretary of State: in the Ministry of Foreign Economic Co-operation; the Ministry of Economy, Labour and Social Policy; and finally in the Ministry of Infrastructure.

He completed post-graduate studies and training in the United States at the Michigan University (Business School of Administration) and De Paul University (Chicago). In 1992-1993, as a scholarship holder of the US government, Mr Leśny studied at the American University in Washington, DC. During his scholarship he served a four-month internship at the World Bank and completed a privatization training course in the International Monetary Fund.

From March 1994 to 1998, Mr Leśny was the Chairman of the Supervisory Board of BRE Bank (currently mBank). By December 2001, he had become a Member of the Supervisory Board. In 2004, Mr Leśny was re-elected Chairman of the Supervisory Board.

**Martin Zielke - Deputy Chairman of the Supervisory Board**

Mr Zielke studied at Göttingen University in 1985-1990, Master’s degree (Diplom-Kaufmann) in Economics graduated in 1990.

In 1983-1985 he worked for Deutsche Bank AG, Kassel Branch. In 1990-2000 he worked for Dresdner Bank AG in Frankfurt am Main. In 1990-1995, Mr Zielke was the manager of sub-project relating to retail customer strategy. In 1997, he was the head of new market positioning project. In 1997-1999, Mr Zielke was the Regional Head of Retail Banking, Northern Region. In 1999-2000, Mr Zielke was the Head of special project on retail banking /Area Head of Business Development.

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

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

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

**Martin Blessing – Member of the Supervisory Board**

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

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

Mr Blessing was appointed to the Board of Managing Directors of Commerzbank AG in 2001 and became the Chairman of the Board of Managing Directors in 2008. He held his initial position as a Member of the Supervisory Board of BRE Bank from 2005 until 2008. In 2013, he re-joined the Bank’s Supervisory Board.

**Andre Carls - Member of the Supervisory Board**

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

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

From 2000 to 2008 Dr Carls was a member of the Board of Managing Directors of comdirect bank AG, from September 2002 to November 2004 as CFO and from November 2004 to March 2008 as CEO of comdirect bank AG. From March 2008 to September 2008 he held the position as Deputy President of the Management Board and CFO of BRE Bank SA.

From March 2008 to December 2013 Dr Carls has been CEO of Commerzbank Auslandsbanken Holding AG and CEO of Central & Eastern Europe-Holding of Commerzbank AG. In January 2014, Dr Carls became Divisional Board Member in the "Mittelstandsbank" of Commerzbank AG.

**Stephan Engels - Member of the Supervisory Board**

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

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

Since 1 April 2012 he is a Member of the Board of Managing Directors and Chief Financial Officer at Commerzbank AG.

**Thorsten Kanzler - Member of the Supervisory Board**

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

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

From May 2007, Mr Kanzler was Head of Group Treasury & Capital Management at Dresdner Bank AG in Frankfurt am Main. Since the beginning of 2009, Mr Kanzler has been Divisional Board Member for Group Treasury at Commerzbank AG. Mr Kanzler is responsible for assets and liabilities management, risk management of the banking books, capital management and funding.

**Teresa Mokrysz - Member of the Supervisory Board**

Ms Mokrysz graduated from the University of Economics in Katowice in 1978. In 1990, she created the Mokate brand, one of the most recognisable Polish brands in the world. She transformed a small family firm into a global business. As one of the owners, Ms Mokrysz runs eight Mokate enterprises headquartered in Poland and in other countries of Central Europe. She built manufacturing plants in the Polish towns of Żory and Ustroń from scratch and developed the manufacturing plant located nearby Prague, Czech Republic (producing coffee, tea and intermediate goods for food industry). Under her leadership the company entered nearly 70 markets, selling its products on all continents.

Ms Mokrysz was a winner of the "Leader of the Decade" title given by Gazeta Wyborcza daily, and the

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

**Stefan Schmittmann - Member of the Supervisory Board**

Mr Schmittmann is a graduate of business administration, doctorate in economics at the University of St. Gallen in Switzerland. In 1986-2003, he was employed at Bayerische Vereinsbank AG and, as of 1998, with Bayerische Hypo- und Vereinsbank AG.

In 2004-2005 he was a Chairman of the Board of Directors of Vereins- und Westbank AG, Hamburg. In 2005, Member of the Divisional Board of Directors in Munich and 2006-2008, Member of the Management Board of Bayerische Hypo- und Vereinsbank AG in Munich, where he was responsible for the Corporate Customer and Commercial Real Estate Customer Division, and Member of the Executive Committee UniCredit Corporate Division.

Since November 2008 he is a Member of the Board of Managing Directors of Commerzbank AG, currently he is holding the position of Chief Risk Officer.

**Agnieszka Słomka-Gołębiowska - Member of the Supervisory Board**

Agnieszka Słomka-Gołębiowska holds a PhD in Economics and an MSc. in Finance and Banking from the Warsaw School of Economics, as well as an MBA from the French Institute of Management (IFG). Currently she works as an Associate Professor at the Warsaw School of Economics where she teaches and researches corporate governance.

Previously, Director in the Industrial Development Agency responsible for corporate governance (2006-2009) and later consultant for private and public companies at Arthur Andersen. Since 2006, she sits on supervisory boards. She completed the Alexander von Humboldt Fellowship at the University of Muenster (2003-2004) and the Polish-American Fulbright Fellowship at the University of California, Berkeley (2001-2002). She was a visiting scholar at universities in Cambridge (MIT), Tucson (UOA), Munster, Copenhagen (CBS), Birmingham (BBS), Berlin (HSoG), Genoa (UoG - Law School) and Vienna (WU). She is the author of many publications on corporate governance.

**Waldemar Stawski - Member of the Supervisory Board**

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

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

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

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

In 2006, Mr Stawski became consultant of ALDAZ Sp. z o.o. Mr Stawski currently acts as Director at Zarzecki, Lasota i Wspólnicy Sp. z o.o. In 2012, Mr Stawski was elected Member of the Management Board of Gdańsk Business Club of which he has been a member since 1995. In 2012, he was appointed to the Council of the Martime University of Gdynia. In November 2014, the Polish Financial Supervision Authority appointed Mr Stawski Administrator of SKOK Wołomin.

**Wiesław Thor - Member of the Supervisory Board**

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

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

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

**Marek Wierzbowski - Member of the Supervisory Board**

Professor ordinarius at the University of Warsaw, legal advisor, the founding partner of the law firm "Prof. Marek Wierzbowski & Partners – Advocates and Legal Counselors", President of the Construction Law Codification Committee, Deputy Chairman of the Supervisory Board of the Warsaw Stock Exchange, member of the Board of Directors of the Polish-U.S. Fulbright Commission, member of the Council in the European Law Institute based in Vienna, President of the Arbitration Court of the Chamber of Brokerage Houses. Former member of the College of the Supreme Chamber of Control and member of the Public Procurement Council.

He was the deputy dean of the Faculty of Law and Administration, as well as vice chancellor of the University of Warsaw. For many years he was an associate of law firms Weil Gotshal & Manages and Linklaters.

He was an advisor to the Minister of Privatisation, the Minister of Treasury, and the President of the Energy Regulatory Office. He was also the deputy president of the Court of Arbitration at the Polish Chamber of Commerce. In his legal practise he managed legal teams, supporting numerous transactions, including sales of shares in connection with privatization of large enterprises. He is the scientific editor and co-author of many legal commentaries and textbooks.

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

The four independent members of the Supervisory Board are: Maciej Leśny, Agnieszka Słomka-Gołębiowska, Waldemar Stawski, and Marek Wierzbowski. Wiesław Thor is not an independent member as he was a Member of the Management Board at mBank, and holding the function of Member of the Management Board at the Bank in the past five years is one of the reasons why a Member of the Supervisory Board cannot be considered an independent member. Teresa Mokrysz does not fulfil the criteria of independence as she has been Supervisory Board Member for more than 12 years. Martin Blessing, Andre Carls, Stephan Engels, Thorsten Kanzler, Stefan Schmittmann and Martin Zielke are not independent members due to their relationship with the main shareholder of mBank.

**Powers and procedures of the Supervisory Board**

The responsibilities of the Supervisory Board specifically include the following matters:

- Advising and supervising the Management Board in defining internal guidelines for the activity of the Bank, especially for the areas subject to risks, including the Bank's credit policy, investment policy, guarantee policy, compliance policy, and approving the Management Board's proposals concerning the general organisational structure of the Bank.
- Supervising compliance of the Bank's risk-taking regulations with the strategy and financial plan of the Bank.
- Approving the disclosure policy rules concerning risk management and capital adequacy, as proposed by the Management Board.
- Approving strategies and procedures for the internal control system, the risk management system, the internal capital assessment process, capital management and capital planning, as proposed by the Management Board.
- Assessing the adequacy and effectiveness of the risk management system.
- Reviewing regular and exhaustive reports presented by the Management Board on all relevant issues related to the activity of the Bank, the risks of its activity, and the means and effectiveness of risk management.
- Preparing a concise assessment of the position of the Bank to be presented to the Ordinary General Meeting and attached to the annual report of the Bank for the previous financial year.
- Approving annual financial plans of the Bank, multi-annual growth plans, as well as the strategy of the Bank and the rules of prudent and stable management of the Bank.
- Reviewing any motions and matters to be decided in a resolution of the General Meeting, including draft resolutions of the General Meeting; the Supervisory Board prepares the justification for draft resolutions to be presented to the General Meeting for approval.
- Issuing or approving rules provided for in the By-laws of the Bank.
- Appointing and dismissing the President of the Management Board, the Deputy Presidents of the Management Board and other Members of the Management Board subject to the procedures laid down in the Banking Law and taking into account relevant qualifications for the functions assigned to them.
- Defining the terms of contracts and remuneration of the Management Board.
- Authorising the Chairman of the Supervisory Board to represent the Bank in agreements with Management Board Members, including the conclusion of management contracts with Management Board Members.
- Approving conclusion or amendment of any significant contract or agreement with Members of the Management Board or the Supervisory Board.
- Approving conclusion, amendment or termination of any significant alliance or co-operation agreements.
- Analysing reports of the Internal Audit Department Director received at least once per year.

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

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

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

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

The Supervisory Board has four committees: the Executive Committee, the Risk Committee, the Audit Committee, and the Remuneration Committee. Members of the Committees are presented below (in the first place - Chairman of the Committee).

| Executive Committee | Risk Committee | Audit Committee | Remuneration Committee |
|---|---|---|---|
| Maciej Leśny | Stefan Schmittmann | Stephan Engels | Andre Carls |
| Martin Blessing | Thorsten Kanzler | Andre Carls | Maciej Leśny |
| Andre Carls | Maciej Leśny | Maciej Leśny | Marek Wierzbowski |
| Teresa Mokrysz | Agnieszka Słomka-Gołębiowska | Waldemar Stawski | Martin Zielke |

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

The Audit Committee issues opinions about the selection of the Bank's statutory auditor by the General Meeting, recommends whether the Supervisory Board should approve or reject financial statements, exercises regular supervision over the internal control system at the Bank, and approves changes proposed by the Management Board of the Bank as regards the head of the Internal Audit Department. The Audit Committee must have at least one independent Supervisory Board Member with qualifications and experience in accounting and finance.

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

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

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

The amount of monthly remuneration of the Members of the Supervisory Board was set in Resolution No. 26 adopted by the 25$^{th}$Ordinary General Meeting held on 30 March 2012. The Chairperson of the

Supervisory Board earns PLN 17,000 monthly, the Deputy Chairperson - PLN 14,500 monthly, while members of the Supervisory Board earn PLN 12,000 monthly each.

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

The total remuneration of the Supervisory Board for 2013-2014 is presented in the table below.

| | 2014 | 2013 |
|---|---|---|
| Paid remuneration in PLN thousand | **2,121.5** | **2,370.5** |

Detailed information on the remuneration paid to the Supervisory Board Members is presented in Note 45 to the Consolidated Financial Statements of the mBank S.A. Group for 2014 under the International Financial Reporting Standards.

**Activity of the Supervisory Board and its Committees in 2014**

In 2014, the Supervisory Board held 6 meetings and adopted 60 resolutions. The resolutions covered all areas of the Bank's operation and were consistent with the scope of supervisory functions specified in laws, PFSA recommendations and the Bank's By-laws and the Rules of the Supervisory Board.

The adopted resolutions concerned among others:

- Acceptance of financial statements of mBank and mBank Group and other materials for the Ordinary General Meeting.
- Adoption of the Financial Plan for 2015 and the Mid-Term Plan for 2015-2018.
- Approval of the Co-operation Agreement and the Investment Agreement with Orange Polska S.A.
- Approval of the BRE Ubezpieczenia TUiR S.A. Shares Sale Agreement.
- Adoption of the Capital Management Policy an the Capital Adequacy Disclosure Policy.
- Approval of documentation of the Internal Capital Adequacy Assessment Process (ICAAP) at mBank Group.
- Allocation of funds to the mBank Foundation.
- Approval of the general organisational structure of mBank.
- Approval of the Remuneration Policy and Rules and the Risk-takers Identification Policy.
- Approval of the Employee Incentive Programme Rules and the Information Memorandum drawn up to implement the Employee Incentive Programme.
- Approval of the Management Board Incentive Programme Rules and setting the dates of acquisition of shares under the Programme.
- Approval of the Annex to Agreements with Management Board Members.
- Approval of the MbO results and Individual MbO Score Card of Management Board Members.
- Approval of the new consolidated text of the mBank By-laws, the Rules of the Supervisory Board, the Rules of the Management Board, the Rules of the Audit Committee, and the Rules of the Risk Committee of the Supervisory Board of mBank.
- Approval of the Internal Audit Plan for 2014.
- Approval of the of Conflict of Interest Management Policy and the Compliance Policy, and approval of the Compliance Risk Management Report.
- Approval of reports of the outsourcing and complaints handling supervision functions.
- Approval of the strategies and policies requiring approval of the Risk Committee and the Supervisory Board including: the mBank Group Risk Management Strategy; the Market, Operational, and Liquidity Risk Management Strategy; the Corporate and Retail Credit Risk Management strategy.

- Approval of the Limit Book – Limit Rules and the levels of limits for mBank Group.
- Approval of the "Principles of Corporate Governance for Supervised Institutions".

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

Attendance of the Supervisory Board Members at Supervisory Board meetings in 2014 is presented in the table below.

| | Attendance* |
|---|---|
| Martin Blessing | 5/6 |
| Andre Carls | 6/6 |
| Stephan Engels | 4/6 |
| Thorsten Kanzler | 5/6 |
| Maciej Leśny | 6/6 |
| Teresa Mokrysz | 5/6 |
| Dirk Wilhelm Schuh (until 31 March 2014) | 2/2 |
| Stefan Schmittmann (from 31 March 2014) | 3/4 |
| Agnieszka Słomka-Gołębiowska (from 28 October 2014) | 1/1 |
| Waldemar Stawski | 5/6 |
| Jan Szomburg (until 27 October 2014) | 5/5 |
| Wiesław Thor | 6/6 |
| Marek Wierzbowski | 4/6 |
| Martin Zielke | 4/6 |

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

All Committees of the Supervisory Board performed their functions according to the requirements of the Bank's By-laws, the Rules of the Supervisory Board, and the Rules of the Committees.

In performing its function of on-going supervision of the Bank's operation in the periods between meetings of the Supervisory Board, the Executive Committee co-operated closely with the Management Board and was informed about the situation in the Bank on an on-going basis. Apart from meetings of Supervisory Board, Members of the Committee had regular meetings with Members of the Management Board discussing the most important current issues of the Bank. According to its powers, the Executive Committee took decisions on transactions exceeding 1% of the Bank's own funds. In a decision, the Executive Committee approved its report for the previous year which is presented to the Ordinary General Meeting.

The Audit Committee was regularly informed about the results and the financial standing of the Bank and the Group and analysed information on actions taken in the key risk areas.

The Committee held four meetings in 2014 and discussed, among others, the following:

- Compliance of the process of preparing financial statements with the applicable law.
- Co-operation with the external auditor.
- Conclusions from the audit of the annual financial statements of mBank Group for 2013.
- Scope of the audit of the annual financial statements for 2014.
- Assessment of the internal control system at mBank in 2013.
- On-going supervision of proposed changes to the internal control system at mBank in 2014.

- Approval of reports of the Compliance Department.

The Audit Committee recommended that the Supervisory Board approve the following:

- Reports of the Management Board on the activity of mBank and mBank Group in 2013, and the financial statements for 2013.
- Annual report on compliance risk management at mBank in 2013.
- Report of the Outsourcing Coordinator in respect to the implementation of the Outsourcing Policy at mBank in 2013.
- Annual report on supervising the processes of handling claims and complaints at mBank S.A. in 2013.
- Audit Plan of the Internal Audit Department for 2014.
- Amendment of the Rules of the Audit Committee.

In 2014, the Risk Committee regularly discussed the quarterly risk reports (capital adequacy, liquidity risk, credit risk, operational risk, market risk, interest rate risk), as well as a range of issues related to the credit portfolio, including dedicated presentations on corporate, financial markets, and retail portfolio risks. Other major issues considered by the Committee included the largest exposures, development of risk parameters, and loan loss provisions at the Bank and in the Group.

In 2014, the Risk Committee issued 32 recommendations concerning exposures posing single entity risk in accordance with the parameters defined by the Supervisory Board, and adopted 15 decisions approving a range of risk strategies and policies to be approved by the Supervisory Board.

The Remuneration Committee held four meetings in 2014 and discussed issues including:

- Rules of the mBank Management Board Incentive Programme.
- Rules of the mBank Employee Incentive Programme.
- MbO objectives for Members of the Management Board of mBank.
- Amendments to Management Contracts of Members of the Management Board.
- mBank Remuneration Policy.
- Identification of risk-takers at mBank and rules for their remuneration.
- Preliminary CRD IV implementation plan at mBank.

In 2014, the Remuneration Committee adopted 14 decisions and submitted recommendations on the above issues to the Supervisory Board.

## 15. Glossary

**ABD** - Retail Banking Audit

**AIRB** - Advanced Internal Rating-Based

**RWA** - Risk Weighted Assets

**BGK** - Bank Gospodarstwa Krajowego; it is a Poland's only state-owned bank which primary business covers providing banking services for the public finance sector

**CAR** – Capital Adequacy Ratio; counted as: own funds (core funds and supplementary funds after deductions) / risk weighted assets (from the end of March 2014, capital ratios are calculated in line with Basel III principles)

**CATI** - Computer Assisted Telephone Interview (survey)

**CPI** –Consumer Price Index – world's most popular measure of inflation

**CRD IV** – Capital Requirement Directive, a part of regulatory package CRD IV / CRR, which forms a part of Basel III

**Cross-selling** – a trade technique of selling a product or service combined with purchase of another product to an existing customer (zobacz, czy to ma sens)

**CRR** – Capital Requirement Regulation, EU regulation

**EIB** – European Investment Bank

**ECB** - European Central Bank

**ETF** - Exchange Traded Funds; a security that tracks an index

**Fed** – US Federal Reserve

**FTE** – Full Time Equivalent

**FX swap** – Foreign exchange swap; a purchase (or sale) of a specified amount of currency at a closer date and a simultaneous sale (or purchase) of the same amount of currency at a further date, at rates agreed upon the transaction

**WSE** – Warsaw Stock Exchange

**Guarantee Line de minimis** – A form of security of a loan, which dedicates funds to guaranteeing the repayment of loans in case of non-timely repayment

**IBNI** –Incured but Not Idenified Losses

**ICAAP** - Internal Capital Adequacy Assessment Process

**IPO –** Initial Public Offering, shares of stock in a company are sold to the general public on stock exchange market for the first time

**PFSA** – Polish Financial Supervision Authority

**PPS –** purchasing power standards

**KUKE** – Medium-term lending insured in Export Credit Insurance Corporation

**Libor** - London Interbank Offered Rate – the reference rate of interest on deposits and loans in the interbank market in London. Libor rates are set for the following currencies: USD, EUR, CHF, GBP, JPY, for 1 day, 1 week, 2 months, 3 months, 6 months and 1 year loans

**K1** - Large enterprises (annual sales exceeding PLN 500 million)

**K2** - Mid-sized enterprises (annual sales of PLN 30 – 500 million)

**K3** - Small enterprises (annual sales below PLN 30 million)

**Net interest margin** – Net interest income / Average interest earning assets

**MbO** – Management by Objectives

**ML** - Mortgage Loans - mortgage-secured products

**NFC** - Near Field Communication - technology that allows to pay using mobile phones

**NML** - Non-Mortgage Loans - unsecured products or products with collateral other than mortgage

**PD** – Probability of Default

**„Mieszkanie dla Młodych" program** – „Flats for Youth", the government's support program for people up to 35 years old in the process of purchase of their first, new flat

**„Mid-caps"** - Companies employing from 250 to 3 thousand people

**ROA net** – Net profit attributable to owners of the Bank / average total assets

**ROE gross** – Profit before income tax/ average total equity net of the year's result

**ROE net -** Net profit attributable to owners of the Bank / average total equity net of the year's result

**MPC** – Monetary Policy Council

**New Connect Market** – The market financing the development of small and medium-sized enterprises with high growth potential

**SoFFin** - Germany's Financial Market Stabilisation Fund

**MBA studies** – Executive Master of Business Administration postgraduate studies offerd in Polish and addressed to working professionals with higher education who have several years of experience in business, mainly occupying middle and higher management positions

**„On-the-job" learning** – Learning of new skills during work, ie. through participation in projects, workshops, etc.

**UTP** - Universal Trading Platform; new trading system, on which Warsaw Stock Exchange listings are published

**Wibor** - Warsaw Interbank Offered Rate; Polish equivalent of Libor

**C/I ratio** – Cost to Income; calculated as: (overhead costs + depreciation) / net income (including net other operating income/costs)

**LTV ratio** – Loan to Value ratio, expressing a relation between an amount of a loan and a value of its collateral (usually mortgage)

**P/BV ratio** – Price / Book value

**P/E ratio –** Price / Earnings

**RWA** – Risk Weighted Assets

**Core Tier 1 ratio** – Core equity capital ratio, calculted as: core funds after deductions / risk weighted assets (from the end of March 2014, capital ratios are calculated in line with Basel III principles)

**SREP Guidline** – Guidelines on Supervisory Review and Evaluation

**SSI** – Social Security Institution

## 16. Statements of the Management Board

### True and fair picture in the presented reports

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

- The annual financial statements and the comparative figures were prepared in compliance with the binding accounting principles and present a true, fair and clear picture of the financial position and the condition of the assets of mBank S.A. as well as its financial performance.
- The report of the Management Board on the business of the mBank in 2014 presents a true picture of the developments, achievements, and situation of the mBank S.A., including a description of the main risks and threats.

### Appointment of the auditor

The Auditor authorised to audit financial statements and performing the audit of the annual financial statements of mBank S.A. for 2014 – Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością Sp. k. - was appointed in compliance with legal regulations. The audit company and its auditors fulfilled the conditions necessary for an impartial and independent audit report in compliance with respective provisions of Polish law and professional.

| Date | First and last name | Position | Signature |
|---|---|---|---|
| 02.03.2015 | Cezary Stypułkowski | President of the Management Board | |
| 02.03.2015 | Lidia Jabłonowska-Luba | Deputy President of the Management Board, Chief Risk Officer | |
| 02.03.2015 | Przemysław Gdański | Deputy President of the Management Board, Head of Corporate and Investment Banking | |
| 02.03.2015 | Jörg Hessenmüller | Deputy President of the Management Board, Chief Financial Officer | |
| 02.03.2015 | Hans-Dieter Kemler | Deputy President of the Management Bard, Head of Financial Markets | |
| 02.03.2015 | Cezary Kocik | Deputy President of the Management Board, Head of Retail Banking | |
| 02.03.2015 | Jarosław Mastalerz | Deputy President of the Management Board, Head of Operations and Information Technology | |